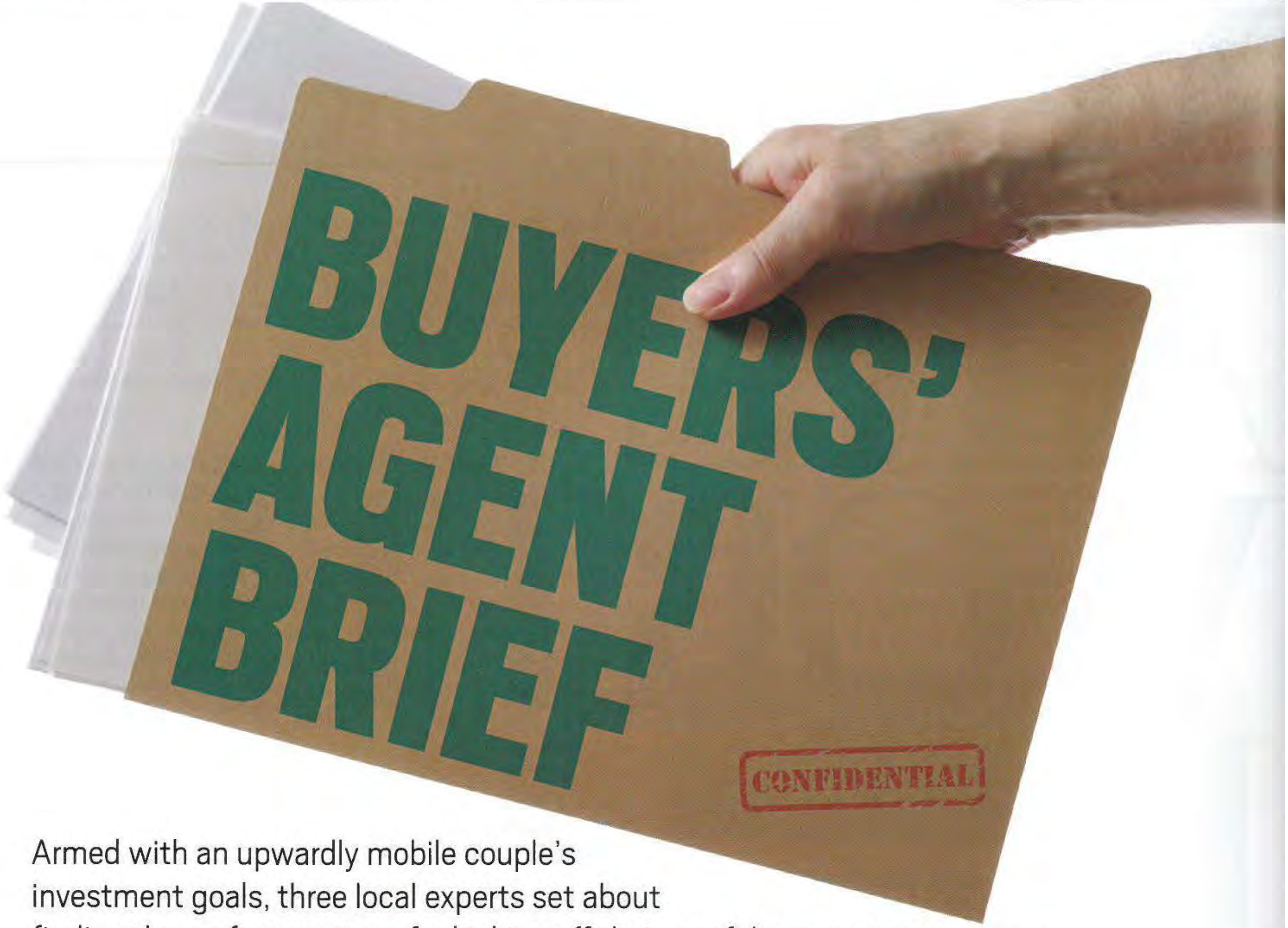


Armed with an upwardly mobile couple's investment goals, three local experts set about finding the perfect strategy for kicking off their portfolio. **KIERAN CLAIR** [@kieranclair]

Every property head out there says they're capable of acquiring the right property for their portfolio, but it's a bit like knowing you can paint the ceiling of the Sistine Chapel – sure it'll have a fresh coat, but it probably won't look quite as good as when Michelangelo had a go.

Buyers' agents labour to track, hunt and trap the best real estate they can for their clients every day. They're skilled at converting people's resources and requirements into bricks and mortar investments that will provide the best possible chance of a secure financial future.

