



BUYING INTO THE CAFÉ SET

Melbourne's unit market has affordable, high-return options among the cool crowd.

We take a ride to check out what's on offer. KIERAN CLAIR [@kieranclair]

Oh Melbourne! It's our most European of antipodean capitals with a heady mix of cool culture, cafés and a lifestyle encased in both academic bohemia and hard-nosed capitalism. It might surprise readers to learn there are CBD-commutable suburbs within Australia's "Little London" where you can buy a unit for below \$350,000 and still earn decent coin in rental return. Our analysis shows the options for profitable pundits to ponder when acquiring their own bit of this tram-laden town.

THE MARKET

Many are calling Melbourne a hot unit market, but there are facets to this diamond. Miriam Sandkuhler, founder and adviser at Property Mavens, says stock below \$350,000 continues to be strong, because the entry point is easy and yields are attractive – particularly in the present low-interest rate environment. The key is not only being selective with your location and property, but to define your investment goals.

MELBOURNE UNIT SUBURBS UNDER \$350,000				
Suburb	No. sold	Median price	No. for rent	Rental yield
Carlton	373	\$290,000	959	5.99%
Noble Park	133	\$305,000	451	5.41%
Dandenong	150	\$268,500	664	5.41%
St Albans	68	\$282,500	170	5.32%
Pakenham	63	\$250,000	92	5.32%
Carrum Downs	50	\$301,250	63	5.30%
Epping	50	\$295,000	59	5.29%
Langwarrin	58	\$287,500	62	5.28%
Werribee	51	\$265,000	186	5.25%
Frankston	180	\$291,050	377	5.08%
Wst Footscray	86	\$345,000	234	5.03%
Seaford	74	\$343,000	121	4.76%
Bayswater Nth	53	\$342,000	65	4.70%

Source: APM

"You've got to understand who your prospective tenant is, what lifestyle they lead, what sort of things are they looking for in a property, and what features and amenities they want," she says.

Perron King, a director at Herron Todd White Melbourne, says buyers must realise that with units, there's at least two markets operating in Melbourne right now.

"The high-rise apartment market is completely different to the market listed in this data.

"With the high-rise markets there's quite a bit of oversupply – probably due to overseas investors, and the oversupply has really pushed down on yields."

OUR LOCALITIES

Our affordable list covers a broad geography of addresses from Epping in the northern reaches to Langwarrin in the south. Sandkuhler says she prefers those positions closer to town where supply may be more limited. If you must venture further afield, however, ensure you're in a location with plenty

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PERRON KING

of services and facilities, and with a reasonable percentage of owner-occupiers helping to support values.

“You need to be careful. If you’re going to invest in an area where you’ve got 50 per cent or more investors – then you’re susceptible to various risks.

“You could have long periods of vacancy due to the amount of stock being developed, or the amount of stock available for rent in the area. You might not have the ability to increase your rent because there’s a large supply of rental stock and people are very competitive with their pricing.”

Paul Osborne, founder of Secret Agent Buyers Advocacy, says there’s another buyer profile demanding units in those further flung suburban locations.

“If you took somewhere like Ivanhoe, where you’ve got an older set of people and they’re looking to downsize and they don’t want to move into the city, they would like to live somewhere local... They can downsize into small apartments and buy affordably. They’ve then got plenty of cash leftover from the sale of their own house to perhaps do a few holidays or whatever it might be.”

Osborne believes that, in general, if you’re considering a unit investment that’s a little further out from town, you need to ensure stock levels are being tightly managed. If a local council becomes gung-ho about approving more and more complexes, the inevitable oversupply will soak up demand and keep values subdued.

■ AREAS OF INTEREST

As with most property numbers, the initial data provides your first stepping-stone across the investment pool. It will

shortlist the options and direct thoughts towards locations offering a glimmer of potential. The key is to do additional research or better yet ask those in the know if they have a particular favourite.

Frankston popped up in dispatches among all the experts. Sandkuhler says it’s affordable and has the right fundamentals. She does, however, recommend being selective on where the investment is located.

“You’ve got a large centre there. Frankston’s population is good, you’ve got employment opportunities, you’ve got infrastructure, and you’ve got shopping centres and schools. There are parts of Frankston where you really want to be careful of what you’re going to select and buy, and there are other parts of Frankston that are going to perform better.

“So, which side of the freeway are you on? Are you on the beach side of the freeway or on the other side of the freeway?”

Proximity to water always plays well with property, and Osborne also believes Frankston offers something for those who can invest in the right position.

