# Hotspots in Australia's cooling property markets



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Sluggish salaries to slow Sydney, but not Melbourne real estate

by **Duncan Hughes**

Middle-ring Brisbane and Adelaide suburbs near popular schools are the new property investing "hotspots" offering potential income growth and capital gains, say property specialists who advise high-net-worth investors.

Melbourne and Sydney, which have posted solid gains during the past two years, will slow while prices and rents in former mining boom towns Perth and Darwin will continue to fall and other mainland capitals could remain sluggish, they claim.

Off-the-plan purchases, where a buyer puts down a deposit for an apartment still on the drawing board, should be avoided because of over-supply and falling prices, they add.

"No longer is just being in the market a guarantee of profit," says Jason Back, managing director of broker The Australian Lending and Investment Centre.

"We have eased the demands we make on the rich by creating expensive environments for learning." **Michele Mossop**

"The smart money is looking for pockets of excellence in existing hot markets and further afield to other markets formerly left in the shadow of Melbourne and Sydney."

## HARDER FOR BUYERS

Buyers are finding it tougher on all fronts. Lenders, which have been raising the stakes for investors by increasing rates and loan-to-value ratios, are also beginning to increase the costs of lines of credit. Many have increased by 17 basis points to 6 per cent.

Mortgage brokers, such as Christopher Foster-Ramsay, managing director of Capital Home Loans, says investors are also uneasy because of speculation about the abolition of negative gearing and interest rate rises.



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"A lot are asking about fixing rates or discussing funding alternatives," says Foster-Ramsay.

Predictions of a correction in Sydney and Melbourne are based on the inability of buyers to compete after recent big price increases.

In Sydney, weekly median incomes have increased by about 17 per cent to about $1500 and property prices have nearly doubled to more than $1 million during the past eight years, according to analysis of affordability.

## HOUSING BUBBLE

In Melbourne, median property prices have risen nearly seven times faster than incomes since 2010, analysis found.

Adding to buyer unease is a report from US analyst Variant Perception, which after a fact-finding mission in the western suburbs of Sydney dubs Australia's property market an "insane housing bubble" that is bursting.

The analysts, who were assisted by hedge fund manager John Hempton, predict falls of up to 80 per cent in some mining towns and 50 per cent in many suburbs and areas.

Australian specialists agree the market is under pressure and that some sectors and postcodes could be hard hit, particularly large concentrations of multi-storey off-the-plan apartments around central business districts and house-and-land packages on suburban fringes.

But they claim trends in the western suburbs of Sydney do not reflect the entire Australian market.

## WATCH FOR THE RIPPLE EFFECT

They also say there are pockets of value, sometimes resulting from infrastructure developments that boost amenity or convenience, such as a new hospital, freeway or railway station.

Rich Peters, chief executive of buyer's agent propertybuyer.com.au, believes price rises can "ripple" to adjoining, or even distant, suburbs as particular areas become over-priced.

For example, property prices in Campbelltown should benefit from a $114 million project to ease congestion on Narellan Road and improve access to south-west Sydney.

Alternatively, property prices in the Sydney-satellite cities of Wollongong and Newcastle should rise as bargain hunters, and home buyers priced out of the Sydney market, resign themselves to a longer commute to Sydney.

Back says finding an investment that will perform – which means long-term capital growth and income – from the nation's 2781 postcodes requires research and applying growth criteria.

## KEY POINTS TO CONSIDER

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Questions should include:

- How liquid is the market you are buying into? Are the properties tightly held, or is the market illiquid because there are no buyers and sellers? Property advisory SQM Research recommends considering only those that have 15 or more sales a year.
- Are you buying into a property that has recorded big growth in the past 12 months after a decade of lacklustre performance? Price changes should be stable, unless there is an extenuating development that triggers a rise. "You're not buying a carnival ride," says Back. "Steady growth and good yield is key."
- What is the income growth from rental? SQM Research recommends areas where income rates are faster than city average. For example, Canberra rents are up more than 7 per cent in the past 12 months, Sydney by 3 per cent, while Darwin and Perth have plunged nearly 10 per cent.
- The vacancy rate should be about 4 per cent. Inner city Melbourne has an excess of apartments, which is likely to mean higher vacancy rates.
- How are mortgage holders handling repayments? Avoid areas of wide-spread mortgage stress.

## WINNERS AND LOSERS

Performance Property Advisory (PPA), which uses 12 criteria ranging from population growth to availability of stock, has surveyed the nation's capital cities for a list of possible winners and losers.

Off-the-plan, which enables buyers to lock-in at a pre-construction price, should be avoided, according to PPA.

A pipeline of construction, over-supply and high concentration in central business districts means there might not be the demand to absorb development completions, which could result in falling prices.

The nation's central business districts and city fringes are also close to being over-valued, particularly Melbourne, Sydney, Brisbane, Adelaide and Perth.

"Those markets are close to being over-valued and/or over-supplied and we see minimal growth over the short to medium term, which could be up to five years," PPA claims.

## BLUE-CHIP SCHOOL BELT

There are limited prospects for growth in the city fringes of Adelaide and Brisbane.

Investors are also urged to be cautious about outer-metropolitan areas where vast suburbs of house and land packages have been allowed to sprawl higgledy-piggledy with little local amenity, traffic congestion and poor public transport.

Adelaide's blue-chip school belt offers value, particularly established suburbs like Fullarton, which is about 3 kilometres from the city, and leafy middle-ring suburbs, like Richmond, about 4 kilometres from the city, and Plympton, about 8 kilometres from the city.

Michael Whitrow, a director of Realteam Property Group, a buyers' agency, says properties in the coveted blue-chip school belt are selling up to 15 per cent higher.

Strong demand persists for properties around prestige schools in Melbourne but a long run of prices rises means the local market is close to being over-valued, says Back.

Christopher Koren, a director of buyers' advocacy Morrell and Koren, says population growth means five times as many buyers are chasing desirable inner and middle ring property compared to 50 years ago.

## STILL VALUE AROUND

Koren believes there is still value buying houses in suburbs like Burwood, about 14 kilometres east of Melbourne, and inner-city Footscray.

An alternative are the middle ring suburbs around Brisbane, both north and south of the Brisbane River, which includes Chirnside West, Stafford, Everton Park and Moorooka.

Karen Young, buyers' agent and principal of Property Zest, says three-bedroom houses on 600 square metre blocks about 15 kilometres from the CBD are selling for between $550,000 and $750,000.

Young says Brisbane and its surrounding suburbs have been rising for about 18 months and that demand in the middle-ring suburbs is strong with demand exceeding availability.

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