Country versus city – 5 key distinctions for property investors to note

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As more homeowners enjoy ever growing pools of equity, chances are some will be considering the acquisition of lifestyle property or maybe an affordable housing asset in which to invest.

Often, both of these triggers to purchase mean seeking out locations commonly considered 'niche' or secondary markets within the property investment world.

Why? Because rather than having a central metropolitan postcode, lifestyle and lower priced real estate is generally found in regional towns, either coastal or inland.

Not that there's anything wrong with that. Choosing to invest in a regional market as opposed to an urban one is perfectly acceptable, so long as you're well informed as to these 5 key distinctions between the two…

1. Less capital, more cashflow

While it may not always be the case at various points across numerous market cycles, the fact remains that long-term averages suggest regional areas usually return higher rental yields, at the expense of capital growth.

Conversely, investors who opt for inner city assets will tend to find the trade off is lower rent returns, but higher equity gains.

This is particularly true for regional communities where one primary trade, often a 'transient' type one like tourism (seasonal), farming or mining, sustains the local population of 'come and go' workers who, due to their gypsy-esque lifestyles, tend to rent rather than buy.

On the other hand, property ownership within our metro areas tends to be higher, creating far more buyer demand and in turn, applying relatively consistent pressure on housing values.

2. Lower prices

The supply demand imbalance that drives property prices upward in urban markets is ultimately what keeps values tracking at a relatively average pace in regional towns. This means investors can often still find something for $300,000 or less in many regional markets.

Logically, with the vast majority of industry and employment concentrated in and around our major CBDs, there are far more potential buyers – who drive property prices – competing for stock in these areas.

Regional communities however, often rely on one or two industries to provide employment and sustain the economy. There simply isn't the same level of competition in these markets. Generally the thing they have a lot of is developable land.

3. Market risks

Regional cities can be highly volatile and unpredictable. Just ask the many investors who snapped up positive cashflow property in mining towns during the recent resources boom.

They may have been enjoying double digit yields 'back in the day', but many have now found themselves with an immovable lemon of a housing asset, as these mining towns have started struggling financially.

When investing in a regional location, you need to ensure there is adequate diversity of industry and sufficient employment opportunities to sustain the local housing sector.

4. A different sales approach

You'll find that negotiating in country towns is a little different to the process in the big smoke. Agents are not so much like their fast talking city counterparts, which is actually quite refreshing.

Being less aggressive means buyers would do well to adopt a different approach with country real estate salespeople. Getting pushy or making harsh offers can alienate them and cause you to lose out on a purchase if you're not careful.

Regional agents are often more upfront with their vendors, whom they may know from the community. Hence, quoted prices in marketing campaigns tend to be closer to the actual value of the property.

While under quoting in auction campaigns is almost standard (technically illegal) practice in many inner city markets, most transactions occur via private treaty in country locations, with a more…err…upfront approach.

5. Less competition when you negotiate

This no-nonsense approach from regional agents is generally borne from a genuine, intimate knowledge of the local market and concern for their vendors (neighbours).

As you can imagine, news travels fast on the bush telegraph, so reputation is literally the country real estate agent's bread and butter.

Additionally, vendors tend to be more realistic when it comes to the price a buyer is willing to pay for regional dwellings, and therefore less likely to dig their heels in when it comes time to negotiate with tough counter offers.

Importantly, investors must always weigh up the pros and cons when buying anywhere based on their own personal strategy and objectives…this should always be the fundamental decider, irrespective of the nature of the markets, or agents working in them.

More Melbourne Suburbs Follow Sydney To Become A Millionaire's Playground

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As Sydneysiders are forced ever outwards from the CBD in search of affordable property, an increasing number of Melbourne suburbs are joining the ranks of residential housing with million dollar plus price tags.

Homebuyers in Sydney are travelling up to 40 kilometres from the city centre in order to find a suburb where median house prices are less than $500,000. And in some cases, house prices in postcodes up to 75 kilometres from the CBD are topping the $1 million mark.

Realestate.com.au chief economist Nerida Conisbee says 361 Sydney suburbs currently have $1 million plus median house prices, representing 51.9 per cent.

