12 high growth suburbs with cash flow potential

A bit of elbow grease may be required, but it's definitely still possible to find properties generating positive cash flow. However, this often arduous journey can be made much easier by knowing why to look, how to look and, most importantly, where to look

Rising property prices, particularly in sections of capital cities, have got many seasoned investors with extensive portfolios excited this year. However, a lot of people who are thinking about investing in these areas have not shared the same enthusiasm. Why?

Firstly, many of these properties have become more unaffordable and they regret not getting in sooner.

Secondly, even if they were able to afford a deposit (for, say, an $850,000 unit in Hunters Hill, NSW), the dwindling gross rental yield of 3% indicates they will have to bank on excellent capital growth to make up for the negative cash flow.

In other words, chances are that many people looking to invest in certain popular suburbs will be paying more for the property and the rental yield will not be as good. This is because it's often the case that when capital growth increases, gross rental yields decrease, and consequently many investors only target one or the other.

However, despite the surge in prices, buying cash flow positive properties is still very much possible, as Cate Bakos of Cate Bakos Property explains.

"It is quite difficult to find a suburb in a growth area which exhibits positive cash flow, however they do exist. And importantly, sometimes a negatively geared property can in fact deliver positive cash flow, but usually this will mean the deductions (including depreciation) add significant cash flow back after tax."

Moreover, investors will find that it's commonly regional areas where positively geared property can be found, she says.

Best of both worlds

The real challenge is to find such a property which not only delivers strong rental yields, but also offers great opportunities for growth, says Bakos.

Jane Slack Smith of Investors Choice Mortgages agrees and says she is often asked if she recommends cash flow or capital growth properties.

"In fact, I would advise my clients to buy with both cash flow and capital growth in mind," she says.

"While cash flow will help you pay for your properties, growth will help you expand your portfolio. Why compromise when you can have both?"

Benefits of positive cash flow

Targeting properties with positive cash flow (while also

keeping in mind capital growth) can be a good strategy for a number of reasons:

- Your property expenses are covered by the rent
- They help reduce your risk of taking on the debt
- Overall, they tend to be affordable, as many of them are located in cheap regional areas
- You don't always have to compromise capital growth – choose the right area and you can have both
- Having at least one cash flow positive property will help balance your portfolio, which is probably dominated by negatively geared property

To further expand on the final point, Bakos says that a balanced portfolio is always her preferred kind of portfolio and that it's of particular importance for investors who could find themselves blocked from further investing should they run into borrowing capacity constraints.

"Obviously for high net income individuals, the need for cash flow positive properties in not all that significant, but depending on how close to retirement the investor is, and how secure the individual's income is, a balanced portfolio can mean the difference between a buy and hold strategy and a sell-down strategy."

How to find good cash flow properties

There are three key indicators of good cash flow potential, namely the rental yield, vacancy rate and the strength and diversity of its growth drivers. However, even though many suburbs in Australia have these three qualities, the vast majority of investment properties are, in fact, negatively geared.

1 Rental yield

For a property to be positively geared it usually needs to have a gross yield of more than 6% (depending on the purchase price). However, just because a suburb has a high yield does not mean that it has a high cash flow. For example, if there is an extended vacancy period or high maintenance and repair costs, this can be a significant hit on your rental income.

2 Vacancy rate

A low vacancy rate that is getting lower is a good indicator that rental prices will increase, as will your cash flow. If the vacancy rate is below 2%, this suggests that renting out a property in the area is relatively easy for the landlord. If the vacancy rate is above 3%, then the property may remain vacant too long to get a strong cash flow outcome.

3 Growth drivers

If there are a range of growth drivers and good local infrastructure then the local economy will be better protected if a key employer closed in the area.

Growth drivers to look for include: growing local population, a healthy cross-section of employment, long term employers, a blend of professional and blue-collar workers, and most of all, household incomes which are not significantly below the national median.

How to calculate cash flow

In a nutshell, cash flow is calculated by taking the total annual rent and deducting your yearly expenses from it.

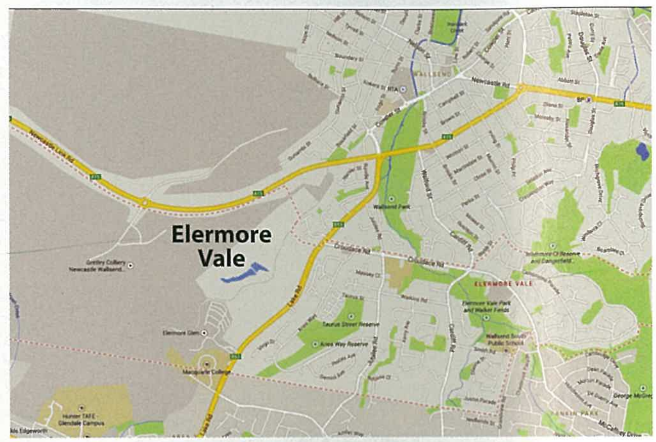
Your expenses include the interest repayment, as well as maintenance and management fees.

