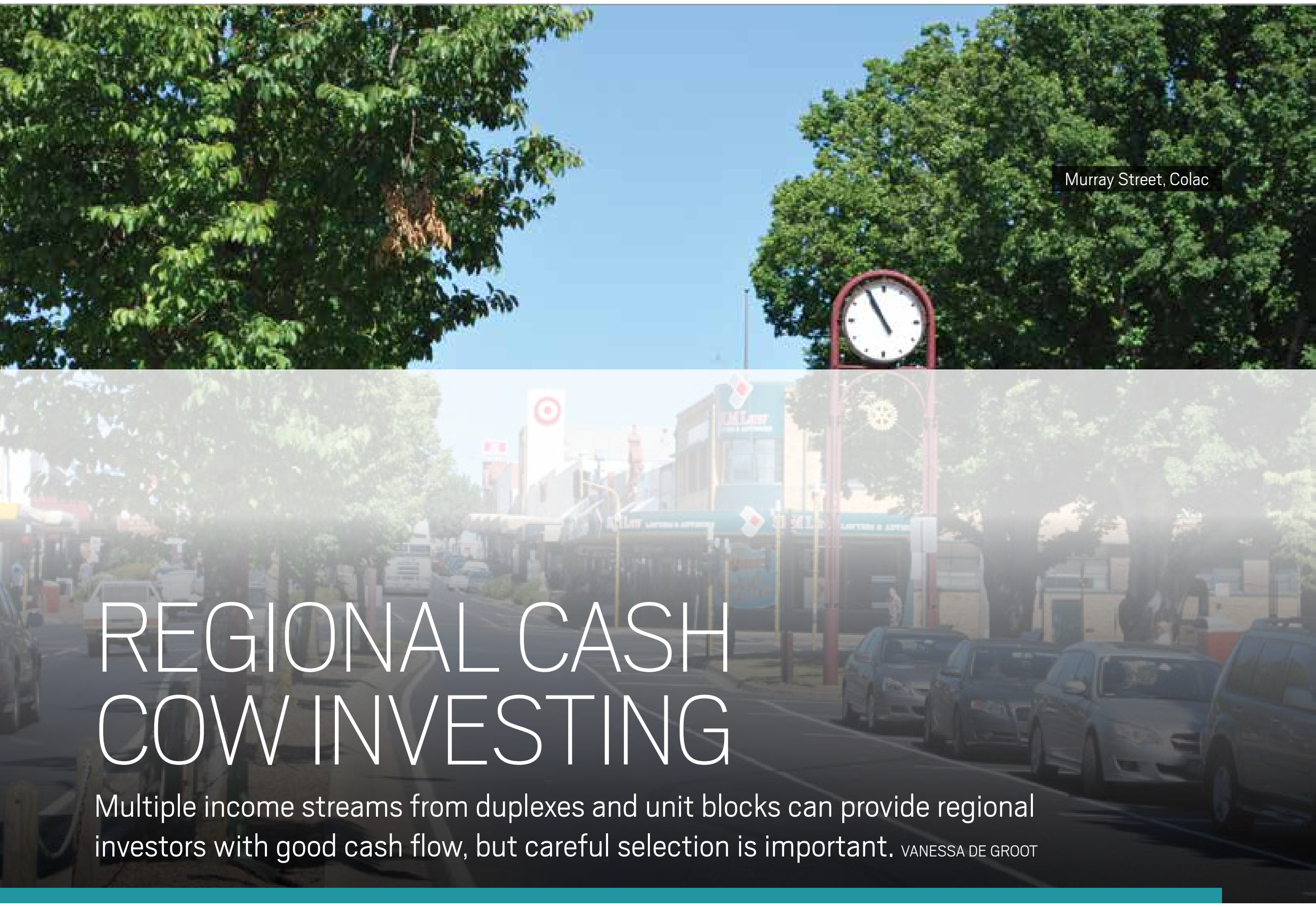


Murray Street, Colac

REGIONAL CASH COW INVESTING

Multiple income streams from duplexes and unit blocks can provide regional investors with good cash flow, but careful selection is important. VANESSA DE GROOT

If you're an investor looking for cash flow, what could be better than multiple income streams, derived from properties such as duplexes and blocks of flats – or what we like to term "cash cow" investments?

There are good opportunities to find cash cows in regional Victoria, where rental yields are already generally higher than in Melbourne, but you'll need to do thorough research to ensure you buy the right property in the right location.

When looking for a property with cash cow potential, buyers' agent and Property Mavens founder Miriam Sandkuhler recommends investors focus on small blocks of flats and duplex villas on a single title.

"These are often more affordable with a lower entry point and generate a higher yield," she says.

"Granny flats also work, however some states and local councils have restrictions as to who can let a granny flat, so extra research is required."

