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Ins and outs of where to buy

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Inner-city growth or higher yields further afield? Investors face a tough choice.

What is the best investment? A residential property within 10 kilometres of the city centre or one in an outer suburb or a regional town that costs far less to buy and returns a higher yield?

Many of those who attended the Home Buyer & Property Investor Show at the Melbourne Convention & Exhibition Centre would have liked a quick answer to this question. Unfortunately, there isn't one. Investing in property is rarely straightforward; investors need to weigh up advice and carefully evaluate their own financial resources before they buy any asset. The traditional approach to making money from property is to buy in inner-urban areas. That's because property within a two to 12-kilometre radius of the centre of a big city has a history of delivering strong capital growth.

There's a catch, though. The yield, or the return from rent after costs, can be woeful, often 2 per cent to 3 per cent on inner-city properties. And that often means investors have to use a big chunk of personal funds to meet the shortfall between rental income and property costs. It's one reason some investors are turning to property in regional areas. Yields can be 10 per cent or 11 per cent but prospects for capital growth are not nearly as good.

One investment adviser who presented seminars at the show was Chris Gray of the Empire group, who appears as a finance expert on Channel Ten's *The Renovators*. Mr Gray says most buyer's advocates in Australia recommend buying in the inner city. "They're all for capital growth," he says. "There is another school of thought which is more about hotspotting particular areas for buyers who are on average incomes; the theory is that the inner city is too expensive."

The chairwoman of industry body Property Investment Professionals of Australia, Margaret Lomas, is in this second camp. She argues the inner city has "had its boom" and future growth for city property will be at a lower level than previously. This makes many outer and regional areas good buy-in propositions, she says, because properties here can be cash-flow positive - that is, they return more money to the investor than they cost to hold.

Another adviser, Propertybuyer's Rich Harvey, agrees you can achieve positive cash flow more easily in cheaper areas. But he says you need to know when to get in and when to exit real estate investments based solely or largely on yield. The trouble with this is most people aren't skilled at timing property markets.

Several exhibitors were promoting investor deals for West Australian mining towns such as Port Hedland and Karratha. Mr Harvey says while a $700,000 property in Port Hedland can now be rented for $1500 a week, 50,000 new development blocks are soon to be released in the Pilbara. "What's going to happen to prices when 50,000 new blocks come on the market?" he says. "Prices will fall and yields will start to decline, going from 10 [per cent]or 11 per cent down to 8 per cent or less. Those who come in at the back of this boom are not going to do as well." He says a high-yielding strategy can suit investors on lower incomes. "But for someone who has the income capacity and who wants to build their wealth faster, inner-urban investments make sense."

One inner-city house often costs as much as two in far-flung areas.

"Those two properties might cost me much less to hold but I might make $50,000 a year in capital growth from the inner-city property," Mr Harvey says.

"I'd rather buy that kind of property 10 times over the one that gives me rental yield and little or no capital growth."

* *The Age and Domain were sponsors of the Home Buyer & Property Investor Show.*