The answer is then divided by 52 to get the estimated cash flow per week.

To show you just how much cash flow you can potentially achieve, we used a few assumptions including:

- An interest rate of 5%
- Investor borrows 80% of the property's purchase price
- Annual property maintenance and repair costs amount to 1.5% of the property's value
- Depreciation benefits were not included
- The property stays tenanted for the entire year

All the suburbs *Your Investment Property* selected as potential cash flow hotspots boast rental yields higher than 6% and vacancy rates lower than 2.2%.



Elermore Vale, NSW

Distance from CBD: **72km**
Median unit price: **$280,000**
Gross yield: **7%**
Vacancy rate: **0.75%**
Estimated cash flow per week: **$58.85**

Why to buy

- This suburb on the western outskirts of Newcastle is popular among families with children, young couples and retirees, who are attracted to the suburban housing and its general tranquillity.
- It is also home to Macquarie College, which is one of Newcastle's leading private schools.
- The area is commercially self-sufficient, as it has great local shopping options and small businesses. It's also about 20 minutes from the Newcastle CBD and beaches.
- Units there are very much in demand, as they only spend 66 days on the market on average, and the vacancy rate is just 0.75%.

Where to buy

Sagittarius Cl and Jubilee Rd are sought-after streets for units, but some are in excess of $350,000. Brick villa units on Taurus St are available for less than $250,000 and are close to the Elermore Vale Public School and are five minutes from the John Hunter Hospital.

Case study: The importance of cash flow

One investor who is a great example of somebody who learnt first-hand the significance of having strong cash flow is Peter McRae.

McRae started growing his portfolio by targeting a string of cheap houses (less than $150,000) with high yields, predominately in Tasmania and Queensland.

After building up his confidence, he then adjusted his strategy and bought a duplex in Hervey Bay Queensland for $540,000 which was highly negatively geared. Around the same time he also bought two other properties with yields less than or equal to 5%.

This ended up having a massive impact on his cash flow and hampered his serviceability for future loans. Furthermore, the problem was only magnified when the GFC hit and it was then that Peter says he learnt a valuable lesson – for his particular strategy, cash flow really is king.

"Back in about 2003–05, everyone was negatively geared and that seemed to be the way to go. However, I was a bit weary of it because there just seemed to be this blind faith that everything would go up," he says.

"Now I think people are a bit more discerning."

McRae's focus on cash flow is so strict that he now refuses to buy any properties with a yield below 6%. In fact, his quest for cash flow has since taken him to the US, where in places like Detroit rental yields of more than 20% are possible.

Another benefit of his cash flow strategy is the prospect of an early retirement.

"Not only are you able to pay investment loans down quicker, the possibility of living off rental income is a far safer strategy than waiting for growth with a small number of negatively geared properties," he says.

"The negatively geared properties would likely need to be sold to retire – then you are left with a lump sum to live off. I prefer the concept of an income for life – living off rents of a large number of properties, with the ability to sell off some properties if necessary."

Nightcliff, NT

Distance from CBD: **4km**
Median house price: **$525,000**
Gross yield: **8%**
Vacancy rate: **2.2%**
Estimated cash flow per week: **$244.70**

Why to buy:

- It's one of Darwin's most in-demand suburbs, as it's located right on the coast and is only about five minutes from the CBD.
- It's located near major employers, such as the Royal Darwin Hospital, the Darwin International Airport and the RAAF base.
- The suburb itself boasts great schools, the well-known Nightcliff markets and the Nightcliff Shopping Centre, not to mention residents with high incomes.
- The potential cash flow per week is an outstanding $244.70.

Where to buy

Casuarina Drive has scenic views of the Arafura Sea and parklands, which are definitely a drawcard for residents. However, it's also around this area where the most expensive houses are, as they commonly go for $1,000,000-plus. There are much cheaper yet still popular options available on Aralia St nearby. Two-three bedroom houses with swimming pools for families are a good option.

