

# Properties that pay

Some suburbs are producing some incredible rental yields, but the numbers alone can sometimes be deceiving. *Kit Kadlec* examines a recent list of some of the top-performing suburbs and breaks down the statistics to reveal which might be worth a closer look

**T**he crisis of rising rental prices has been a common news story in the past year – especially in cities like Sydney and Darwin where the vacancy rate has been at or below 1%.

In the most sought-after locations, dozens of interested renters stop by for showings. But the story is mostly the same in every city – there's not enough new properties being built to meet the growing demand.

It's a situation that's made life difficult for many renters looking for a new home – and it's not likely to change anytime soon. But it's also provided an

opportunity for savvy investors who've seen the rental market as one of the more profitable places to be in 2009.

"With many experts predicting that 2009 will be a relatively flat market, the big benefit of these conditions is likely to be rental yields," says Cameron Kusher, analyst with RP Data.

Driving the yields higher will be the fact that the capital growth of many houses and units will remain flat while rental prices continue to rise, he says.

"Every few months, the owners will try to push those rents up further," says Kusher.



**!**  
**YIELD  
AHEAD**

# for themselves

In a recent report, RP Data detailed that every capital city other than Adelaide made overall gains in rental yields in 2008. The top three were Darwin, Perth and Sydney, at 0.81%, 0.76%, and 0.58% respectively.

In many respects, the rental yields are catching up to years of lagging behind due to strong capital growth, says Kusher.

"The yields will continue to be strong generally until price growth kicks off again," he says.

## Cash flow positive

In obtaining such high yields, many investors can also end up with their balances in the black each year, even if they've taken a large loan. This essentially means being cash-flow positive.

The term is defined as a property that generates enough income to service its own debt requirements and more, turning in an annual profit.

A unit bought in Sydney's historic neighbourhood of The Rocks at \$730,000 and rented for \$1,400 a week could ultimately bring in a positive cash flow of about \$22,000 in one year, based on a RP Data formula. That figure is also based on an assumed 6% interest rate, and uses both the median unit price and median rent.

In calculating that, one must take annual expenses such as interest payments and other miscellaneous costs, and subtract them from overall income based on rental income.

Many rentals aren't cash-flow positive, but it's becoming easier to find such rentals lately.

"We're certainly seeing more properties become cash-flow positive now," says Kusher. "Throughout 2009, that will be a feature."

## Where can these yields be found?

Speaking in generalities, it's fairly simple to pinpoint the best cities for yields. But getting into more

specific suburbs and towns can prove more tricky. While The Rocks and Woolloomooloo suburbs of Sydney take in yields above 9%, units in other local suburbs such as Darlington and Waverton have yields below 4%, according to RP Data. Finding an exact property takes even more work.

Tim Lawless, research director at RP Data, says it's best to stick by areas with a close proximity to major working nodes, but still within a lower-range purchase price. That's rarely in the city itself, but in some of the surrounding areas.

"More often than not, the best yields are still found in the city fringes where the purchase cost of a house provides an affordable entry point to the market and weekly rents are very competitive," Lawless says.

» "You have to look at specific properties that have sold and what those properties rent for, and get a group of them together to come up with a meaningful figure"

RP Data provides rental yields in its monthly data, allowing one to quickly see which suburbs have the best yields. But that list is based on comparing median house prices and median rents, and doesn't necessarily point to what one could expect to get for specific properties in that particular suburb. Many of the figures can also be influenced by holiday rentals or other temporary sources.

In that sense, data can only give you a head start, says Scott McGeever, president of the Real Estate Buyers Association of Australia.

"I'd urge people to rely on more than just one set of research or one set of statistics," he says. "You also have to look at specific properties that have sold and what those properties rent for,

and get a group of them together to come up with a meaningful figure."

Just looking at median price and rent figures can be too broad, says McGeever.

While RP Data's list of suburbs with 7% yields or better is full of smaller tourist, farming or mining towns and suburbs, McGeever recommends buyers stick to the major cities, even if they can't compete numerically.

"There are good yields in the mining towns, but I wouldn't own a property there," he says. "You may be able to get a 10% yield somewhere, but in getting that yield, there's also an associated risk."

While mining towns can shift upwards and downwards in demand and value quickly, capital cities are more stable looking ahead, he says.

"The best yields come from buying the best type of quality property in the better areas," says McGeever.

## More than yields

Pino Tedesco, director of Metropole Property Investment Strategists' Sydney office, says rental yields aren't the only thing investors should look for either.

"The higher your rental yield, generally the lower your capital growth," he says. "I advise my clients to get a good mixture of both."

The highest yields are the result of both a lower capital value and higher rental price. What that means from an investor's point of view is that finding a property below market value, which is becoming more achievable



in the current climate, can equal great yields as it's not likely that many rents are going to be going down any time soon.

The only thing that might change rental demand in the near future is if more properties are built to meet some of that demand.

"The implications of fewer dwellings being constructed for investment purposes and fewer existing properties being purchased, is that the shortage of rental properties is likely to continue," says Kusher. "This will be particularly evident within capital city areas where rental vacancy rates are already below 2% in Sydney, Melbourne, Brisbane and Adelaide, and just above 2% in Canberra and Hobart."

For comparison's sake, the vacancy rate in the US is 6.7%. A lesson that can be learned across the seas is that if unemployment continues in Australia, many renters might no longer be able to afford the expensive inner-city prices and may be forced to move further out into the suburbs. But for now, that's not the case.

