

Country and western

By CAROLYN BOYD

Sydney's outer suburbs and regional areas are the new lands of opportunity, writes Carolyn Boyd.

Investors are taking advantage of the lack of competition from first home buyers and are snapping up cheap houses in country towns and mining areas.

Experts say there are also opportunities for investors in Sydney's west: housing shortages are expected to worsen, providing a steady stream of tenants and potential for capital growth.

A tight rental market and expected annual rent increases of up to 6 per cent in regional areas and 8 per cent in Sydney for the next couple of years are appealing to investors spooked by the volatility of the sharemarket.

Australian Bureau of Statistics data shows investment loans are up 26 per cent on this time last year.

A mortgage broker, AFG, says investors continue to dominate the market, signing up for more than one-third of mortgages last month.

Despite a soon-to-end 50 per cent cut in stamp duty to entice investors to buy new housing, most are opting for existing dwellings.

Only 3724 investors have taken up the discount for new houses valued up to \$600,000 (For more on the new stamp duty cuts, see Apartments.)

Many buyer's agents favour the city, arguing it offers stronger capital growth. After a hot year of growth, an economist with BIS Shrapnel, Jason Anderson, says there could be opportunities over the next six months.

But there'll also be growth in western Sydney and country areas with housing shortages. He points to Wollongong and Newcastle, where vacancy rates are just 0.9 per cent and 1.9 per cent respectively.

Within Sydney, buyer's agents say they look for houses that offer a minimum of 4 per cent

gross yield and capital growth of at least 7 per cent.

In the country, expect rental yields of 6 per cent or more but capital growth of 5 per cent or less.

A property author, Margaret Lomas, says buying an investment property has nothing to do with where you live or what you like.

"It's about ... working out which area has the best possible capacity to grow and the best possible capacity for you to get a tenant and for your rents to go up," she says.

> Regional

Price growth in regional areas was about 6 per cent in the year to the end of April, compared with capital city growth of about 12 per cent, according to RP Data. But many towns offer high yields.

An agent from Wood Real Estate in Albury, Greg Wood, says he's seeing an increasing number of investors from Sydney taking advantage of low prices and high rents.

The best regional growth will be in the big towns with several industries that can provide a range of jobs to potential tenants. If one sector goes downhill, other industries will sustain the town.

Lomas likes the Shoalhaven shire, stretching to Nowra, because it has a wider range of industries and good infrastructure to cater for the region's tourist influx.

She also recommends Bathurst and Orange. Along with health, education, agriculture and viticulture, they have some exposure to mining thanks to a goldmine in Orange.

A Bathurst agent, James Thompson, says sharp rent rises and a fall in prices mean yields to 6 per cent-plus. He says investor inquiry is up about 40 per cent this year.

The median house price in Bathurst is \$255,000 and prices have grown 7.7 per cent in the past year. Michael Whittaker, of Peter Rogers Real Estate, says investor inquiry has been steady.

> Western Sydney

Investor demand in the west is patchy, with some agents reporting strong interest and others saying they are hoping investors will come back to the market.

At Harcourts in Blacktown, the principal, Andrew Chrysanthou, says 80 per cent of his buyers are investors. Many are taking advantage of the fact first home owners have all but disappeared.

The median house price in Blacktown is \$330,000 and prices have grown 7.6 per cent over the past year. The average rent for a three-bedroom house is \$350.

An LJ Hooker agent, Jason Gebran, says investor interest is traditionally strong in Granville because it has a train station.

The median house price in Granville is \$377,000 and prices have grown by 5.7 per cent over the past year. Three-bedroom houses rent from about \$350 a week.

Anderson thinks Sydney's outer ring is where investors should focus for capital growth potential. "If we're right on the degree to which the shortages are so great, then when the tide comes in across the board, it's the lower-value properties that will probably be more in demand," he says.

> Some investment terms explained

Capital growth is the increase in the value of your property over time.

Gearing means borrowing to invest.

Negative gearing is when the costs of investing are higher than the return you achieve.

This is attractive to investors who have other sources of income because the difference, or loss, can be claimed as a tax deduction, potentially reducing the amount of tax investors have to pay.

Rental yield is calculated by dividing the annual rent by a property's value and multiplying that by 100 to get a percentage.

Yields are an indication of return on investment and, combined with capital growth, allow you to compare a property's potential return with what you might achieve elsewhere.

Vacancy rates indicate how many rental properties in an area are empty. A vacancy rate above 3 per cent could be a sign that it may be difficult to achieve higher rents.

> Spellmaster turns rentals into gold

When he's not performing magic, Steven Russon is scouting the Hunter Valley for properties in which to invest.

The hypnotist and comedian might be all laughs on stage but he's making some serious gains on the 11 houses he has already bought.

Russon, who performs as Steven Spellmaster, grew up in Newcastle and still

lives in the city. He favours buying cheap houses in mining towns, renovating them using mostly second-hand materials and renting them out.

"I think the Hunter Valley is like a gold-mine waiting to happen because of the new freeway going in," Russon says.

"If you're smart and you look around, you can buy a property for \$150,000. You spend \$5000 or \$6000 on it, painting it and doing a bit of a renovation, and you get \$270 a week in rent."

Russon says his investments are all positive cash flow after tax.

"There's no supply around; it's very hard to find a house," he says. "As soon as something comes on the market under \$200,000, it's snapped up."

In the past 2½ years, Russon hasn't had a house vacant for more than a week. "It's almost move out and immediately move in and it's absolutely top-dollar rent," he says.

> Good things come in small packages

Sarah Jordan from Ebenezer, 70 kilometres north-west of Sydney, says dealing with country real estate agents has been a breeze.

So much so that when she had to choose between selling her Sydney investment property and her Bathurst one, she hung on to her country terrace.

One of the factors in her decision was the ease of ownership, along with the higher rental returns in the bush.

"Because it is a smaller town, the real estates have a good relationship with the local tradespeople, which makes maintenance a lot easier," she says.

Jordan, who works part-time as a project officer and has a 19-month-old baby and another on the way, says being two hours away from the property, the service you get from your agent really matters.

Her three-bedroom terrace is valued at about \$230,000 and she receives about \$210 a week in rent. Jordan says she would definitely buy again in the country because "large regional towns and cities are always going to experience growth".

> What to look for:

Parking, a north-facing back, good bones and a rentable condition — or a house that can be brought up to scratch fairly easily.

In the country, aim for something closer to the centre of town where supply is limited rather than on the outskirts near subdividable farmland that can be used to build new homes.