And it's not just further out you need to venture in Sydney now, but also further out in every direction.

Senior research analyst with CoreLogic Cameron Kusher says, "Five years ago – it varied a bit based on direction – but you could still buy homes in Sydney under $1m about 8km from the city. Now that's impossible. In Sydney, you can see how much affordability has deteriorated."

Moving on to Melbourne

The story is starting to look rather similar for Melbourne, where 30.3 per cent of Melbourne suburbs (124 in total) now have seven figure medians according to Conisbee.

Much like its northern neighbour, Melbourne's millionaire property price march is spreading out from the CBD in all directions.

Suburbs like Research, Oak Park and Lower Plenty, creeping out up to around 15 to 20 kilometres from Melbourne city in one direction, and Edithvale, Aspendale and Chelsea in another, are rapidly joining the millionaire median house price ranks.

Families looking for more space, but still wanting to be close to the city for work and play, are the ones powering this latest price push, according to Conisbee.

"That buyer is probably looking for space and is prepared to do a bigger commute or work in the area," she says.

Meanwhile, buyers seeking a closer commute can still find a few hidden gems in and around suburbs like Footscray and West Footscray, where a full-blown suburb 'repatriation' has yet to take hold.

"Footscray is only 6km from the city and is probably one of the few areas close to the city where you can buy for under $1 million," says Conisbee.

But this isn't going to be the case for much longer, with some of the suburbs next in line for the million-dollar club only needing around 10 per cent growth to sneak across the line.

Meanwhile, homeowners in Melbourne's bayside suburb of Chelsea, on the way to Frankston, are seeing a remarkable surge in fortunes as their homes realise rapid value growth, and prices creep into the million dollar plus range.

And what about elsewhere?

Not surprisingly, with Melbourne and Sydney acting as the hubs of industry, commerce and generally more opportunities for employment, entertainment and lifestyle, this encroachment of million dollar property prices hasn't been as obvious elsewhere around the nation.

In Brisbane, just 6 per cent of suburbs are fetching medians of $1 million or more, while in Perth it's 11 per cent and in Hobart… well, there's no such thing as a million dollar median suburb apparently.

As with most things property, Sydney is clearly the frontrunner when it comes to the millionaire's club.

In fact, the wealth we have seen poured into the Harbour City and surrounds over the past few years has been nothing short of spectacular! Including a bucket load of money from foreign investors.

Some industry watchers warn however, that Sydney is starting to come off the boil, whereas Melbourne's economy will continue soaring to new heights due to rapid population growth (2.4 per cent compared to 1.5 per cent for Sydney).

Chief executive of residential at the nation's biggest housing developer Stockland, predicts that Sydney and Melbourne will pull further ahead than the other capitals as time marches on.

"(They) are the global gateway cities and will continue to see an increase in million dollar suburbs.

Of course how quickly they'll pull ahead will largely depend on how much longer interest rates remain so low. Bill Moss, former head of property for Macquarie Group says with regard to the inevitable interest rate rise, somewhere on the horizon, "Winter is coming, we just don't know when."

Right Back To Where We Started From...Are We Headed For Another GFC?

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Anyone would think human beings have short-term memory loss. Less than a decade ago, the world transitioned into a new fiscal era, ushered in on the back of a crippling global financial crisis that meant the end for some, and a new beginning for others.

Stepping aside as the recognised world superpower due to a national banking crisis of mammoth proportions, the US was overtaken by China, and an entirely new economic landscape arose like the proverbial Phoenix from the ashes.

That crisis was borne from a financial services sector gone mad. Credit was being thrown at homebuyers like candy at a kid's birthday party, seemingly without any concern as to how people would repay their debts down the track.

Lending policies were so lax in America just prior to the monumental fall from grace, you could virtually list your employer as Vandalay Industries on your loan application and assessors would rubber stamp that thing regardless.

In response to what Australia watched happen – largely from the sidelines because we didn't have quite such the "balls up" of a banking sector – lenders here tightened their finance guidelines virtually overnight post-GFC, with the government taking significant steps to further protect the sector.

