HEAD TO HEAD

VERONICA MORGAN
Good Deeds Property Buyers

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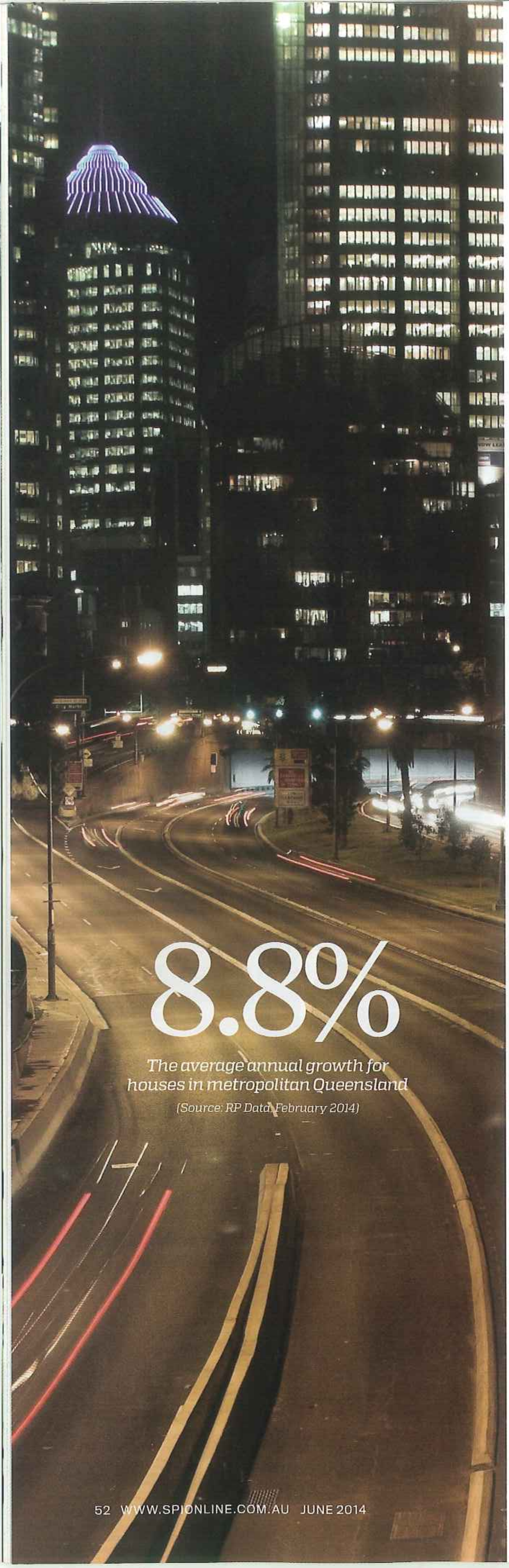
Empower Wealth

METRO VERSUS REGIONAL

There is no single path to successful property investing. Investors often have to make decisions that have no right or wrong answer. Strategies, purchases, timing and opinions differ from investor to investor, and indeed expert to expert. This month, we look at the opinions surrounding metropolitan and regional markets. We speak to Good Deeds Property Buyers' Veronica Morgan and Empower Wealth's Cate Bakos to understand their different approaches



VERONICA MORGAN,
Good Deeds Property Buyers

METRO: STEADY CAPITAL GROWTH

IT'S HARD TO generalise about capital cities because performance varies from area to area. However, the peaks and troughs between good markets and bad markets tend to be much shorter in cities than in regional areas.

In general terms, the cycles take longer to go around from top to bottom. Therefore, metro markets are often safer because they do not have the bigger highs and lows. When the market tapers off, there tends to be less of a downside.

If you look at median growth rates for a lot of regional centres, you'll often see zigzags happening. In a capital city, on the other hand, you might see growth taper off a bit but it's going to be more gentle. The ups and downs are going to be a lot less extreme.

Regional markets are very much long-term investments, whereas capital city markets are a little bit more liquid. There tends to be more demand that is always going to underpin the market.