Connolly, WA

Distance from CBD: **24km**
Median unit price: **$433,000**
Gross yield: **6%**
Vacancy rate: **0.9%**
Estimated cash flow per week: **$42.02**

Why to buy

- It's located just 24km from the Perth CBD. It's also very close to the beach and quality shops, schools and restaurants, making it a sought-after suburb for families.
- Connolly also neighbours Joondalup, which has a major shopping centre that is undergoing a massive expansion this year. It also stands to benefit from the development of the Ocean Reef Marina which is scheduled to be built in the neighbouring suburb of Ocean Reef.
- Connolly's gross rental yield of 6% is high for a suburb within 20 minutes of the Perth CBD.
- Demand is strong. Units there have a vacancy rate of just 0.9%.

Where to buy

Homes bordering the golf course are desirable for residents, but are generally larger and more expensive. Modern two bedroom units on Fairway Circle are popular (particularly those close to the country club) and can be bought for less than $450,000.

Algester, Queensland

Distance from CBD: **16km**
Median unit price: **$297,000**
Gross yield: **7%**
Vacancy rate: **1.19%**
Estimated cash flow per week: **$65.87**

Why to buy

- This suburb prides itself on being a safe, quiet, clean and friendly neighbourhood. Additionally, the great local schools, shops, parks, childcare, medical facilities and cafes all help make Algester a very appealing spot for families.
- The median price of units there is much cheaper than the neighbouring Sunnybank ($428,000) and Sunnybank Hills ($322,500). The gross yields of 7%+ would also catch the eye of investors.
- It is just 16km from the Brisbane CBD and has a bus network which runs frequently to get residents there.

Where to buy

Quiet cul-de-sacs like Hambleton Pl and Rapanea St with large three- or four-bedroom homes are what families in this suburb like. For students and seniors looking for one- or two-bedroom units, Woodland St and Learoyd Rd are sought-after areas.

Merbein, Victoria

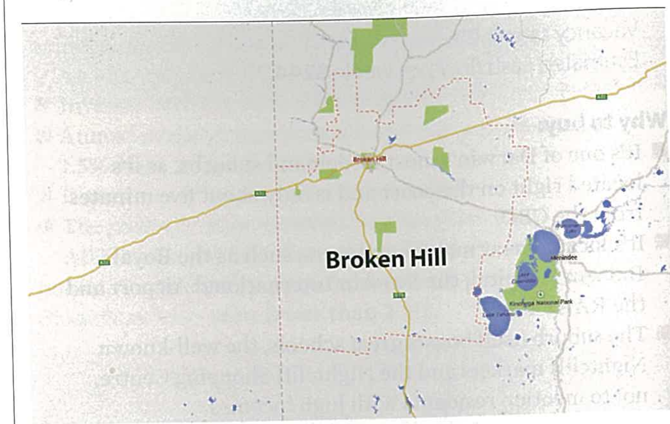
Distance from CBD: **481km**
Median house price: **$153,500**
Gross yield: **8%**
Vacancy rate: **0.18%**
Estimated cash flow per week: **$62.64**

Why to buy

- It may be 481km from the Melbourne CBD, but it's less than 10 minutes from the regional city of Mildura. The Government of Victoria has taken an interest in Mildura as a centre for population and industry decentralisation programs.
- The local Merbein P-10 College has had significant upgrades in recent years, after it was transformed in 2013 from a High School ranging from year 7 to year 10, into a prep to year 10.
- Like Mildura, it is also a hotspot for winemaking and has a CSIRO research facility in Merbein focused on the grape and citrus growing industries.
- Merbein is well-serviced by public transport. Rail services operate from Merbein along the Mildura rail line to Melbourne.

Where to buy

Third St and Second St are especially in demand. Two- or three-bedroom homes there with renovation potential can be bought for less than $150,000.



Broken Hill, NSW

Distance from CBD: **936km**
Median house price: **$120,000**
Gross yield: **10%**
Vacancy rate: **0%**
Estimated cash flow per week: **$93.08**

Why to buy

- In addition to the resources sector which really fuels the local economy, Broken Hill benefits from tourism, the arts community and also attracts filmmaking. And it is continually promoting these non-mining industries in order to help further diversify its economy.
- It will also be home to one of the largest wind farms in the world which will create further opportunities for residents.
- Vacancy rates are tight at 0%, house prices are a low $120,000 and gross yields are a high 10%.

Where to buy

The vast majority of the 12,000 odd properties in the suburb are houses, and yet tenants there are still struggling to find one. Chettle St and Cummins Pl are popular areas and they also have renovation and subdivision opportunities.