Sandkuhler warns, however, that "cash cow" properties in regional Victoria are scarce and competition is fierce.

If the local real estate agent doesn't snap them up, she says, they'll often likely be sold off-market to others in the know or, if they get to market, they'll most likely be sold via auction due to strong demand.

To gain an upper hand, she suggests engaging a professional, such as a buyers' agent, who has contacts in the local market and can source opportunities for you.

When it comes to looking for properties with good cash flow, LJ Hooker's head of research Mathew Tiller doesn't believe investors should be fixated on a certain type of property.

Rather, he says, a whole range of factors need to be considered to determine which investment is best for you, and in the particular area you're looking in.

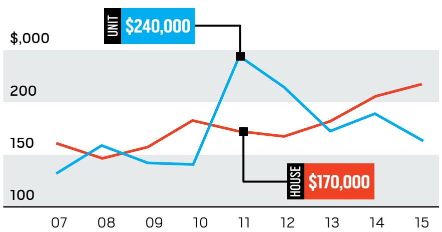
Before making the commitment to buy any type of property, Tiller advises investors first determine what they want the investment to do for them – in particular, do you want capital growth or cash flow?

Secondly, he says, it comes down to which income stream you want to target for that investment – i.e. short-term or

ALL ABOUT ARARAT[1]

	House	Unit
Median price Jun 16	$240,000	SNR
12-month growth	14.3%	SNR
Median rent Jun 16	$250	$195
Rent growth Jun 16 (YoY)	0.0%	8.3%
Gross rental yield Jun 16	6.5%	0.0%
Properties sold Jun 16	139	3
Properties sold Jun 15	125	2
Average vendor discount Jul 16	2.1%	2.3%
Average vendor discount Jul 15	2.8%	3.2%

ARARAT MEDIAN SALE PRICES[2]



THE NUMBERS – KEY AREAS IN REGIONAL VICTORIA

LGA	Median price	Yield	Population	Industry/workforce
Ararat	$200,000 (H)	6.1%	11,000	Agriculture (16.3%), manufacturing (12.9%), government services (9.4%)
VBallarat	$230,000 (H)	5.2%	93,000	Manufacturing (10.7%), tourism, education (9.8%)
Benalla	$230,000 (H)	6.1%	13,000	Agriculture (9.7%), manufacturing (11.6%), tourism
Campaspe Echuca & Kyabram	$270,000 (H)	5.6%	36,000	Agriculture (12.9%), manufacturing (14.5%), tourism
Corangamite Colac & Camperdown	$165,000 (H)	6.8%	16,000	Agriculture (30.5%), manufacturing (8.7%)
Greater Bendigo	$257,000 (U)	5.2%	100,000	Health (15.1%), manufacturing (10.2%), retail (12.9%)
Greater Shepparton	$265,000 (H)	5.6%	60,000	Agriculture (8.2%), manufacturing (12.4%), health (14.2%)
Mildura	$172,000 (U)	6.7%	50,000	Agriculture (11.1%), accommodation (7.3%)
Warrnambool	$263,999 (H)	5.9%	32,000	Manufacturing (10.3%), accom (8.8%), health 14.9%
Wodonga	$195,000 (U)	6.1%	35,000	Manufacturing (13.5%), government services (13.2%), health (12.8%)

Source: Propertyology

holiday letting, or a more permanent, long-term tenant.

"There's going to be all different types of investments in regional Victoria that will be suitable," Tiller says.

"That will include houses and it will include dual-occupancy or dual-key, which is more common in some tourist towns.

"There'll be different opportunities in different regional markets."

ATTRACTING TENANTS

While it might seem obvious, Sandkuhler says, investors often forget that tenant appeal is always important in property selection.

"If someone won't rent it, then you won't make any money.

"A lot of these properties that offer very high yields can often be older and quite dated.

"Ensure tenants are comfortable by doing a cosmetic update or renovation and always make sure heating and cooling is adequate.

"Sticking close to public transport and shopping centres will have higher tenant appeal, too."

When targeting houses, buyers' agent Cate Bakos of Cate Bakos Property suggests investors look for a minimum of three bedrooms and other aspects that local tenants value – eg. a powered garage door, great heating and a covered deck – to bolster rental potential.

"Smaller, low-maintenance yard space also helps increase yield but isn't necessarily best for growth," she adds.

"Additional rental income can be achieved from flats or, more specifically, more centrally located blocks of flats, houses with bungalows which council are happy with, and houses with multiple separately-locked bedrooms in university towns."

While regional areas generally offer opportunities for greater rental yields due to lower prices, it can sometimes be at the expense of capital growth, although the experts agree investors should be looking for both.

