The Question – Where to Invest In the Current Market?

As a property professional, the most asked question is "where should I invest in the current market".

There are a lot of factors that come into play when trying to answer this age-old question. These include, but are not limited to:

1. Are you after capital growth or a solid rental return?
2. Are you in the market for short, medium or long term? (We always recommend long term)
3. Are you just looking for an investment or something that you can move into in the future?
4. Are you prepared to value-add to the property by doing a full renovation or undertaking modest repairs or possibly looking to undertake a development in the future?

Our property advisers would ask all these questions. We would also send the client to obtain expert advice with regard to their tax position, the ability to be able to afford the investment and the structure/entity that the property should be held in to fully maximise their taxable position.

Once all of those questions have been answered, it is only then that we can formulate a plan of where the right investment is for that particular individual.

Putting all of that aside, we decided to ask this question to our team of licensed valuers who are working in the field every day and are able to get a feel for how the market is performing – so where do they see the opportunity and good buying at the present time?

We have seen that the media and raw statistics show the median house price for Perth is falling. This is not across the board however and some individual suburbs are performing better than others. It is our opinion that a number of suburbs are showing modest growth in the face of a falling market. This is somewhat supported by median house prices when analysed on an individual suburb basis.

For example:

Glendalough	6.9% growth for the year to date to September 2011
Lathlain	3.2% growth for the year to date to September 2011
Perth	The annual change in Perth median was negative 4.0% and negative 6.3% for the quarter

So, this is what our expert panel of valuers have come up with.

Ashfield - $400,000 to $450,000

Ashfield is a residential suburb situated approximately 10 kilometres north-east of the Perth Central Business District and 8 kilometres from the town of Midland. It was originally established in the 1950's and 1960's and currently has approximately 22% of the area as accommodating Public Housing. The Department of Housing is in the process of lowering this percentage. There is currently a plan in place to have the area up-zoned, which will allow the majority of these properties to have duplex development potential.

Ashfield is a riverside locality and also has train access.

The September 2011 median house price for Ashfield is $434,000, down from $538,750, negative 8.57% from September 2010. Recent sales activity of older conventional timber framed, fibro and brick veneer residences range in price from $400,000 to $450,000.

We consider that this area would provide long term capital growth, with the rezoning coming into place, a gentrification of the area with Public Housing accommodation being converted to private ownership, ease of access to the Perth CBD via train or road and its riverside location.

Rental returns would be in the order of $300 to $350 per week, depending on the quality of the improvements.

Benefits include medium term capital growth, strong underlying land value and reasonable rental return of approximately 4% gross.

Noranda - $500,000 to $600,000

Noranda is situated approximately 12 kilometres north-east of Perth and is an established residential locality with housing development being predominantly late 1970's through to late 1980's. Many of the houses are four bedroom, two bathroom accommodation and situated on sites generally ranging from 600 sqm to 800 sqm. The zoning of the locality is R17.5/R25, which will enable duplex development potential on many of the sites, subject to Council criteria.

The median house price for September 2011 is $520,000, down from $615,000 in September 2010 showing a negative 8.9% decrease.

Predominantly the buyer would be purchasing a solid built residence with good rental potential situated on a high land value site with possible future development potential. Properties range in price from low $500,000's to early $600,000's.

Benefits include a well located, established suburb featuring good amenities with a high underlying land component of close to 80% of the total purchase price, many with duplex development potential. Showing gross rental return of approximately 4%.

Inner City Apartments - $350,000 to $450,000

With most of the unit development that occurred during the property ‘boom’ nearing completion and now on the market, there is little in the pipeline for further development in and around the Perth CBD. With the CBD earmarked as having in excess of $2 billion of infrastructure being spent, including the Perth Waterfront and also the sinking of the rail line linking the CBD and Northbridge, we consider this will have a good flow on effect on values as amenity is increased.

Not every unit will show good growth over the coming years, but we consider that there are scattered well located units being sold at very affordable levels in niche complexes which will show good growth. They are also currently showing strong rental returns, which, for the investor requiring a high rental yield, we consider are perfect. These units also tend to have low maintenance and are generally easily let.

The median unit price in Perth for the September 2011 quarter is $475,000 – this is virtually unchanged from $475,000 a year ago in September 2010.

An example of good inner city apartment buying which we have identified would be as follows:

A two bedroom, one bathroom unit located on Hay Street, Perth with large balcony areas and good river and city views for $450,000, it is currently leased for $550 per week. This shows a gross return of 6.35%.

We consider that with all of the amenity that the Perth city is now showing, with the establishment of small bars, the convenience for those working in the CBD and the likely uplift in values with major infrastructure projects being undertaken in the Perth CBD, some units will show strong performance in the medium term. This type of property is considered ideal for the investor wanting a strong rental yield with future capital growth.

Price Bracket of $700,000 to $850,000

DOUBLEVIEW

Doubleview is a residential suburb situated approximately 10 kilometres north west of the Perth Central Business District and two to three kilometres from the beach at Scarborough. The suburb sits on the brow of a hill, with some areas affording ocean or city views. It was originally established in the 1950's and 60's and is currently going through a gentrification with many of the older houses being demolished, making way for low to medium density unit development.