In our new series called *Buyers' Agent Brief*, we present three Victorian buyers' advocates with a hypothetical client brief and ask them to describe what would be the perfect investment plan to fulfill their real estate dreams.

It's a great insight into the Melbourne market, and how these specialists attack the options.

Our hypothetical brief

Giles and Janelle are a (pretend) professional couple from Western Australia - both 38, married and with no kids. They own their principal place of residence (PPOR) but want to invest in Melbourne. They're looking for a great set-and-forget investment property and would prefer a detached or semi detached home over a unit. This would be their first investment property and they'd like to buy a few more, but retirement at around 55 is the goal. The couple is looking for a solid rental prospect to avoid vacancies. They would be fine with outsourcing to someone local to co-ordinate minor renovation or maintenance, but would prefer something they could rent out quickly for a solid rental return. Their budget is up to $750,000.

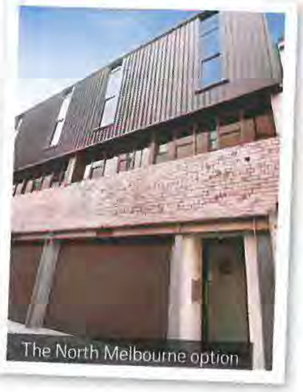
PAUL OSBORNE

Buyers' Advocate, Secret Agent founder

A $750,000 budget is around the entry point for a property that's not dependent on owners corporations. The key is to have a place that won't require a complete overhaul, as renovation costs can be extreme for structural changes.

Our belief is that cities are continuing to dense up around the inner core. To establish potential upside in capital growth and strong rents is a delicate balance. The preference for Giles and Janelle would be any of the following options:

- **A townhouse in North Melbourne.** The amenity and closeness to the CBD is superior to almost any other suburb, yet it languishes behind other CBD-edge suburbs like East Melbourne and South Melbourne. North Melbourne is still going through its gentrification cycle and is showing constant improvement. Melbourne University, the Royal Children's/Women's Hospital, Victoria Market


The North Melbourne option

and CBD provide a large well paid employed pool of prospective tenants and future buyers. At the $750,000 budget, the likely accommodation would be a two-bedroom, two-bathroom, reverse-living townhouse. These are possible to get without any owners corporation and would provide for a return of approximately $680 to $700 per week. This would be a set-and-forget investment for them. The North Melbourne property pictured above could be purchased for around the $750,000 mark and could achieve approximately $700 per week.

- **Another option is a solid terrace in Brunswick East.** About six kilometres from the CBD and with excellent transport links, Brunswick East has undertaken a large gentrification of its suburb over the past decade and it's still evolving. The slight step back from the CBD would drop the yield a little, however they would be able to purchase a terrace, which has great scarcity value due to them never being able to be built again. Just like an antique, Victorian terraces normally command great positions, and are solid structures with a strong nostalgic character that makes them good options for capital growth. These places can require a little more upkeep, however. Even those that are renovated will have experienced internal deterioration from years of weather exposure. A terrace in Brunswick East was recently picked up for $627,000 and would deliver approximately $420 per week in rent.

> To establish potential upside in capital growth and strong rents is a delicate balance.
>
> PAUL OSBORNE

- **One location that's becoming increasingly attractive and looks to deliver over the coming decade is the suburb of Seddon.** Based in the emerging inner-west and just seven kilometres from the CBD, Seddon is attracting prospective buyers and tenants due to its village lifestyle and unpretentious character. Giles and Janelle have got time to pick up on the gentrification of this area. A property can be purchased for just over $700,000 fully renovated in a good street, and would rent out for approximately $520 per week.

The key themes that tie all of the above together are the preference to purchase in areas that are still gentrifying but at the same time aren't undesirable areas that may never deliver. The need to be close to a village is starting to drive Melbourne's rents and prices. A quick walk to quality food offerings, parks and transport is paramount. North Melbourne has Errol Street, Brunswick East has Lygon Street and Seddon has Victoria Street.

Giles and Janelle are best to avoid generic style property or many of the new apartments being built around Melbourne, although the budget makes these investments possible.

It would also be best that Giles and Janelle limit renovations to cosmetic changes rather than anything structural. Being interstate, structural changes could mean a blowout on the budget. Any purchase made should have a local adviser and building consultant assist with all due diligence pre purchase.