Back to the future

Fast-forward to present times, and some are suggesting we're on the verge of yet another catastrophic shake-up in the banking world that could have dire consequences for more than just investors.

This time around however, the potential problem is largely being created by rampant global investment activity. Much of which is being funneled into major world housing markets.

Ongoing low interest rates and an injection of cashflow from the central banks and governments into the global economy has meant good tidings for owners of assets – both shares and property.

This has translated into a positive flow on into Superannuation coffers and other areas of industry, such as construction, services and retail.

Add sustained, strong population growth, driven by immigration and the unwavering Chinese fascination with Aussie real estate, and you have yourself some serious housing market buoyancy.

"Buy and hold" investors have undeniably reaped the most benefit, with both share and property portfolios enjoying healthy capital growth, as select inner city housing markets experience exponential value gains and in turn, bolster the banks' dividends.

And the combination of near-zero global interest rates and major economies still chugging on quite nicely (especially those who are our closest geographic neighbours), has meant pretty decent corporate profits too.

So what's the problem then?

Well, if this global, low interest rate environment continued indefinitely, it may not be that much of an issue. People could keep borrowing against the growing equity in their home and/or investment portfolio, and the wheels would keep on turning.

But we know that's not going to happen. In fact, even as our own Reserve Bank continues to sit on its hands and keep our official cash rate at an all time low of 1.50%, other central banks around the world are taking action.

It would seem that this unique era of global low interest rates is finally coming to an end.

The US Fed Reserve has started to slowly and tentatively raise its official rate. Agonizingly slow in fact, taking them two years to creep back up to a point that's still below our own Reserve Bank's official 1.50%.

While no one is overly concerned with the goings on in the European or UK banking sector right now, there's been noise from both that they'll soon follow America's lead, raising rates at different times and paces according to their own economic tidings.

Although we no longer have so much "funny money" doing the rounds, as was the case back in 2008, now we have housing markets and banking sectors largely built on a whole world of debt – government, banking, company and property investment related debt to be exact.

The consequences of a world economic collapse now could be just as devastating as it was back then.

Fortunately, most analysts believe the chances of another GFC are reasonably slim right now. Although we have perhaps slipped into a state of somewhat blissful ignorance when it comes to household debt levels proportionate to these current low interest rates, there are still more safeguards in place than there were back then.

Consider how much pressure industry regulators began placing on the banks when it became apparent they were intent on profiting from the property machine, and perhaps starting to lose sight of 'safe zones' for housing debt levels.

The big risk in all of this is that the central banks are so overly cautious in lifting rates, that they could find themselves suddenly having to play catch up all at once.

As usual, the outcome will be dependent on daily occurrences and happenings in the world. We live in highly volatile and uncertain times – politically, socially and economically speaking, where the only thing you can control is your own response to investment markets and how you choose to evolve your portfolio.

Keep clear, focus on your strategy and goals and you'll be far more likely to weather any future storms that might be on the horizon.

The Silent Epidemic Plaguing Property Owners And Putting Tenants At Risk

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Is it time to rethink the way we construct and maintain residential habitats in the modern age? With a mould epidemic of plague proportions seemingly underway across most of the globe, impacting more and more people's health, it might just be.

The silent mould malaise

Mould is a fungus that flourishes under damp conditions, commonly accumulating in poorly ventilated buildings.

A serious contagion, and highly problematic for our health, the World Health Organisation has attributed a considerable proportion of the world's 300 million plus cases of childhood asthma, and even depression, to the inhalation of mould spores.

The most infamous type of mould is black mould, which can grow on water-damaged building materials, producing thousands of airborne, toxic spores.

In 1994, black mould was linked to a serious case of respiratory illness, where ten children experienced idiopathic pulmonary haemosiderosis (bleeding from the lung) and one subsequently died. In the face of public concern and backlash though, no causal link was established.

Despite the long history of mould causing such significant health concerns it's never been taken as seriously as it should be. Why this is the case is somewhat baffling.

One possible theory is that mould has become so insidiously problematic within modern day dwellings that it could simply be too overwhelming to deal with. Much like many of the bigger issues society faces today...

