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# Australian Property Investor

FEBRUARY 2015
FOR HOMEBUYERS, INVESTORS & PROPERTY PROFESSIONALS
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# ALL ABOARD THE CITY CHANGE

Downsizers seem to be resisting the lure of the coast to embrace urban life. Is the sea change becoming the city change – and what does that mean for investors? ANGELA YOUNG

Patterns are always helpful for the property investor. But it appears the traditional sea change for empty nesters and downsizers isn't the go-to move of choice for Victorians any more, and neither is the tree change.

A *Downsizing Among Older Australians* report by the Australian Housing and Urban Research Institute shows that Victoria has the highest proportion of downsizers in the country. Data compiled from a survey sent out with the National Seniors Australia magazine *50 Something* reveals that across Australia 43 per cent of respondents who had relocated had downsized, and Victoria had the highest proportion of downsizers, at 54 per cent.

Interestingly, the Melbourne statistical division is one of the fastest growing regions in Australia. Between 2001 and 2011 its older population (aged 65 and above) increased by 25.5 per cent, nearly twice the rate of zero to 54-year-olds.

But how does this new trend affect investors? For a start it seems to be hitting house prices. Melbourne buyers' agent Paul Osborne says the movement of downsizers city-wards is something he's been seeing for a couple of years, mentioning some effects that are already apparent: "We've seen some outrageous prices. Recently, a property in Malvern that should have been worth a million dollars sold for $1.6 million.

"It was downsizers," he explains, "fighting it out with each other to be able to get into a space that was on the one level, within walking distance of where they wanted to be and the floor plan was easy to navigate.

"We're starting to see these really exceptional prices being paid, for accommodation that's going to last somebody their lifetime," he says.

## AGE-FRIENDLY URBAN DESIGN

The report shows that some of the key drivers for downsizing (nationwide) are a desire for a change in lifestyle and an inability to maintain the home or garden. Children leaving home and retirement were also important factors.

Osborne's Secret Agent has also released a report, noting that "rather than move out to a large dwelling in outer suburbia, living close to transport and lifestyle destinations has become the new dream".

So, why the change in mind set?

Osborne says: "A lot of baby boomers are retiring, or they're in the transition of retiring, and they've done quite well, a lot of them… they've ridden a number of very good decades when it comes to the share market and the property market, and I think a lot of them want to enjoy themselves. They see how their kids have lived – gen-y in the inner-city areas – how they've gentrified those

ISTOCK PHOTO

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particular locations, where there's great amenity to things like really good food, and culture, and there's a craving for this demographic to enjoy that while they've got the resources to."

He goes on: "I think the other side of it is that they want to live closer to their children, and a lot of their kids don't want to leave the inner-city areas."

## CASHING IN

It seems that developers, however, have been a little slow to the party, and Osborne believes this could lead to a chance to get in early for savvy investors.

"Developers have focused on the investor seeking smaller spaces, but there should be some good opportunities to profit from developers looking to build boutique units on one level that are well located," he says.

Metropole's Michael Yardney sees the potential for profiting from increased demand from mature buyers in the city, and also the flaw in current inner-city developments.

"What pushes up property values isn't investors but owner-occupiers, so investors should definitely be looking at buying the sort of property owner-occupiers want," he says.

"It's owner-occupiers buying similar properties in the same complex nearby that's going to push up property values, because owner-occupiers buy with their hearts not their calculators.

"Many of the new apartments in Melbourne's inner-city regions haven't been built with owner-occupiers in mind, they've really been built to sell off-the-plan to investors, in particular to foreign investors, with poor floor plans and poor construction techniques," Yardney says.

"What we have to do as an investor is avoid the big high-rise towers, and find the smaller boutique apartments that owner-occupiers are trending towards."

Osborne goes so far as to predict that the next development boom is likely to be for bigger spaces – three-bedroom apartments, etc.

"At the moment, due to the shortage, larger spaces are fetching a premium," he explains, "providing they have all the right things – downsizers are a picky bunch!"

