



Melbourne, Victoria

VICTORIA AIMS FOR TOP SPOT

Victoria is primed to be Australia's top performer in 2016 on the back of a strong run in 2015, but it's not going to be plain sailing all the way. CAROLINE JAMES



Ballarat, Victoria

Experts we contacted unanimously warned against investing in Melbourne's oversupplied CBD apartments market if seeking short- to medium-term returns.

The garden state is forecast to record stronger metropolitan capital growth than its capital city rivals because the net number of new residents arriving from interstate and overseas is higher than anywhere in the nation.

Housing supply – and as a consequence rental stock – is expected to stay lower than demand in Melbourne's inner- to middle-ring suburbs and parts of regional centres Geelong and Ballarat.

As 2015 ended, Melbourne's median house price reached an all-time high of \$706,000, according to figures from the Real Estate Institute of Victoria.

National Australia Bank research found that foreign dollars continue to pour into the state capital. Foreign investors bought more than 28 per cent of all new apartment stock and 11 per cent of new houses in the June quarter.

“House prices will continue to grow in an upwards trajectory.”

CATE BAKOS

“Confidence in Victoria's property industry remains firmly in positive territory and our forward staffing expectations are the highest in the country,” reports Property Council of Australia Victorian executive director Jennifer Cunich.

“Strong population growth and steady foreign investment flows continue to underpin the health of the industry.”

Early indications of a softening in residential construction activity expectations should, however, give stakeholders pause, Cunich says.

“The fall in expectations for residential construction activity in the recent quarter needs to be closely monitored by investors and policy makers.

“Victoria has plenty of residential investment in the pipeline out until 2017, but beyond that things are less certain.”

Ashley Williams, board member of the Urban Development Institute of Australia (Victoria) says investors can expect steady rental yields and vacancy rates in 2016 because of forecast interstate migration.

Williams foresees rising demand for affordable housing in Melbourne's north and west growth corridors. Investors who buy in areas up to five kilometres from the CBD will need to hold the asset for at least a decade, he says.



OUTLOOK FROM THE GROUND

Cate Bakos, director of Cate Bakos Property, is upbeat about the 2016 outlook for Victoria.

While the tail of 2015 saw softening auction clearance rates, dipping under 70 per cent in October for the first time since February, the Melbourne rental market is healthy overall, she says.

“Vendors’ decisions to sell after the grand final and well into December, whether planned that way or delayed by default, meant that competition in some of the tightly-held, inner- and middle-ring suburbs was reduced, hence some results were surprisingly mixed, and some of the ‘top end’ homes in the lucrative suburbs struggled to sell on auction day and were clearly falling prey to a more cautious crowd,” Bakos says.

“I believe that 2016 holds in store a little bit more of the same with a likely widening of growth rates, clearance rates and ‘days on market’ between houses and apartments in the metro areas.

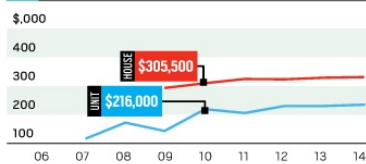
“House prices will continue to grow in an upwards trajectory and growth rates will increase again in the new year when buyers return after Christmas break, and the absence of scheduled auctions throughout January will return the market to the sellers’ market equilibrium we’ve come to terms with in this low interest rate environment of ours.”

Fellow buyers’ agent Frank Valentic, managing director of Advantage Property Consulting, concurs.

“Melbourne’s market will continue to perform as a two-speed market (in 2016) with two distinct segments performing at different levels,” Valentic says.

ALL ABOUT BALLARAT CENTRAL ¹		
	House	Unit
Median price Sept 15	\$340,000	\$247,500
12-month growth	7.9%	33.8%
Median rent Sept 15	\$280	\$220
Rent growth Sept 15 (YoY)	0%	-2.1%
Gross rental yield Sept 15	2.4%	10%
Properties sold Sept 15	169	13
Properties sold Sept 14	186	16
Average vendor discount Oct 15	2.23%	0.9%
Average vendor discount Oct 14	3.22%	1.79%

BALLARAT CENTRAL MEDIAN SALE PRICES²



He predicts the apartment/unit market will stay patchy. With around 25,000 new apartments being constructed each year, investors should avoid buying apartments in high-rise developments in Southbank, Docklands, Melbourne CBD, St Kilda and Carlton.