COURTESY OF NELSON ALEXANDER ACHLTON NORTH

SIMON CURTAIN
Director, Clear Property Solutions

We would firstly aim to expand Giles and Janelle's brief by understanding as much about their financial position as they're willing to disclose. While we aren't financial advisers (and we make that point very clearly to our clients), we aim to understand as much as possible about the drivers and motivation behind their decision to invest in property.

Giles and Janelle are in a strong financial position owning their principal place of residence. If they're able to commit greater than 20 per cent equity to the purchase of a Melbourne investment property, it would allow them to finance the property independently of their existing PPOR without incurring lenders' mortgage insurance (LMI). We encourage buyers to consider lower price point investments rather than incur LMI.

The couple has identified Melbourne as an investment opportunity for its strong capital growth profile, and the diversification benefit the Melbourne market provides compared to the booming Perth market – a prudent and wise choice. We share their enthusiasm for detached and semi-detached houses – principally because they're often in high-growth, high-demand suburbs that fit the bill from both a capital growth and rental yield perspective.

We strongly believe all investors should be looking beyond the tax advantages that come with off-the-plan properties and consider that the majority of the benefit to be gained from long-term property investment is capital growth attributable to land ownership. Furthermore, family homes have scope for improvement in terms of renovation, knock down and rebuild, or for subdivision for townhouse sites.

A standalone family home presents a broad range of opportunities for improvement and the absence of a body corporate (owners corporation) provides the autonomy to substantially change the look and feel of the home, which can add value.

We would encourage Giles and Janelle to target inner Melbourne, within 10 kilometres of the CBD. At the sub-$750,000 price target, we're limited to the inner north and west as southeastern two- to three-bedroom houses within 10 kilometres typically sell in the $1 million range.

The inner south and east are preferred by families for their proximity to schools and parkland, and the large allotments on offer. These suburbs are predominantly owner-occupied and the relative lack of rental stock reduces the number of potential tenants and increases the risk of sustained vacancy. The inner north in particular is growing in value rapidly and as the middle-ring suburbs are increasingly gentrified, the rental demand for inner north homes continues to grow.

The inner north of Melbourne – suburbs like Clifton Hill, Fitzroy, Northcote, Brunswick and increasingly Coburg and Preston – are to Melbourne as Brooklyn is to New York. The young, professional upwardly mobile types who have the income without the families to spend it on are moving into these areas in droves.

We believe that Giles and Janelle's brief gives an opportunity to identify longer-term trends and aims to provide solid rental returns while endeavouring to select areas with the greatest potential for outperformance in capital growth.

> "The inner north of Melbourne – suburbs like Clifton Hill, Fitzroy, Northcote, Brunswick and increasingly Coburg and Preston – are to Melbourne as Brooklyn is to New York."
>
> **SIMON CURTAIN**

While Fitzroy, Clifton Hill and Northcote have property prices to match their extraordinary popularity, Coburg, West Brunswick, Thornbury and Preston provide greater value and larger lot sizes – all beneficial for future growth. As young singles and couples of the inner north become young families, they will seek larger houses and land size, and the easiest migration to maintain their lifestyle and proximity to their favourite places is to simply go a couple of stations further on the train or, dare we say it, get a geared bicycle for the longer commute. We would encourage them to consider freestanding homes within their budget as they present a greater range of options in terms of renovation or demolition and rebuilding.

A budget of $750,000 does limit the scope to predominantly two-bedroom homes, and in these suburbs small homes are sought after as younger tenants typically have fewer furnishings, don't require expansive storage space and are happy to rent as couples or sharing as housemates. They'd be limited to largely original homes and tradesmen could be employed to carry out minor renovations to refresh the kitchen and/or bathroom.

In terms of rental return, these properties will range between $390 and $430 per week. While the associated gross rental yields have compressed (as prices have risen), we maintain that you buy yield and expect lower growth or you forgo some yield for capital gain. Giles and Janelle are young. They can use the negative gearing and wait for capital growth over time. We also like the added appeal of the chance to add value to help increase the rental return and improve capital gains over time, as well as associated depreciation benefits.

BRYCE HOLDAWAY

Partner, Empower Wealth

While I don't have the full details of their household money movements, it would appear at face value that these guys are in the sweet spot of their life cycle with their household having two professional incomes, no mortgage payments, no kids and, provided they're diligent with their money, their monthly household cash flow surplus should be significant.