The "right things" include natural light, a view, a quality building and outgoings that don't slug them too hard.

David Payes, president of the Urban Development Institute of Australia for Victoria, believes generational requirements have changed.

"In Victoria, more than 50 per cent of all households are either single-person or two-person households. Average household size has reduced, and I think that's principally because of our population bubble. Baby boomers are now moving into the empty nester stage and generally speaking are more affluent overall. They're still active and have different interests and requirements to, say, their counterparts 25 years ago."

Payes explains how land lot sizes have fallen 25 per cent over the past five years.

"That reflects the smaller average household size, but also affordability. Lot sizes have come down and builders have reacted by building more efficient designs, specifically for the smaller lots."

Property Mavens' Miriam Sandkuhler has noticed changes, too, and she puts it down to, primarily, maintenance issues.

"Maintaining the property is a real issue for people. And it's the cost of maintaining it. [They downsize] to try and alleviate the capital cost of having to either continually put money into a property or, if they can't afford it, it ends up in disrepair and they have an asset that's losing value over time."

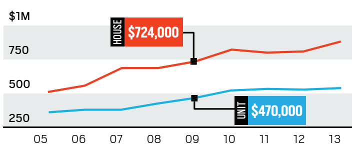
## WHO GOES WHERE?

It doesn't appear to be a simple case of owner-occupier downsizers eschewing

### ALL ABOUT RICHMOND[1]

| | House | Unit |
|---|---|---|
| Median price Sept 14 | $901,500 | $515,000 |
| 12-month growth | 13.9% | -3.4% |
| Median rent Sept 14 | $595 | $400 |
| Rent growth Sept 14 (YoY) | 4.4% | 0% |
| Gross rental yield Sept 14 | 3.5% | 4.6% |
| Properties sold Sept 14 | 434 | 319 |
| Properties sold Sept 13 | 470 | 321 |
| Average vendor discount Sept 14 | 6.7% | 8.3% |
| Average vendor discount Sept 13 | 6.7% | 0.5% |

### RICHMOND MEDIAN SALE PRICES[2]

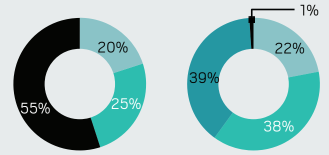



### RICHMOND FACT SHEET

**Richmond** has a low supply to demand situation. There are few rental properties available to tenants and there is an undersupply of for-sale listings. Discounting is heavy. Incomes in Richmond are growing slightly faster than the Victoria average. The proportion of renters to owner-occupiers is above average for Victoria. Rental vacancy rates are a tight 1.7 per cent. Stock for sale levels are up by 22.6 per cent year on year.

Source: SQM Research, www.sqmresearch.com.au (accurate to November, 2014)

**OCCUPANT TYPE[3]** / **HOUSING MAKE-UP[4]**




- Owner-occupiers
- Mortgage holders
- Renters

- Separate house (5,620)
- Semi-detached row or terrace house, townhouse etc (9,549)
- Flat, unit or apartment (9,913)
- Other dwelling (183)

**VACANCY RATES[3]**

1.7% RICHMOND

2.5% MELBOURNE

**10-YEAR AVERAGE ANNUAL GROWTH[5]**

7.2% HOUSES

5.1% UNITS

**KEY DRIVERS**

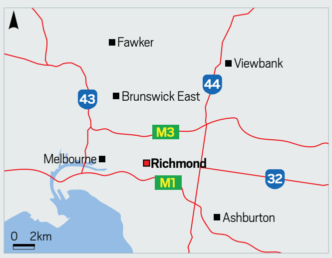
- Proximity to CBD.
- Vibe/lifestyle.
- Transport options.

**POPULATION[4]**

60,193

**WALK SCORE[6]: 90**

Richmond has a Walk Score of 90 and is the 12th most walkable neighbourhood in Melbourne. There are about 419 restaurants, bars and cafes in Richmond, and people can walk to an average of 19 of them in 15 minutes. Daily errands don't require a car here.