According to Sandkuhler, the potential for capital growth in regional Victoria is there, but it's often subject to adding value and manufacturing equity, with regional centres generally offering lower capital growth compared to metropolitan areas.

"The investor's primary strategy here needs to be for income, with capital growth as a secondary benefit," she says. "They aren't mutually exclusive, however investor expectations of capital growth also need to be realistic in regional areas."

Propertyology managing director Simon Pressley, however, believes parts of regional Victoria currently have more appeal then parts of greater Melbourne due to both cash flow and growth potential.

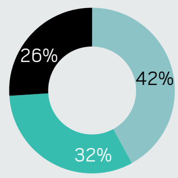
He notes that rental yields in greater Melbourne are among the lowest in Australia due to high prices, and he has concerns about the potential for capital growth over the next few years.

ARARAT FACT SHEET

Ararat 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 Ararat are growing slightly slower than the Victoria average. The proportion of renters to owner-occupiers is below average for Victoria. Stock for sale levels are down by 17.8 per cent year on year.

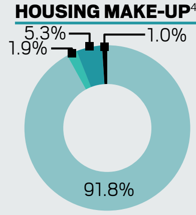
Source: SQM Research, www.sqmresearch.com.au (accurate to July 2016).

OCCUPANT TYPE[3]



- Owner-occupiers
- Mortgage holders
- Renters

HOUSING MAKE-UP[4]



- Separate house (3025)
- Semi-detached row or terrace house, townhouse etc (63)
- Flat, unit or apartment (176)
- Other dwelling (32)

VACANCY RATES[3]

1.6% ARARAT

2.1% MELBOURNE

10-YEAR AVERAGE ANNUAL GROWTH[5]

4.6% HOUSES

SNR UNITS

KEY DRIVERS

- Agriculture
- Reasonable access to Melbourne

POPULATION[4]

8683

WALK SCORE[6]**: 88**

Ararat is very Very Walkable. Most errands can be accomplished on foot.
Nearby parks include Edith Cavell Reserve, Grump's Park and Emu Park.

[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.

XGXGXGX

Potential 'cash cow' profits

In some parts of regional Victoria, Propertyology's Simon Pressley says, you can pick up a duplex or a neat and tidy small unit block for less than the median unit value in Sydney or the median house value in Melbourne.

Not only are they cheaper, but they provide investors with multiple rental income sources and a gross yield far better than the three to four per cent on offer in greater Melbourne, he adds.

"Investors can achieve rental yields of between six and seven per cent. With some relatively inexpensive cosmetic improvements, the yield may exceed seven per cent."

To demonstrate the potential profits available, Pressley points to a block of four units for sale in Ararat in August. The price was $599,000 and each two-bedroom unit was rented for $190 per week, equating to a 6.6 per cent yield.

PROJECTED ANNUAL PROFIT & LOSS

Rental income (48 weeks @ $190 each)	$36,480
Loan interest ($599,000 x 80% LVR @4.5%)	$21,560
Insurance	$3000
Property management fees	$3000
General maintenance	$3000
Pre-tax profit	**$5920**

Source: Propertyology

Cate Bakos says the yields available for cash cow investments are up to 10 per cent in Victoria, but are typically five to eight per cent, and estimates they can provide investors with $5000 per year in positive cash flow, without depreciation. This sort of return drives regional demand.

Miriam Sandkuhler says the yields on offer are often more attractive than some commercial opportunities, but banks prefer lending on these types of properties because they're zoned residential.

If the properties are under a single title, Sandkuhler explains, there's the capacity to subdivide the land and sell the properties individually, making a profit via the equity uptake after the costs have been taken into account.

To demonstrate the potential profits, Sandkuhler points to clients she recently sourced a property for (off-market) in Ballarat.

With a cash flow property investment strategy, Lucy and Robb* bought a villa duplex in February last year for $295,000, yielding 5.8 per cent at the time of purchase, with tenants already in place.

In August this year the property was valued at $310,000 and a cosmetic renovation is now under way, with money being spent on new carpets, window furnishings, paint, replacing the bathrooms and kitchens and installing air conditioning.

Lucy and Robb are also in the process of subdividing the property into two titles, with works to separate the services already having started.

* *Surname withheld to protect privacy*

Ballarat cash cow

"Once you get outside metropolitan Melbourne, most locations offer detached houses for below $350,000," he says. "Some apartments can be purchased for sub-$150,000."

In many cases, Pressley says, investors can go for the simple option and will probably be able to purchase a low-maintenance, standard house for $250,000 to $300,000 and a rental yield in excess of five per cent, but those looking for bigger cash flows will be looking for properties with multiple dwellings.

He stresses, however, the importance of thinking ahead about the breadth of the potential resale market, and making sure it appeals to both owner-occupiers and investors.