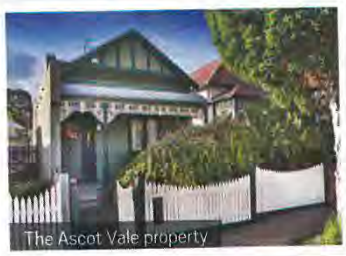
With this in mind, I'd suggest they chase capital growth and look to buy a couple of blue-chip properties first while the third and/or fourth property is more likely to be a higher yielding property (cash cow) that would allow the investors to channel their yield towards "debt retirement". They'd ultimately end up holding three or four investment properties unencumbered along with their principal place of residence so they can enjoy the ongoing passive income in retirement, which in their case is 17 years' time.

Importantly, I'd strongly suggest they get an investment-savvy mortgage broker on their team to help them structure their lending optimally as well as ensuring they channel their surplus towards efficient debt repayment. It needs to be structured with a series of purchases in mind as part of a portfolio-building process, not just simply seen as a one-off event to ensure success.

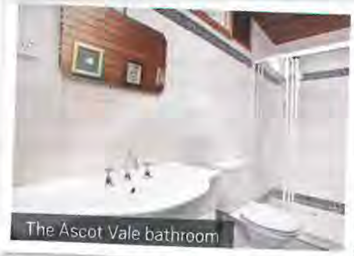
Their preference to buy in Melbourne is a good strategic move. In my view, it's never a bad idea to hold quality real estate long-term in either of the two larger metropolises in this country – Melbourne and Sydney – as they are two cities that are in the top 100 cities in the world as measured by population, and Melbourne is consistently ranked as one of the world's most liveable. I think the idea of investing interstate and choosing Melbourne is a good move.

All things being equal, I would advise that this couple chase blue-chip capital growth assets initially. With their plans to buy a few more properties in the future, this would play into their plan very well. Keeping in mind their household circumstances could change in the near future if having children is part of their plan, the cost shortfall (negative gearing) from such a blue-chip property is best taken on early in the portfolio while surplus household cash flow is at its strongest.

For this first purchase, I would recommend they look to buy a detached house that has period architecture in Melbourne's inner-west. This is largely because houses with period charm still attract



The Ascot Vale property



The Ascot Vale bathroom

PHOTOS COURTESY OF NELSON ALEXANDER ASCOT VALE a premium level of interest from both owner-occupiers and investors, and their scarcity forms a large part of their appeal. Equally, they are still available within an investment grade price range (i.e. $300,000 to $850,000) in this part of Melbourne and they are in built-up areas where the land value is typically highest.

My preference is to buy established properties over brand new. This property pictured on the previous page is in Ascot Vale and is a typical example of what I think they should consider purchasing first up.

This single-fronted Victorian house was recently purchased for $757,500 and would command a rental of $480 per week (3.3 per cent yield) in this investment grade suburb. It had sold previously in 1977 for $27,000 and again in 1997 for $169,750, so the recent purchase price confirms it has achieved a long-term compound growth rate of 9.3 per cent per annum since 1977 – a very reasonable eight-year doubling cycle.

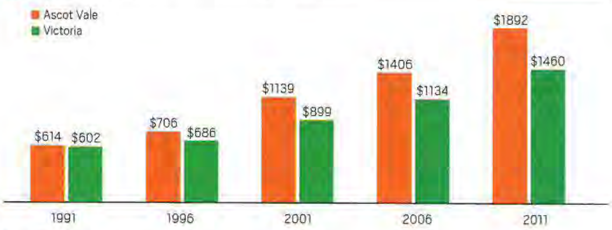
Ascot Vale has plenty of Victorian and Edwardian architecture, beautiful tree-lined streets, good public schools, and a vibrant, friendly village strip on Union Road. It has become popular with an increasing number of professionals with and without kids.

It's this appeal to professionals that helps it stack up as an investment grade suburb with the average income being greater than the Victorian average (refer to **Figure 1**), which is a critical element to look for when choosing a suburb to invest in. While this property has the scope to be brought up to contemporary standard with an internal cosmetic renovation, which would improve the yield, improve the value and increase the available depreciation benefits, the property is perfectly lettable in its current form.

Rental demand for this type of property is good due to its strong lifestyle drivers, which include excellent public transport amenities with the train line being only four stops away from the city, and the trams on Union Road and Mt Alexander Road as well as nearby urban villages.

Overall, this couple is in a very strong position to be considering building a property portfolio and this is a very realistic brief that they wish to fulfil.

FIGURE 1: WEEKLY FAMILY INCOME



Source: SQM Research