[1]Source: APM and SQM Research, [2]Source: realestate.com.au, [3]Source: SQM Research, [4]Source: ABS 2011 Census, [5]Source: APM, [6]Source: www.walkscore.com.au. H = houses, U = units, YoY = year on year, SNR = statistically not reliable.

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the traditional sea- or tree-change for the city, however. Experts are seeing plenty of people that choose both, with many extending their investments, or even purchasing an investment property for the first time.

"Somebody might be selling up what they've currently got, which is quite substantial, and buying something in the inner-city as well as a coastal property," Osborne says.

"Sometimes they're using the funds they have in their own asset to go and acquire both an inner-city place and a coastal place."

Those affluent baby boomers, then, are getting the best of both worlds. Sandkuhler is seeing another tactic, too, cashed-up baby boomers that can afford it living dual lives, winters in Australia and those hot, summer months spent in Bali or Thailand, where it's easier to live off a pension and people are more likely to be able to pay for help in the home.

"Interestingly enough, years ago the trend was that a lot of Victorians would retire and go to Queensland, and now Queensland's ended up with this massive aging population and all the issues that come with it," she says.

When it comes to Melbourne, Payes thinks the CBD is still the stomping ground of the younger professionals, whose requirements tend to be the one- and two-bed apartments, with downsizers providing increased demand for the larger apartments (including three-bedroom units) and townhouses in middle-ring and outer-ring suburbs.

"People want to age in place, more or less," he says. "They want to be close to families and friends but want alternative accommodation, smaller.

"We'll tend to go to areas where we can get what we expect. If that's the inner-city, that's where we'll move to."

So, has the inner-city rental market seen a spike and should we be including the older generations in our investment plans for inner-city living?

Yardney points out there's an oversupply of the wrong sort of property in Melbourne, but not a plentiful supply of the good properties, "because developers like putting as many and as much in as they can".

Yardney agrees with Payes that the inner-city is still the domain of the younger gen-ys. "But in many of the inner suburban areas, where people are downsizing, there has now been a trend

INVESTOR SNAPSHOT

## Downsizing without moving

**Name:** Loretta Monda
**Lives:** Doncaster
**Invests:** Ballarat, Braybrook
**Properties:** 3, soon to be 5
**Strategy:** Sub-divide, hold and sell.

There's an alternative strategy for the downsizing investor that not only reduces maintenance obligations at home, but also makes the most of your current asset.

Loretta Monda, 52, lives in her large family home in Doncaster with her partner and, for the time being, her three grown-up children.

"It's a four-bedroom house, with a study, a rumpus room, lounge/dining and a big kitchen living area," she explains.

"It's on 780 square metres, with a pool that we're not using – it's empty, because the kids don't use it any more." Loretta has a 30-year-old, 22-year-old and a 20-year-old. All three live at home, the two eldest having moved away and come home again.

"We have two other investment properties," she says. "We purchased a property in Ballarat about 18 months ago – we actually purchased that to develop as well – and we have a two-bedroom apartment in Braybrook. There's a house on the Ballarat site at the moment, and that's also rented."

Back at the Doncaster home, subdivision is on the menu – three three-bedroom townhouses, 22 to 25 square metres each – and downsizing was a primary consideration in the thought process.

"It's the cleaning!" she says. "For me as a woman who doesn't have to look after her children (I was always the primary caregiver), I've gone into a job with high responsibility, business banking, and therefore my job takes a lot of my time.

"I don't want to come home and clean and also, the children are grown up so even though they've come back because they've changed their careers, they've got a limited tenure here before they move out again.

"I think it's also time. I've had children from the age of 22, and it's just time for me to have some life to myself and spend it with my partner.

"There has to be a timeframe in which I have some time for myself."

Originally the plan was to buy a property in Melbourne, pull it down and build townhouses there.

After a little more consideration, however, Loretta and her partner realised they were sitting on a great spot in Doncaster with a huge house that has great access to infrastructure, and decided they'd still buy but with a different strategy – rent out other places but develop the family home site.