Cairns City, Queensland

Distance from CBD: **1,386km**
Median unit price: **$189,000**
Gross yield: **7%**
Vacancy rate: **2.02%**
Estimated cash flow per week: **$70.40**

Why to buy

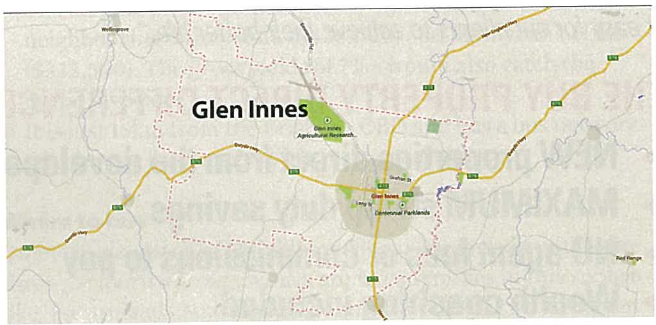
- Benefits greatly from its tourism industry, and since the Australian dollar is tipped to drop further in the medium term, this is only good news for the local economy.
- There are plans for a $4.2bn Aquis Resort complex at Cairns' Northern Beaches, which would feature nine

luxury hotels, a 25,000 seat stadium, an 18-hole golf course and a casino.

- It is becoming increasingly recognised on the international stage. It recently hosted the G20 and is welcoming increasing stream of Chinese tourists.

Where to buy

The suburb is dominated by units and those in Abbott St and Wharf St are especially in high demand. Due to the hot weather, choosing a property with pool access is always helpful. However, just beware that some of the best luxury units with views of the mountains and sea are selling for more than $700,000.



Glen Innes, NSW

Distance from CBD: **461km**
Median house price: **$175,000**
Gross yield: **7%**
Vacancy rate: **0.67%**
Estimated cash flow per week: **$44.90**

Why to buy

- Glenn Innes is a long-time producer of wool, sheep and cattle, and also has a thriving arts community.
- The tourism industry is gathering momentum, as much of the state forests have been converted into national parks.
- It will soon be home to a new turbine wind farm, as part of a $150m project by the NSW state government.
- Gross rental yields are a strong 7% and the vacancy rate is just 0.67%.

Where to buy

Weatherboard homes and acreages are in abundance, as are large family homes. In-demand streets include Sayers Cl and Ohalloran Ave. Large three-bedroom houses on the prestigious Ohalloran Ave may be more expensive than the suburb's median price, but many are modern homes with spectacular rural views.

North Geelong, Victoria

Distance from CBD: **41km**
Median unit price: **$189,000**
Gross yield: **8%**
Vacancy rate: **1.94%**
Estimated cash flow per week: **$88.10**

Why to buy

- Unit prices here are much cheaper than Geelong, where the median value is more than double ($440,000). Moreover, North Geelong's rental yields are a very healthy 8%.
- Despite manufacturing closures in the area, it has lots of positives going for it including the recent expansion of Deakin University, tourism, upgrades to local schools, and it will remain a viable option for those priced out of Melbourne in the long term.
- The train station provides easy access to the Melbourne CBD, as well as the Geelong city centre.

Where to buy

There are many modern one- or two-bedroom units perfect for downsizers, seniors or students. Houses and units around The Fairway and Birdie Ct are in a peaceful area which is in high demand.

Morley, WA

Distance from CBD: **9km**
Median unit price: **$352,250**
Gross yield: **6%**
Vacancy rate: **0.94%**
Estimated cash flow per week: **$42.40**

Why to buy

- The Perth CBD is just a 10 minute drive away and there are regular buses servicing the suburb.
- Morley contains the Galleria Shopping Centre, which is the second largest retail centre in Perth. On top of that, the Coventry Square Markets have restaurants and further shopping options.
- The friendly neighbourhood, great schools and parks make this suburb a magnet for families.

Where to buy

Collier Rd and Crimea St are close to the best amenities, including shopping and transport, and properties there are not overly expensive. Silverwood St has a laid-back feel, yet is still within walking distance of the busy Galleria Shopping Centre. Moreover, there are large blocks in the suburb with renovation and subdivision opportunities available.

Warracknabeal, Victoria

Distance from CBD: **287km**
Median house price: **$115,000**
Gross yield: **7%**
Vacancy rate: **0.17%**
Estimated cash flow per week: **$33.37**

Why to buy

- Investors here are attracted to the excellent rental returns of over 7%, in addition to the fact they only have to fork out about $115,000 for a typical house. Vacancy rates are also a tight 0.17%.