“I think Frankston is interesting because you’ve got a major hospital down there, you’ve got some jobs, which is always a good thing, you’ve got the water, which isn’t too far away – so the bay, which will constrain the amount of land or the amount of options within those markets – and you also have a major train station that will get people to the CBD reasonably quickly.

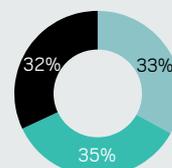
“There’s a very good part of Frankston that’s near the water where you can pay good money for a house and there’s good demographics.”

FRANKSTON FACT SHEET

Frankston 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 has been muted. Incomes in Frankston are growing slightly faster than the Victoria average. The proportion of renters to owner-occupiers is below average for Victoria. Rental vacancy rates are a tight 2.3 per cent. Stock for sale levels are down by 14.2 per cent year on year.

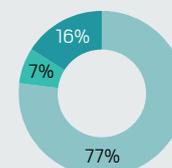
Source: SQM Research, www.sqmresearch.com.au (accurate to May, 2015).

OCCUPANT TYPE³



■ Owner-occupiers
■ Mortgage holders
■ Renters

HOUSING MAKE-UP⁴



Separate house (10,924)
Semi-detached row or terrace house, townhouse etc (1030)
Flat, unit or apartment (2191)
Other dwelling (0)

VACANCY RATES³

2.3%
FRANKSTON

2.2%
MELBOURNE

10-YEAR AVERAGE ANNUAL GROWTH⁵

4.9%
HOUSES

5.0%
UNITS

KEY DRIVERS

- ▶ Infrastructure.
- ▶ Employment.
- ▶ Near-water locality.

POPULATION⁴

35,009

WALK SCORE^{6, 7}: 55

Frankston has a Walk Score of 55. There are about 190 restaurants, bars and coffee shops in Frankston. People in Frankston can walk to an average of 0.7 restaurants, bars and coffee shops in five minutes.



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

VICTORIA NEWS

Over half a billion for Fishermans Bend

The Victorian Minister for Planning, Richard Wynne, has approved \$570 million in apartment projects for Fishermans Bend.

Located on the banks of the Yarra River and opposite the CBD, Fishermans Bend is Victoria's largest urban renewal area.

The plans will see 1958 new apartments built across three projects according to the minister's office.

"These towers are in a part of Melbourne which was once best suited to industrial businesses," Wynne says.

"The city is evolving and this government is making sure more people can live centrally in well-designed apartments."

The approvals run across three projects with the largest being a four-tower venture in Johnson Street worth \$400 million.

The second largest is a \$130 million development of two towers in Normanby Road providing 529 apartments in total.

The final scheme will be a 12-storey, \$40 million tower in Salmon Street.

While located close to the city and its related infrastructure, there may be some questions raised on increased new unit supply.

Miriam Sandkuhler, founder of Property Mavens, says the city already has its fair share of new projects under way.

"If we look at the CBD specifically, there are an enormous amount of apartments that have recently been approved for construction, which will substantially increase the apartment supply levels in the CBD over the coming years."

Concerns have also been raised that many units sold to overseas investors are also sitting vacant.

"One argument that local and foreign developers use when seeking planning approval is, 'We want to create more property to add to the housing supply, because there's a demand for, but a shortage of, accommodation'. Yet they often sell many of them to foreign investors, who have no culture of, or interest in, renting them out, which doesn't contribute to reducing the shortage of stock in the rental market at all," Sandkuhler says.

King has his own thoughts on Frankston as a standout on the list.

"On paper it should be a fantastic suburb because it's by the bay, it's got an established city hall, it's got public transport, etc. etc., but it does have social problems... so that's the offset there."

He agrees buyers should be selective and shoot for the better quality positions. "But also employ a good property manager to get the good tenants in there."

Both West Footscray and Carlton earned a mention among our crew as well. Sandkuhler says while she's a fan of West Footscray as a location, buyers have probably missed their chance to get in cheap.

"West Footscray's incredibly hot at the moment and I think a lot of people are paying too much. It's like everyone's jumped on the bandwagon and prices are just going a bit stupid."

King agrees West Footscray is worthy of further research. Seen as a 'bridesmaid' locality to the more established Footscray, he doesn't share Sandkuhler's reservation about the market. King says it's quite close to the city and has an established ethnic community that provides ongoing, underlying demand for the rental sector. He likes the upside potential for values both there and in Bayswater North.

"Although its yields are slightly softer, it's an up and coming suburb, which would appeal to both occupiers and investors due to having a bit of established infrastructure out there."

King says Carlton is an interesting proposition for investors, but there's a dominant tenant base.

"It's predominantly driven by international students and the university sector.