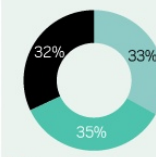
“Some of these areas have rental vacancy rates of 12 per cent to 16 per cent, which is well above Melbourne’s average vacancy rate of 2.9 per cent,” Valentic says. “Buyers should look at Melbourne’s middle 10-kilometre to 20-kilometre suburbs and aim to

BALLARAT CENTRAL FACT SHEET

Ballarat Central has a mixed supply to demand situation. There are adequate rental properties available to tenants, however there is an oversupply of for-sale listings. Discounting has been muted. Incomes in Ballarat are growing slightly faster than the Victoria average. The proportion of renters to owner-occupiers is above average for Victoria. Stock for sale levels are up by 11.4 per cent year on year.

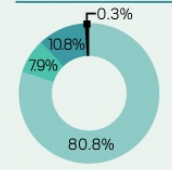
Source: SQM Research, www.sqmresearch.com.au (accurate to November, 2015)

OCCUPANT TYPE³



■ Owner-occupiers
■ Mortgage holders
■ Renters

HOUSING MAKE-UP⁴



■ Separate house (1,823)
■ Semi-detached row or terrace house, townhouse etc (178)
■ Flat, unit or apartment (243)
■ Other dwelling (6)

VACANCY RATES⁵



10-YEAR AVERAGE ANNUAL GROWTH⁶



POPULATION⁴

5,465

WALK SCORE⁷: 68

Burwood East is the most walkable neighbourhood in Ballarat with a Walk Score of 68. Some errands can be accomplished on foot. There are about 184 restaurants, bars and coffee shops in Ballarat Central. People can walk to an average of four restaurants, bars and coffee shops in five minutes.



THE STATES ■ Victoria

buy older style 1940s to 1970s solid brick apartments in boutique sized developments of 20 or less, which have much more land value than the high-rise variety.”

Family homes will continue to be the standout performer in Melbourne’s property market in 2016.

Valentic says auction clearance rates continue to perform at 75 to 80 per cent compared to 60 per cent for the apartment market.

“There’s so much demand from upsizing and downsizing families and nowhere near enough supply to keep up (so) we’ll continue to see four to five bidders competing emotionally for these houses with backyards and I’d expect good period houses to keep increasing in price by five per cent to 10 per cent in 2016.

“Prices are at a premium and a higher peak in many blue-chip inner suburbs, up to eight kilometres from the CBD, so investors should aim to benefit from the ripple effect by looking to buy in some of the more affordable middle-ring suburbs, 10 to 15 kilometres from the CBD, which offer much better value for money and affordability.”

■ TRAINSPOTTERS

Bakos sees Victoria’s capital growth rate softening but still shining on the national stage.

“Growth won’t necessarily match 2015 but I do feel 2016 will still be an outperformance year for Victoria including the larger regional cities, namely Geelong, Bendigo and Ballarat.

“Areas to take advantage of include the ‘next wave’ of gentrifying suburbs connected to rail and offering great buying for first homebuyers and upgraders who wish to keep their commuter times within the half hour and restrict their spends to sub-\$600,000, which includes Fawkner, Oak Park, Glenroy, Hadfield, Sunshine, Albion, Sunshine West, and Reservoir.

“Southeastern suburbs buying opportunities, which still enable rail commutes, albeit nearer to an hour to CBD, include Boronia, Bayswater, Lilydale, Ferntree Gully, Clarinda, Clayton South and Frankston.

“Again, I caution against high-density, high-rise apartment buying more vehemently than ever before. Increased lender scrutiny, a higher chance of challenging valuations, a more difficult

INVESTOR SNAPSHOT

Quick accumulation

Soon after David Leggo turned 40 something clicked. He knew it was time to actively forge his retirement plan.

He and his wife had two children under four and a home they were outgrowing in Mount Eliza, 45 kilometres south of the Melbourne CBD.

Faced with the prospect of working until his 60s and retiring from his government job, owning his own home but nothing else, David says he watched his parents follow a similar path and while they live “pretty comfortably” in retirement he isn’t convinced the pension or superannuation alone will provide him with adequate security 25 years from now. So, he began buying real estate.

“We spoke to our buyers’ agent and created a strategy to get to four or five properties that are good renters with low maintenance and then just sit on them long-term,” David says.

Under their agent’s guidance, the couple bought their first rental house in Ballarat, 105 kilometres northwest of Melbourne, in December 2013.

They paid \$251,100 for the three-bedroom brick veneer in the outer suburb of Mount Clear, using equity in their principal place of residence (PPOR) to borrow 105 per cent of its purchase price to cover all costs.

