

SCHOOL'S OUT

Homes in prestigious public school zones have always been hot property, but are they worth it?

Caroline James

Investors chasing premium rents and capital growth are often paying hundreds of thousands more for houses in Melbourne's top-ranking school zones compared to almost identical houses in neighbouring suburbs.

Experts tell API this trend is expected to continue for many years to come.

So should investors clamber to get their own piece of real estate in Melbourne's red-hot school zones?

According to senior industry commentator Catherine Cashmore, anyone who purchases a three-bedroom house near an academically high-ranking public secondary school, such as McKinnon, Balwyn or Glen Waverley, will "almost certainly get a roaring investment" commanding top rent, low vacancy rates and strong annual capital growth.

The independent buyers' advocate says sellers near these popular schools are also benefiting.

But she criticises the existing school zone system, labelling it "ridiculous" and saying it inflates housing prices and creates market "bubbles".

Cashmore questions whether investors should specifically buy in top school zone suburbs if seeking long-term gains, given that schools can quickly lose their academic status if teaching staff change, public funding is reduced and/or student demographics change.

What if you overpay by a six-figure sum but your zoned-school's performance slips next year?

"If you put an elastic band around anything you'll create pressure, demand, and this translates to grossly inflated prices, often at least 20 per cent above what you pay for a house on the other side of the street that falls outside the school zone," Cashmore says.

"You have a rental market that feels the same and will pay strong rent for the privilege of living in the zone so what you'll see is people will buy land in these areas and sit on it because, honestly, they have no reason to develop it.

"If you're an investor, yes, you can't do much better than buying a house

in a school zone but I don't believe our community should be maintaining this system.

"The current zoned school system is absolutely ridiculous."

// HOW SCHOOL ZONES WORK

Victorian residents can enrol school-age children at the government primary or secondary school nearest to where they live.

Some families opt for a school further away if that better suits the child and/or parents.

However, some secondary schools restrict the number of students they'll enrol to a particular geographic area due to excessive demand for student places.

That means a resident's permanent home address determines if children are eligible to enrol in that particular local secondary school.

These enrolment restrictions are referred to as residential boundaries or school zones.

The chief marker of a school's academic performance is the percentage of its Year 12 students completing the Victorian Certificate of Education (VCE) and their median VCE score.

In 2013, suburbs with high-achieving government high schools included McKinnon, Glen Waverley, Balwyn North, Mount Waverley, Brighton, Doncaster, Berwick, Mentone and Box Hill.

// THE SCHOOL ZONE HOUSING MARKET

Robust demand for properties inside popular schools zones fuelled strong suburban median house price growth last year, according to Australian Property Monitors (APM) senior economist, Andrew Wilson.

Balwyn North, for example, a leafy suburb 10 kilometres east of the city centre and home to Balwyn High School (a top-10 ranking secondary school) finished 2013 with a median house price of \$1,214,000, a 23 per cent increase in 12 months.

McKinnon was another big achiever on the property value growth stakes.

The inner southeast suburb, about 10

HOW SCHOOL ZONES STACK UP

	SUBURB	WEEKLY RENT	NO. OF SALES	2013 MEDIAN	2012 MEDIAN	1-YEAR GROWTH	5-YEAR GROWTH	GROSS RENTAL YIELD*
Suburb with a high-ranking public high school	Balwyn North	\$520	349	\$1,214,000	\$986,944	23.0%	35.6%	2.2%
Neighbouring suburb	Balwyn	\$530	228	\$1,397,500	\$1,221,500	14.4%	25.6%	2.0%
Neighbouring suburb	Doncaster	\$450	303	\$780,000	\$703,000	11.0%	28.3%	3.0%
Suburb with a high-ranking public high school	Glen Waverley	\$440	580	\$800,025	\$710,000	12.7%	33.3%	2.9%
Suburb with a high-ranking public high school	Mount Waverley	\$430	469	\$792,500	\$725,000	9.3%	21.9%	2.8%
Neighbouring suburb	Burwood East	\$400	112	\$683,000	\$604,500	13.0%	33.8%	3.0%
Suburb with a high-ranking public high school	McKinnon	\$505	69	\$985,000	\$935,000	5.3%	26.6%	2.7%
Neighbouring suburb	Ormond	\$480	96	\$917,750	\$822,000	11.6%	18.9%	2.7%
Neighbouring suburb	Bentleigh	\$493	218	\$878,250	\$784,000	12.0%	29.2%	2.9%

* All yield figures are rounded up/down. Source: Australian Property Monitors

kilometres from Melbourne's CBD, posted a median house price of \$985,000, a rise of 5.3 per cent on 2012.

Glen Waverley, 20 kilometres to the southeast of the CBD, recorded a median house price of \$800,025 in 2013. That equals growth of 12.7 per cent compared to 2012, reports Wilson.