CASH COW TRADE OFF

Pressley warns investors not to get lured in by the dollar signs of a cash cow investment, saying it could be the undoing of a well-considered, long-term investment decision.

"An investment rule-of-thumb is that the lower the purchase price of a property, the better the rental yield or cash flow is," he explains.

"But if the primary reason for the property being cheap is because it has very limited resale demand, the capital growth will be significantly compromised.

"It's one thing to purchase a property with the primary focus on a few thousand dollars positive cash flow each year, but there's hundreds of thousands of dollars capital tied up to generate that.

"Your best potential return on investment will come from when you sell the property in 10 to 20 years' time, so it's important to consider resale value."

When buying a property with multiple dwellings, Pressley's preference is to have them on individual titles so you can sell off one at a time without having to worry about costs and local government bureaucracy to split titles.

"As with all properties, do your due diligence on future capital expenditure, especially big-ticket structural stuff [such as] roofing, and asbestos," he adds.

"Check the current zoning regulations to assess the risk of becoming over-supplied in the short-term from a higher density town planning scheme."

Bakos warns investors to check rates and insurance before signing contracts.

"All too often I've seen flood zones and bushfire zones rule out the positive cash

Downtown Ararat

> “Check the current zoning regulations to assess the risk of becoming over-supplied in the short-term.”

flow potential based on nasty insurance premiums,” she says.

Good property investment strategies start with an understanding of economics and the outlook for different industries, and then strategically selecting a city that contains key industries within its own economic profile, Pressley explains.

“The purchase price and type of property directly [affect] investment cash flow, however if the market fundamentals aren't sound, the capital growth over time will be underwhelming and the overall investment return disappointing. A diverse economy, good prospects for future job creation, and a controlled rate of housing supply over the foreseeable future are considerations behind all good property investment decisions.

“Specific to regional Victoria, I'd be looking for towns and cities which are likely to benefit from tourism, key agricultural products and advanced manufacturing.”

BEYOND THE NORM

Pressley notes that 1.35 million people live in regional Victoria, and while the obvious investment locations are Geelong, Bendigo and Ballarat, it's worth also considering Shepparton, Ararat, Warrnambool, Wodonga, Colac and Kyabram.

Ararat, less than 200 kilometres west of Melbourne, is affordable, he says, and has a reasonably diverse economy to drive growth.

“Its property market has performed significantly better than high profile cities like Brisbane for several years,” he adds.

“You can buy two-bedroom units in Ararat for between $110,000 and $200,000 each and get yields of six to seven per cent.

“At a time when most major Australian cities have become oversupplied with apartments, Ararat has only built four new units since 2008.”

Situated at the gateway to the Grampians national parks and regional wineries, Pressley says Ararat is a service centre for the region's tourism industry.

Other employment comes from manufacturing, the nearby prison and agriculture, and a couple of renewable energy infrastructure projects (wind farms) in the region have buoyed the local economy.

Meanwhile, Shepparton, only 180 kilometres north of Melbourne, is one of Australia's most productive agricultural regions, Pressley says, with food manufacturing also being a major industry.

Ballarat also has its merits, according to Pressley, not least of which is its proximity to Melbourne, at just 100 kilometres northwest and connected via the regional rail link.

He describes it as a “thriving service centre” with quality health infrastructure, retail and business facilities, adding that it's also a popular tourism destination.

Manufacturing is a key industry and the surrounding area has rich soil, which supports agriculture.

Bakos's rule of thumb when it comes to deciding where to buy is to find a township that has healthy fundamentals, including a population of at least 20,000 that is either stable or increasing and at least one major employer. She says regional areas that disappoint are ones where employment is limited to just one major industry and that industry changes – for example, mining towns.

Her favourite investment areas in regional Victoria are Geelong, Ballarat, Bendigo, Albury and Warrnambool – in that order.

“These areas have diverse employment, strong population, universities and hospitals, and a healthy blend of dwelling types in the central rental locations,

“The rental demand, consistent capital growth and stronger-than-metro yields give these areas a positive edge over some of the smaller towns which apparently offer strong yields but may have either vacancy rate issues, fluctuating growth performance or ‘tougher demographic’ tenants.”

Bakos warns in Bendigo and Ballarat, new house-and-land packages are “a dime a dozen” and should be avoided due to limited growth and high vacancy rates.

Tiller advises investors to look for an “x-factor” to drive capital growth.

“Look for a new infrastructure project, look for new businesses setting up in areas to drive employment and population in that centre, or a new tourist attraction to drive tourists into that centre,” he says.

When looking for cash cow investments, Sandkuhler says investors must do adequate due diligence.

“These properties are scarce, so time and effort will need to be put in… It pays to be fussy!” API