"The amount of apartments for rent there is close to 1,000, and yield would be directly linked to the student accommodation, or the semi-student accommodation... it would be mid- to high-rise apartment buildings, generally

quite small with strong yields but capital growth could be a bit sluggish."

He also says the Carlton market could be affected by the large number of new units becoming available in the CBD, so buyers must take care.

Osborne says student-unit investment in Carlton will suit some investors' requirements – it certainly shouldn't be dismissed out of hand – but you must consider all factors in the equation.

"You need a higher deposit to be able to fund those properties as the banks might only lend you, say, 70 per cent [of the property's value].

"Some of those [student units] are quite popular at the moment because the cash rate is so low that people are getting maybe 2.5 per cent or two per cent on their money in the bank, and on some of that student accommodation you can get seven or eight per cent net [yield]."

OUTER AREAS

King says our listed suburbs are dominated by blue-collar, salt-of-the-earth addresses away from the CBD and he thinks some provide serious potential for low entry price investors.

"Nobel Park and Dandenong – they're popular with recently arrived migrants, so they're good bases for people who work in nearby semi-industrial suburbs or manufacturing suburbs... and Seaford. Seaford's the next suburb up from Frankston, so you've still got the benefits of Frankston, but because it's slightly nicer, and you're getting the good yields, you can get the benefits of Frankston without having to be in Frankston."

He says at the median price of \$343,000, you'll land a 1980s two-bedroom villa in Seaford that would be easy to renovate and carry low body corporate fees.

Osborne says suburbs such as Werribee, Noble Park and Seaford have train infrastructure and commercial centres that make them supportable. Also, the new generation is prepared



“West Footscray’s incredibly hot at the moment.”

MIRIAM SANDKUHLER

to try unit living – a social shift that’s helping maintain values.

“As the markets have kept moving, you’ve also got a lot of those first-time buyers that are trying to get in and perhaps they’re not as sentimental about land as their parents have been, and so they look at an apartment as maybe a viable option in somewhere they’ve grown up.”

In terms of areas best left alone by investors, Osborne says Pakenham is an example with oversupply potential.

“There’s a whole lot of land there that could be a big burst of supply and you don’t really have a lot of great access to jobs.”

King’s tip is to be cautious of areas such as St Albans and Werribee, where social issues might slow down growth potential.

■ MORE THAN THIS

While Sandkuhler says our suburb list offers a good starting point, buyers must dig deeper.

“There should ideally be more information about things like opportunity for employment, infrastructure investment and development, land availability and maybe housing starts.

“More of those macro and micro-economic indicators that all go towards identifying a property’s potential for capital growth and income.”

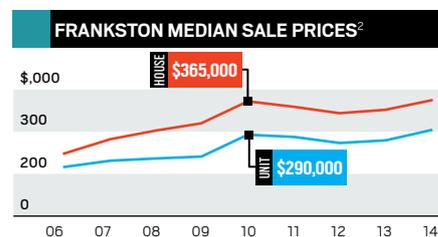
Osborne agrees that smart analyses demands more digging – you can’t stop at the first set of figures.

“How demographics might be changing is important. For example, there’s strong correlation for suburbs that show falling age demographics and future capital growth.

“You want to know who you might be selling to down the track, which I think is always under thought.”

So, grab a shot of the dark bean, arm yourself with knowledge and venture forth into the café set of Melbourne’s unit investment. **API**

ALL ABOUT FRANKSTON ¹		
	House	Unit
Median price Mar 15	\$370,000	\$292,500
12-month growth	6.5%	3.5%
Median rent Mar 15	\$325	\$270
Rent growth (YoY)	3.2%	3.8%
Gross rental yield Mar 15	4.6%	4.8%
Properties sold Mar 15	830	189
Properties sold Mar 15	824	196
Average vendor discount Apr 15	3.57%	2.57%
Average vendor discount Apr 14	0.24%	2.21%



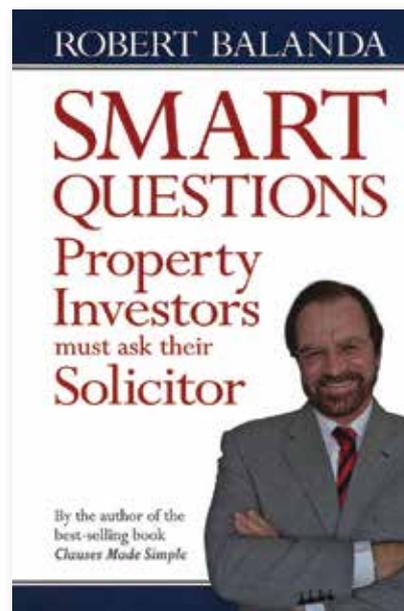
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