"This would be our main strategy – to downsize and also for retirement. A retirement strategy and a downsize strategy," she says.

Loretta hopes to have three townhouses on the lot: "We'll live in one, keep one and we'll sell one."

With hopes the subdivision and subsequent sale of one townhouse will leave the couple unencumbered, Loretta's unsure of long-term plans and whether the townhouse would be a retirement home.

"You don't think like that, long-term, any more. We would expect to live in the townhouse, but once the children leave, we're not really held to this area, so maybe we'll want to go and live in the city for a couple of years," she says. "To experience a different lifestyle, because we've always lived in the 'burbs... but we wouldn't buy in the city, we'd rent because I think, as a banker, the value's not there, not at the moment."

Not that the city is the only potential destination on the list. "It's more about flexibility – it might not be living in the city, it might be living in a five-kilometre radius, say St Kilda. Just to have a different experience."

Once Loretta's permits for the subdivision have been granted, she suggests such possibilities are probably five to eight years away. Retiring early is also on the horizon, or at the very least reducing working hours around the age of 58 to 60.

"We always said our ideal would be that we would downsize (developing this property), and that we wanted to have a particular income being generated from rental properties, we'd never be reliant on superannuation," she says.

"Superannuation laws change so quickly... so we worked out our strategies on future income, where the government wasn't going to determine our income."

Loretta has lived in the home for 14 years, giving her the benefit of not having had high land prices and thus good equity in the land.

"Fourteen years ago I paid $312,000, and I recently had it valued at $1.1 million to $1.2 million. The land value is about $900,000.

"Because we're in the Doncaster overlay, they're actually encouraging people to build high-density," she explains, "which is why we can put the three townhouses on here."

No regrets?

"I get very attached to things, but you've just got to move on.

"It's a lovely 1970s house – lots of wood and glass – but it just doesn't suit the purpose anymore."

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to build apartments and these are being snapped up by baby boomers who want to stay in the same locality and have the same doctor, the same hairdresser, be near where their friends are." These apartments, Yardney says, are generally more expensive, too, dotted around areas such as Armidale, Malvern, Camberwell, Brighton and Mooney Pods.

"These are more established money suburbs where, when the kids move out, people want to stay, close to the shops, to the good amenities," Yardney goes on. "Moving to apartments is all about lifestyle. The modern lock 'n' leave."

Sandkuhler has witnessed the trend in certain areas, too.

"There are a lot of retirees, or people with a second property, in and around Port Melbourne, Docklands," she says.

"You get the downsizers that want to stay in the area they're in. For example there have been mid-rise apartment developments in Hawthorn/Camberwell, where they've wanted to stay in the vicinity. They've sold their big property on a big lot, and downsized to an apartment in that inner-ring suburb."

### GLOVES ARE OFF

Whether they're locking up and leaving, or enjoying soaking up the bustling cultural atmosphere, it definitely seems as though the new generation of downsizers have a different way of looking at their retirement years to their forebears – and the change in pattern could well lead to some bonuses for investors looking in the right places.

As for the downsizers themselves, Sandkuhler sees the financial sense in their decisions – a new investment strategy for baby boomer investors.

"They're actually freeing up capital," she says. "They're selling a large asset that's too unwieldy to live in and too costly to maintain, downsizing to something smaller that gives them a better lifestyle and lower maintenance, and the excess equity they're actually putting in to funding their retirement and living off it, or travelling." Possibly even purchasing the properties their children's generation are renting. No one ever said there was an age limit to property investment.

"It's definitely an exit strategy or pension-save strategy for a lot of people," Sandkuhler goes on, "particularly older people that didn't have the benefit of superannuation guarantee funds over the decades. They're more or less totally self-funded retirees."

And getting in first seems to be the key. Larger apartment blocks could well be on their way and they're likely, according to Osborne, to benefit from strong capital growth, as well resourced downsizers compete for these assets held by property investors with a little vision. API

**Downsizing the extreme way**

Use the button below to read about Jacqui Burgess's extreme downsize.

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