With the suburb having predominantly zonings of Residential R20, R30 and R40, this enables development of anywhere between two and three units on the majority of properties. Doubleview recorded a median house price of $662,500 as at September 2011. This shows a -1.1% quarterly change and a -4.1% change over the last 12 month period. It has shown an annual average growth over the last five years of 4% and an annual average growth over the last 10 years of 10.6%.

Due to the current Global Financial Crisis, we have noted that development within these localities has slowed significantly, so properties with development potential have shown strong reversions in values. We consider that due to the lack of growth over the last three years in Doubleview, this suburb now represents good buying opportunities.

It has been our experience that once the market improves and buyer confidence returns, properties of this nature with a strong underlying land component and development potential show strong growth and recovery in values over short periods of time.

Rental returns within Doubleview are considered to generally be in the order of $400 to $500 per week, depending on the quality of the improvements.

Benefits of investing in this suburb include medium term capital growth, strong underlying land value and a reasonable rental return of between 3% and 4%.

MELVILLE

The suburb of Melville is situated approximately 11 kilometres south of the Perth Central Business District on the Melville Water area of the Swan River. It was predominantly developed post-World War II, particularly during the 1950's and 60's.

The September 2011 median house price for Melville was $695,000, which shows a quarterly change of -6.3% and a yearly change of -11.6%. Average growth over the last five years was 6.4% and 10.8% over the last 10 years. This suburb has shown a decline in values since the Global Financial Crisis, particularly due to the redevelopment nature of a large section of the housing through the area. Once again, redevelopment during this period has been slow to non-existent and we therefore recognise that the drop in values on these properties now represents sound buying.

We consider that once the market improves and development sites such as those found throughout Melville become sought after, there will generally be a sharp rise in values over a short period of time. Rental returns are in the order of $400 to $500 per week, depending on the quality of the improvements.

Duplex development sites of between 900m² and 1,000m² zoned R20 are achieving values of between $725,000 and $950,000, depending on locality, views and the style of the improvements.

Benefits of investing in Melville include medium term capital growth, strong underlying land values and reasonable rental return in the order of 3% to 4% gross.

Price Bracket of $1,200,000 to $1,600,000

CITY BEACH

City Beach is a quality western beachside suburb of Perth, situated approximately 10 kilometres north west of the Perth Central Business District.

A large area of City Beach was developed for the ‘Empire Games’ held in 1962 as a residential village for athletes and further development continued through the northern and western areas in the 1970’s, 80’s and 90’s. There were some original areas of City Beach that were first established in the 1950’s. The suburb has a median house price of $1,860,000 as at September 2011, which was static for the last quarter and shows an annual change of 9.1%. Over the last five years, it showed a growth of 5.7% with 11.3% over the last 10 years.

We consider that property values within some parts of City Beach are currently 20% below the peak of the market, prior to the onset of the Global Financial Crisis.

Standard housing within City Beach can be purchased for as little as $1,200,000 and a reasonable quality residence, which has been renovated, can be purchased for approximately $1,500,000.

Predominantly, rentals range from a minimum of $500 per week, however a renovated, well located property can achieve anywhere between $800 and $1,200 per week with a value in the order of $1,500,000. This is considered to represent a relatively strong return for a premium western suburb locality with a strong underlying land component. Land value is considered to be in the order of $1,200,000 for a standard block, which is generally approximately 900m² plus in size.

Benefits of investing in City Beach include a well located western premium suburb featuring good amenities and being situated on the coast. We consider that when the market improves, properties such as this will show strong growth over short time periods.

MOUNT CLAREMONT

Mount Claremont is an older established western suburb, situated approximately nine kilometres west of the Perth Central Business District. The oldest established pocket within the area was originally developed in the 1940’s, 50’s and 60’s, and is situated in the south western corner of the suburb. The newer residential estates of Mount Claremont were developed in the late 1980’s and early 90’s, with St Johns Wood Estate reaching completion of development in the late 2000’s.

It is predominantly the older established area of Mount Claremont where we consider there are currently relatively good buying opportunities, where large home sites of 900m² to 1,200m² with older housing can be purchased. Some of these properties have duplex development potential, however are situated within the City of Nedlands, which has an unusual zoning of R10/20 and a policy in place which only allows duplex development of one in four lots. There are currently no plans to alter this policy.

Mount Claremont recorded a median house price as at September 2011 of $1,200,000 and showed no change over the last quarter and a -4.4% change over the previous 12 month period. An annual growth rate of 3.5% was shown over the last five years, with 10.1% over the last 10 years occurring.

These figures are broadly for the whole suburb though, and we consider that the characteristics of the older Mount Claremont area are slightly different. Due to the strong underlying land value component of properties within this area, we consider that they have shown strong growth in the past, but have also declined since the Global Financial Crisis. A basic older residence situated on a 1,012m² site has sales evidence in the order of $1,000,000, however better quality renovated and extended homes on large land holdings of 1,012m² can be purchased in the order of $1,250,000 to $1,500,000.

This area is well serviced by quality schooling, has access to the train station and is within close proximity to the beaches of Cottesloe/Swanbourne and City Beach.

Benefits of investing in this suburb include a well located established suburb featuring good amenities, with high underlying land value components being in excess of 80% of the total purchase price. Some of these properties may have duplex development potential and there could be a push for the City of Nedlands to review their current policy. Rentals are considered to be in the order of $500 to $1,000 per week, which shows gross returns in the order of 2.5% and 3.5%, depending on the property.