David credits the negotiation skills of his agent for “buying us that house for \$100” in an auction against a rival buyer. The rival’s final bid was \$251,000 even.

Today it rents for \$280 and because it’s near the Western Freeway, it’s popular with city commuters to Melbourne. It has been let since day one.

“It’s nothing flash but when I did my tax I realised its gap [between costs and income]

rental environment and an oversupply both now and into the future means these assets could spell disaster for unprepared, higher LVR buyers.”

Mathew Barnes, head of the Melbourne office of Cohen Handler, sees the capital growth gap between high and low performing properties widening. Houses and units in Melbourne will run on two different gears.

“The higher capital growth rate of houses versus units is expected to widen in 2016 due in large part to the high volume of new unit stock entering the inner Melbourne market over the coming year... (but) while 2016 is front of mind for many investors, it’s important

Name: David Leggo
Lives: Mount Eliza, Victoria
Invests: Ballarat
Properties: 3
Strategy: Buy and hold



was only \$120 a year and I said (to my wife) who is more conservative than me, ‘let’s do it again!’”

In 2014, the hardworking couple sold their PPOR and bought a bigger house on a bigger block nearby with a swimming pool and room to kick a footy.

But it wasn’t time to put their chequebooks away just yet. In November that year they bought their second investment property, again in Ballarat, because the couple are confident in the former mining town’s underlying value.

It’s another three-bedroom brick veneer house and is in the suburb of Brown Hill about two kilometres from Ballarat’s centre. It took 30 property inspections to find “the one”. They paid \$270,000.

“This property was immaculate,” David says.

“We knew it was the one straight away. It’s rented by an amazing woman who pays \$280 a week and who keeps it in excellent condition, even the box hedges and she’s just signed another two-year lease.”

David is now in the early stages of speaking to his agent (and wife) about refinancing to buy a third rental home.

He likes Ballarat because of its low vacancy rates and prices compared to similar homes in Melbourne, its university campus, infrastructure and fast-train service to Melbourne.

“I’m nearly 43 and wouldn’t mind putting my feet up in 20 years and we are buying for the long-term, so I say ‘let’s go for it.’”

that they don’t lose sight of the ‘big picture’. Off the back of strong population growth – driven by high interstate and overseas immigration – the medium and long-term prospects for the Melbourne property market are looking good,” Barnes says.

He cites ABS data showing a 1.7 per cent population increase for the year ended March 2015 and forecasting Victoria’s population will grow from 4.4 million to 7.7 million by 2051 “due to employment opportunities, the lower cost of housing relative to Sydney and the desire to live in the world’s most liveable city.”

Secret Agent founder Paul Osborne

says 2016 is “set to be one of the most anticipated years in recent history”.

He says headwinds and tailwinds will include:

- ▶ A slowing Chinese economy.
- ▶ Interest rate hikes.
- ▶ Tighter lending for local investors.
- ▶ More new dwelling supply.
- ▶ The spectre of painful adjustment from mining to other industries.
- ▶ Limited rent increases.
- ▶ More investment from Asia particularly China.
- ▶ The perceived safety of buying physical assets.
- ▶ More appetite for living near city centres by investors and renters.

“We expect the inner city core of Melbourne to perform soundly for the first six months of the year, provided the dwellings are houses or boutique high-quality townhouse and apartment options,” Osborne says.

“Also, regional cities without employment issues are likely to benefit



Ballarat, Victoria

from the strong expansion in Melbourne pricing and offer a great alternative, being involved in their communities, rather than to be stuck out on Melbourne’s fringe.”

Osborne says savvy investors should expect and prepare for challenges.

“We’ve come out of a period with substantial growth and this is unlikely to continue. Investors should be considering a defensive approach in today’s market and keep their powder dry for potential buying opportunities over the next 18 months.” **API**

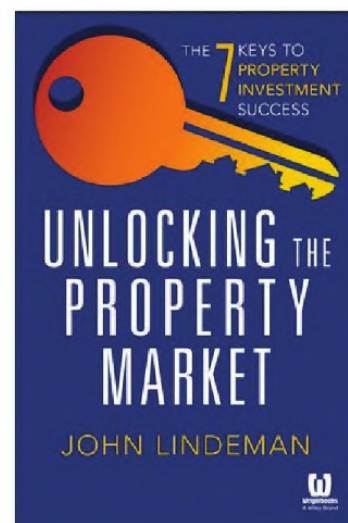
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