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Confidence returns

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Born again ... Mirvac says it has had strong interest from investors in The Royal (artist's impression, above), its \$345 million redevelopment of the Newcastle Hospital site across the road from the beach. "About 40 per cent of inquiries have come from Sydney investors," says Mirvac's James Bell. Work started this week on stage one, comprising 146 apartments and 89 Sebel hotel suites, with completion (and settlement) in 2010. The apartments will cost from \$350,000 to \$2.5 million. The developer is taking expressions of interest; the project will be launched in October.

Fortune favours the brave, so they say, which should be a cautionary note to anyone timidly waiting for the next big boom. By then, you've probably missed the boat. The housing shortage is continuing to drive up rents, providing secure - and rising - rental returns. Latest figures from Australian Property Monitors show an 11 per cent jump during the past year for Sydney's unit rental market, giving a median weekly rent of \$400.

Experts agree that prices in select hot spots - especially inner city and beachside, and areas with strong population growth and solid infrastructure plans - are primed for healthy capital growth when the market takes off again, signalling a good supply of underpriced properties.

Capital growth is still unpredictable but Tim Lawless of RP Data says rental yields are definitely up, with gross returns of about 6 per cent not uncommon. "In the past few years that would have been very difficult to find," he says.

NEW INVESTOR CONFIDENCE

Investors are responding to the change in climate. On the lower North Shore, the past six months have seen renewed activity in the investment-property market, says Geoff Smith, principal of LJ Hooker Mosman.

"With the stockmarket declines and rising rental returns, investors are coming back to real estate," he says.

Kingsley Yates, of Ray White Neutral Bay Mosman, agrees, saying sales of apartments under \$1 million "are the strongest I've seen in 10years".

Investors comprise about 50 per cent of buyers, he estimates.

Interstate investors are viewing the Sydney market with a new eye. Shannan Whitney, of BresicWhitney, says: "Melbourne investors are particularly aggressive at the moment. When they look at price and yields, comparing like for like with Melbourne suburbs, Sydney seems ... so much better value."

At Potts Point, a vibrant inner-city hub, Charles + Stuart's Andrew Veron says it has taken just three months to sell 36 of the 39 fully furnished studio apartments at the former Regents Court hotel, on Springfield Avenue.

Nearly all were snared by investors who will capitalise on the hotel's 20-year history and continue to pitch their purchases to the short-term executive renter. The studios sold for between \$209,000 and \$391,000.

"I've just leased one of the 34-square-metre studios, bought for \$297,000, for \$400 a week," says Veron, indicating a gross rental yield of about 7 per cent.

With a 20 per cent deposit, this would come close to positive gearing (when the investment income exceeds the outgoings), leaving the studio basically to pay for itself.

Even for investors whose property will leave them with a shortfall to pay, leaving them negatively geared, the difference is tax-deductible, which particularly benefits high-income earners.

THE GROWING CONCERN

However, a strong and reliable rental yield is just part of the equation. "The real key is about capital growth," says Lawless, who recommends holding on to property for at least a couple of years, preferably five, to see returns.

He advises bargain hunters to target undervalued areas. "If a suburb has a median price of \$600,000 and the one next door has a median price of \$500,000, that would indicate an area potentially undervalued compared to its neighbour," he says.

"With strong population growth throughout the country, [inner city areas] will always have strong rental demand."

Alex Henderson, of buyer's agent Prosper Group, echoes the advice of most experts when he says infrastructure is key.

"You want to be looking for property near shopping centres, transport and some kind of hub, with cafes and restaurants," he says.

With soaring fuel prices, renters want to be within walking distance of the fundamentals. Veron says town planners call it "the five-minute rule - five minutes to shops, transport and amenities".

WHERE TO LOOK

In Sydney, Lawless says apartments in North Sydney, Surry Hills, Haymarket and Pyrmont are good investment options.

"Those markets haven't shifted a great deal since 2004, so they're very well positioned for capital growth and strategically located near the city; they're areas with high rental demand."

The outer suburbs provide affordable buying but require extra research. Target areas with population growth and infrastructure plans in place, with a large working or industrial core.

"The most important thing when buying further from the city is that it's located along a transport corridor - such as a good arterial road network, train line or decent bus route - because getting into the city is probably one of the most important things," Lawless says.

Property commentator Michael McNamara recommends areas such as Parramatta and nearby Harris Park in the 20-kilometre radius from the inner city.

"They're close to strong local economies, on existing rail lines and have experienced a lot of softening in property values over the last five years. Apartments there are achieving over 6 per cent rental yield."

WHAT TO LOOK FOR

One trend all agents highlighted was the relative difficulty in renting apartments over the magic \$700-plus a week mark. Shannan Whitney provides a typical example. A one-bedroom apartment in Potts Point asking \$370 a week recently had 40 people through in the first open for inspection.

In the same building is a two-bedroom going for \$800 a week. It has been on the market for four weeks and had about five people through. Buyers take note: higher rents generally take longer to attract a tenant in the current market.

Buying an older character property leaves room for capital gain through strategic improvements, such as new carpets or a quick bathroom and kitchen renovation but the maintenance costs will inevitably be higher as the years take their toll. On the other hand, new properties might be more expensive but give you greater depreciation benefits, Henderson says.

A thorough strata search is crucial. "If a building has unusually low strata fees, that should ring alarm bells," says John O'Neill, of O'Neill Strata Management, which manages about 150 buildings in the eastern suburbs. It could signal an inadequate sinking fund or an owners' corporation that has not stayed on top of repairs and maintenance. O'Neill advises a careful look through the minutes of strata meetings and correspondence over the past two to three years. That should provide a snapshot of work done, highlight any major repairs in the pipeline and give a good insight into the overall state of the building.

The verdict from the experts seems to be unanimous: bricks and mortar are a solid buy as long as you ensure your foundations are secure.

BUY THROUGH THICK AND THIN

Andrew Hoyne, 40, has defied the trend and continued to buy investment properties throughout the so-called "slump" of recent years.

The Sydney graphic designer has bought fully furnished studio apartments in Adelaide's Norwood and Melbourne's St Kilda, both of which are positively geared (ie, the rents cover his investment expenses). And he has just bought one of the fully furnished studios at Potts Point's Regents Court, and has put a deposit on an off-the-plan, two-bedroom apartment at Brisbane's Portside Wharf development.

In each case, he has followed the golden rules of investment buying and looked at areas with good rental returns, close to the city, with excellent transport and amenities, and potential for capital growth. "I only buy in vibrant, central locations and I intend to hold on to the properties for several years," he says.

Regents Court was a property well known to him as he had stayed many times at the hotel over the years, when he lived in Melbourne.

"I'm expecting exceptionally high tenancy because it's not just a building, it's a brand people know," he says.

He bought the 34-square-metre studio for \$261,000 and is optimistic about its executive rental yield - he expects about \$400 a week.