Glen Waverley Secondary College consistently appears on the state's highest achieving academic tables, as does Mount Waverley in the neighbouring suburb of the same name.

"I guess there's a natural gravity towards what's perceived to be better facilities of education and we're definitely seeing that right now among certain groups of buyers towards properties close to high-achieving government schools such as in Balwyn North and Balwyn but even Glen Waverley, which isn't viewed as a prestige area.

"It tends to be Chinese groups but also all groups of property investors.

"(It's well known that) part of what drives the market to the inner-east and southern belts of Melbourne, even the inner-northeast, is there's a preponderance of private schools, so to have prestigious public schools on offer too is a very strong factor in some buyers' decision-making.

"The data clearly shows that residential infrastructure and a higher perceived school does command a premium in real estate values and prices paid."

Wilson doesn't see any end to the upward price trend for school zone housing and strong rental demand.

"The fact is we don't have many new schools being built across Melbourne at the moment and funding by any government, both state and federal, is restricted so there's no reason this inherent demand for strong public secondary schools is going to go away.

"In a way we've created a quasi-private school system of good public schools."

// WHAT'S GOING ON IN HOTSPOTS? MCKINNON

Head of property at Besser and Co, Marcel Dybner, reports there was more demand for houses in McKinnon than in any other inner southeast suburb in 2013.

Dybner worked for a rival southeast Melbourne agency last year and says demand from buyers "wanting to move in so their kids can get into the school" often resulted in sale prices 20 per cent above expectations. He says McKinnon outperformed nearby suburbs including Bentleigh and Ormond, "even though Bentleigh has a much better shopping



"The data clearly shows that residential infrastructure and a higher perceived school does command a premium in real estate values and prices paid." Andrew Wilson



strip and Ormond is closer to the city".

"McKinnon is a very small area geographically with limited housing stock and as long as Australians value education, which is virtually guaranteed, this demand isn't going to end. I know of many families who are so desperate to get their kids into the city's best public high schools they're moving to McKinnon, paying premium rent to live there and qualify to go to its local high school," Dybner says.

"They're paying \$100 or more extra in rent a week (than in a neighbouring suburb) but when you consider this cost opposed to paying \$20,000 or \$25,000 every year to send a child to a good private high school, it's actually a good proposition.

"Having said that, my advice to anyone considering investing in school zones, is you need to be really wary of buying the right type of property for your intended rental market. It's absolutely essential it's family appropriate. A one-bedroom apartment would be a poor investment."

Mark Zammit, of Hocking Stuart Bentleigh, which abuts the southern flank of McKinnon, agrees the past 12 months have brought stronger than ever demand for houses in the McKinnon Secondary College school zone, "probably because of recent media attention".

Attracted by "the chance of premium rents and shorter vacancy rates, 10 to 15 per cent higher rents, but more importantly much shorter vacancy rates", investors are keen to claim a stake in the suburb.

"We have a lot of investors who buy and hold long-term, i.e. longer than a decade. Generally if you're in the zone, you tend to stay in the zone and we really don't see many landlords selling up. The challenge of course is getting in, in the first place."

Paul Menegazzo of valuation company All Suburb Valuers agrees rising private school fees are adding to the upward trend but he warns: "In terms of renting properties, just as a caution, tenants do need to check with the individual schools because they (schools) won't automatically take you if you aren't the owner of the property," he says.

"Some schools are so sought-after they won't enrol children who live in rental houses even if within their catchment areas."

THE WAVERLEYS

In Glen Waverley, property values are determined by how far the underlying land is from the centre of the suburb,

Investor Snapshot

Sitting pretty

Property investor Andrew Krantz is sitting pretty in a school zone.

He paid \$607,000 for an original three-bedroom brick veneer house on a 600-square-metre block in the leafy southeast Melbourne suburb of Bentleigh East back in February 2007.

While the suburb itself is only nine kilometres from Melbourne's CBD – a desirable location in its own right – it was the fact the property fell in the coveted McKinnon Secondary College enrolment zone which clinched the deal for this Melbourne father. McKinnon abuts Bentleigh East to its immediate north.

Andrew, himself a CPA-accountant and financial adviser, bought the property with his self-managed superannuation fund (SMSF), always intending to maximise the returns from renting to families with school-age children.

"I specifically went looking for a property in the McKinnon school zone because it would always be rented, vacancies would be low, I would be able to be selective with tenants and the homes I have subsequently built will have a higher value if I sell in the future."

Andrew let the original house for a couple of years for about \$400 a week and then subdivided it and engaged an "award-winning" builder to construct two designer four-bedroom townhouses side-by-side, which currently earn him between \$850 and \$950 each per week.

The pair of luxury family-size rental homes reached the market in 2012 and Andrew says they have barely been vacant.