In addition, regional areas do not have the consistency of drivers that a capital city does, such as employment. If you're looking at a regional centre with one major employer, the market is a lot more vulnerable to single events like staff cuts or a business shutdown. In a capital city market, you tend to have a broader base of employers.

Similarly, in areas relying on holidaymakers, the minute unemployment goes up, people start cutting back on those sorts of expenditures. These regions are going to suffer and take a lot longer to bounce back than a city where demand is based on necessity.

While you can sometimes get a better rental yield in the country, that is often because there has been no growth in terms of capital value. In some cases, there may be high demand for rentals because of a major employer in town but there is no confidence in the market driving people to buy.

It is also often easier to find tenants in a capital city where your tenant pool is much greater. It comes back to the fact there are lots of reasons people want to live there other than purely just working there - there is a certain lifestyle, there are cafés, there are shops.

Having said that, you have to remember every suburb and every area in a capital city does not perform the same way. If I am looking at a capital city market, I would tend to think the area within a 10-kilometre radius of the CBD will perform very differently to areas further afield of that. You need to consider that as well.

We focus on the 10-kilometre radius because people are always going to want to live there for lifestyle reasons. There is a limit to how long people will live in a place purely because they work there. It might be that they're really into beaches and water sports or they might be really into cafés and nightclubs. So I look for lifestyle and transport access as indicators of growth.

The problem with city areas is that your entry level is a lot higher than elsewhere. In my experience, it's almost impossible to buy a quality property in an inner-city area for under $600,000. If that is unaffordable, it might be worth thinking of other areas.

But if you have that kind of money to spend, I would prefer to be in a blue-chip area rather than buying somewhere risky. For a lot of mum and dad investors, they should not be taking risks. In very general terms, the inner city tends to be a safer option.

CATE BAKOS,
Empower Wealth

REGIONAL: GETTING MORE FOR YOUR MONEY

A PERSON MIGHT really want to be an investor but not have the capital to get into a more expensive market. In a regional area, the house they can purchase might be $300,000 rather than $500,000.

Another benefit is you can buy a house in a regional area for less than the cost of a unit in a city. Buying a house can physically feel like better value to some investors because they like the bricks and mortar and the land.

The third benefit is the most significant for me: your rents are generally high. As a result, you can get rental yields that are considerably higher than any of the metro areas.

In a city, we have a lot of people who are prepared to spend serious money to live close to the CBD, so the sales prices are elevated. At the same time, you have quite a lot of tenants and available properties so you tend to have more vacancies. That means renters are not paying top dollar to secure something quickly.

By comparison, in a lot of regional areas, you have really tight vacancy rates so your tenants will fight and scramble to get a place. That will be reflected in the prices that they are paying. Because the yield is higher, you don't have as great a shortfall between your mortgage repayments and your outgoings versus the money coming in.

As a result, cash flows are easier in regional areas because these out-of-pocket expenses are smaller.

I say to everyone, if you're looking at less than $300 a month in out-of-pocket costs, then you really should be focusing on regional opportunities.

It is true that when a regional town is stable, your capital growth is generally not as impressive as it would be in the city. It might be a couple of per cent underneath it.

In some cases, however, there is more stability in a regional town when the city is going through a bit of a market downturn.

If you pick your town well, you will get growth but it will be a compromised growth. I like to call this 'moderated growth'.

To find good value in a regional town, you look for a population that is not declining and you look for a market that is not volatile.

You don't want there to be one major employer who could go broke. You're looking for a blend of employment, white collar right through to blue collar and local trades. You have to have a really good mix.

The area also has to demonstrate signs of growth. If you're taking a risk and you're not getting a better return than putting your money in a savings account, then it's not worthwhile.

You're ultimately looking for an area that has a lot going for it in terms of liveability. It has its own town centre and its own hospital and school.

You don't want to be facing a situation where the inhabitants have to drive a long way to get their basic needs. It has to feel like home.

Another really big plus for any regional area is if it is potentially commutable to the major city, like Geelong or Ballarat are to Melbourne. I find that people earning major capital city incomes are bringing significant money into these areas and driving up the prices. ■