### The leaders

In locations ranging from major inner-city neighbourhoods to isolated mining towns, here we explore where the best rental yields can be found, based on RP Data calculations. Cash-flow positive figures are also included, as well as capital growth, to aid in the analysis. But it's always important to remember these numbers are based on medians and may not always fit what you can achieve realistically in each of these local markets.

Alongside are the top ten rental yields, as reported by RP Data, followed by some of the other suburbs achieving yields above 7%:

## 1 West Busselton, WA (Houses)

Population	7,385
Median house price	\$410,000
Median house rent	\$1,200
Gross rental yield	15.22%
Projected cash flow	\$33,834
Average annual growth	12.26%

**Key drivers:** Slipping values, demand from miners and holiday-makers

**Best streets:** Geographe Bay Road and Bussel Highway

According to the numbers, this town is where the best yields can be found. Located in the southwest of Australia about 230km from Perth, West Busselton has benefited from an influx of mining employees coming in, as well as many looking for a 'sea change,' says Tania Brennan, sales agent with Stocker Preston, Dunsborough.

"It's just a beautiful place along the coast," she says. There's also plenty of work in the hospitality industry. While Brennan is quick to point out the positives in West Busselton, she admits the area has also hit hard times in the real estate market lately. Rents are stable, but houses have seen median house prices drop 10.68% in the 12 months to November 2008, according to RP Data.

That's helped drive yields up. Investors should be wary, however, of the likelihood of finding a house that can rent for \$1,200 a week here. Brennan says it's more likely a four-bedroom house could rent for as low as \$250 to \$350 per week. Some of the better located, well-built properties, such as those close to the beach on streets like Geographe Bay Road and Bussel Highway rent for higher, and there are some four-bedroom houses listed for \$1,200. But they aren't as commonplace as the median rent listed makes it seem. For now, the steady rental prices and slipping home prices have benefited yields, but it may not be a long-term trend. "If worldwide demand drops and employment declines, traditionally rental yields will follow," says Mark Sinclair, CEO of Raine & Horne Western Australia. With

a median \$410,000 house and using the RP Data formula for cash flow, one would need at least a weekly rental price of \$550 to remain cash-flow positive this year. Charging a rent as high as \$1,200 per week, the median rent could yield as much as \$33,834 in additional funds each year above cost.

## 2 Hepburn Springs, VIC (Houses)

Population	601
Median house price	\$227,500
Median house rent	\$700
Gross rental yield	13.12%
Projected cash flow	\$16,943
Average annual growth	11.90%

**Key drivers:** Holiday rentals, natural springs

**Best streets:** The Main Road through Hepburn Springs

There's a vast difference between the permanent and holiday rental properties in Hepburn Springs, says John Evans, owner of John Evans Real Estate. He reckons the 13.12% rental yield cited by RP Data is true for many of the holiday properties in the resort town, which rent for around \$700 to more than \$1,000 per week in general. That makes for a positive cash flow of at least \$16,943 per year on a median \$227,500 home, if there's no break in the holiday renters throughout the year. Yet, those looking to rent their property to more permanent or long-term tenants may find their yields are closer to 4%, he says. Achieving a positive cash flow isn't possible in that case.

What makes Hepburn Springs popular with holiday renters is also what makes it less likely to maintain a strong demand for permanent tenants. There's no industry in the area, no pollution, just mountain air, lakes and forests, says Evans. "It's such a popular area with people from Melbourne," he says.

Some streets providing popular holiday rentals include The Main Road through Hepburn Springs – offering many properties – but many of the side streets offer some of the most popular properties with the best views and most isolated locations.

# Pay your tax, but don't tip them. They're not doing that good a job!

Kerry Frances Bullmore Packer

Claim the maximum depreciation allowances on your investment property now! Follow the 3 easy steps below...

### 1. Enter details about your investment property

Please answer the following questions:

What is the purchase price of the intended property?	\$ 300000
Where is your property located?	SYDNEY
What is the standard of finish?	MEDIUM
What type of property is it?	HOUSE
In which year was your property built?	PRE 18/07/1985

### 2. Press calculate

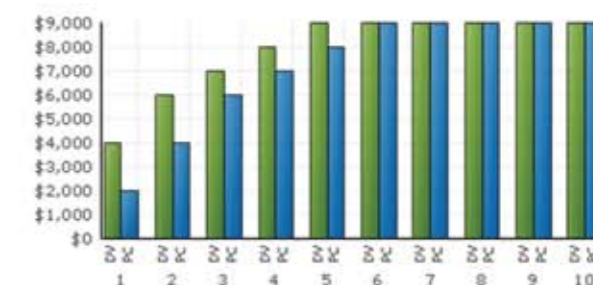
Please note the calculations produced below are estimates only and not to be used for taxation purposes.

Calculate

### 3. See how much you can save

Years	Diminishing Value	Prime Cost
Year 1	\$3,000.00	\$2,000.00
Year 2	\$2,000.00	\$2,000.00
Year 3	\$1,000.00	\$2,000.00
Year 4	\$1,000.00	\$1,000.00
Year 5	\$1,000.00	\$1,000.00
Year 6	\$0.00	\$1,000.00
Year 7	\$0.00	\$0.00
Year 8	\$0.00	\$0.00
Year 9	\$0.00	\$0.00
Year 10	\$0.00	\$0.00

Chart - Diminishing Value vs Prime Cost



Test your investment property at [www.washingtonbrown.com.au/calculators](http://www.washingtonbrown.com.au/calculators)