A family with children attending McKinnon's high school currently has a 12-month lease on one of the homes. The other home is leased by a tenant without any school children.

which looks roughly like a triangle.

"The further out you go from the centre, the less pronounced the value difference will be," explains Angelo Ciancio, director of AMC Property Valuations.

"In the centre you can expect to pay up to 15 per cent above the prices in the extreme fringes. On the inside cusp of the school zone, you'll pay three to four per cent extra. That's why if an investor wants to buy in the school zones, if the property is right near the cusp of the existing zone, you should be wary because if those zones change they'll almost certainly retract."

Name: Andrew Krantz
Lives: Brighton East
Invests: Bentleigh East
Properties: 2
Strategy: Buy and hold



The area's underlying demand means certain times of the year signal bumper demand. Summer school holidays are the peak of tenant applications.

"With this kind of (geographic) position and quality of build you're able to be very selective with who you allow to rent your homes."

When Andrew went shopping for his McKinnon school zone investment he specifically wanted for a north-south aspect block. He wanted north-facing backyards for both townhouses.

The double-storey homes feature high ceilings, Hebel concrete walls and upstairs flooring to reduce noise and a light, bright layout and attention on natural light and open spaces.

"I wanted to build my homes with lots of natural light and a high energy efficiency rating to reduce running costs for the tenants and make the townhouse more attractive to rent and help with resale."

Andrew put his three children through local private high schools so he appreciates the enormous cost and why the prospect of sending children to a top public school is attractive.

"My plan is to hold long-term. Because of the way I bought it with my super fund, there are tax and investment advantages to do it this way. If I ever sell it I'll avoid paying any capital gains tax and, after retirement I can either keep it and rent it out, or one of my children may want to live in one of the homes, and all the while it's gaining very strong capital value. I have many options."

The markets in both Glen Waverley and Mount Waverley, particularly Glen Waverley, have "shot up" since August 2013 because of strong demand from Chinese homeowners and investors, reports Herron Todd White valuer Jules Vautin.

Savvy investors in Glen Waverley are buying land, developing and selling the new homes to Chinese buyers.

An average block in the suburb's southeast corner is worth \$600,000 to \$650,000; similar size blocks around The Glen Shopping Centre in the suburb's centre are valued at \$1.2 million to \$1.3

million, Vautin says. "There's now a very clear distinction between house values in school zone and non-school zone areas with values decreasing as you move from the school zone, you can see position makes a huge difference.

"There's no data to say this is worth more than that because it's on the other side of the road to a zone boundary but while it used to be 'oh, you need to be near a train station' to add value, now from an investor point of view everyone is talking about school zones and how close it is to Glen Waverley's school.

"Someone recently bought a house thinking it was 'in the zone' and when I rang up to check as part of my valuation, the school actually told me that property fell outside the zoned area."

THE BALWYNS

Sam Chuang of Herron Todd White says Balwyn and Balwyn North house prices are 10 to 15 per cent higher than neighbouring suburbs due to underlying demand from the Chinese

resident community who want to send their children to the area's top secondary schools.

"It has been that way for at least the past 15 years, it (Balwyn High School) is doing so well that they actually promote it in the Malaysian, Chinese and Singaporean markets so the overseas buyers already know the suburb name 'Balwyn' before they even get to Melbourne.

"You're paying \$3 million for a family house inside the school zone and about \$2.5 million for a similar house just outside the zone – a huge drop in price – and that's what I don't get; if you can afford to pay that kind of money, surely you can also afford to send your kids to any number of local private schools?"

// THE FINAL WORDS

Investors must understand what's driving the school zone home boom as "part of the mix", according to Catherine Bakos of Empower Wealth.

It will help them make a sound investment choice and build property

wealth in the next decade and beyond. But investors must choose wisely.

"It's that demographic – people with school-age children or planning to have school-age children – putting this heightened pressure on prices so you really want to buy a property desirable to this most active part of the market if you're targeting capital growth with your investment," Bakos says.

"Buying solely because a property is in a particular school zone is a real risk and I wouldn't advocate it for the prime reason that popularity of schools can change.

"I would prefer to target an area where people on stronger incomes most want to be so you aren't so exposed to the fact it may or may not be in a favourite school zone.

Of course if it is, that's a bonus but primary factors including access to public transport, cafés and shopping, local lifestyle attractions, should always be the chief drivers of any investment decision and the local school zone secondary to that." API

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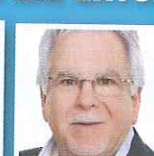
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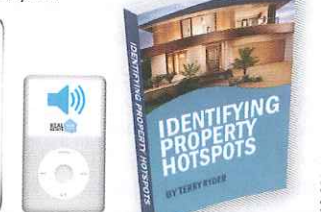
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