But the WHO estimates that in colder climates, 15 per cent of dwellings have signs of dampness and 5 per cent have signs of mould issues. That's nearly one-in-five households potentially at risk of mould exposure.

In warmer climates, the estimates are 20 per cent for dampness and 25 per cent for mould.

Logically, dampness is more likely to occur in dwellings that are overcrowded (did someone say cheap share house accommodation?), and lacking in adequate heating, ventilation and insulation, meaning "low income" communities and rental accommodation are more likely to be impacted.

Climate change and the erratic weather patterns that have accompanied it of course doesn't help this issue, with more storm, flood and cyclone type events causing extensive water damage to housing.

Case in point

A recent article in Domain highlighted how significant this mould outbreak has become here in Australia. And it's not just the health costs that are adding up.

On Christmas Day in 2011, a huge storm damaged the roof of a Taylors Lakes house, inundating the building with water and displacing the family who lived there at the time.

The house was subsequently repaired, and the family moved back in. Six months later however, owner Martin Kilbane noticed a patch of mould on the inside wall. He dismissed it at first. But by the following Christmas, he discovered the entire home was contaminated.

"The mould made the house uninhabitable," says Kilbane. "That's when everything went pear shaped with the insurer."

The Kilbanes are now in the midst of a lengthy legal battle with the insurance company, claiming the post storm repairs were poorly completed.

Head of insurance practice at Maurice Blackburn, Kim Shaw, says mould can have devastating and expensive consequences if left unchecked, with houses having to be demolished in the most extreme cases.

"By then, the homeowners or the family will have to move out for two, three or four years," she says. "Their life is in limbo and often they have to start again from scratch."

Rental complaints roll in

Cameron Jones is a microbiologist who regularly inspects properties and provides evidence at hearings conducted by the Victorian Civil and Administrative Tribunal (VCAT).

He says an increasing number of tenants are bringing cases against landlords and property managers for poor maintenance of rental accommodation leading to mould exacerbated health and financial issues.

And vice versa, with cases where property managers have accused tenants of not using adequate ventilation, or otherwise creating mould issues through their habitation of the premises.

In 2015 a tenant was awarded $5400 in compensation after VCAT found the landlord had breached their duty of care, by failing to properly investigate and resolve a mould issue.

"It is a real shame that a culture of deliberate ignorance has developed around essentially an occupational and health hazard," says Dr Jones. "It's a massive problem and people need to take it seriously."

According to the Tenants Union of Victoria, some of the fault for these ongoing issues lies with property managers being unaware of just how problematic mould can become.

Chief executive with the Tenants Union Mark O'Brien says, "The default position for many property managers is it's you, just sleep with the window open or keep the bathroom fan on. It's simply not adequate."

He says while tenants will often do their best to get the situation under control, "It doesn't resolve the underlying problem."

How to combat mould

In Canberra it's common to find what are notoriously referred to as ex-govie houses, with poor ventilation, aluminum window frames and ineffective exhaust fans.

Combine that with freezing cold winters, where heaters and clothes dryers are running non-stop, and you can see how we might have a slight mould issue around these parts.

Scientist and energy efficient expert Jenny Edwards from Light House Architecture and Science says there are few steps you can take to balance energy efficiency and mould prevention in the Canberra climate.

"Draught sealing makes great sense in terms of energy efficiency and keeping you warm – when you heat up your air you don't want it escaping," she says.

"But you should think of that as a separate condensation issue."

Edwards says ventilation and exhausting humid air was the priority. And things like leaving exhaust fans running after you shower, to avoid accumulated moisture becoming an issue in wet areas.

As far as structural considerations go, Edwards says insulation is the best way to prevent glazed surfaces from becoming too cold and forming condensation that can cause mould, with double glazing being the most effective, but more expensive option.

Or on the cheaper side, "When it comes to windows, the options for retrofit is as simple as putting bubble wrap over the window," Edwards says.

"Because the bubble wrap itself has that still layer of air built into it, you just stick it on…covering the aluminium frame as well because the frame is actually the part that gets really, really cold."

Edwards also warns that while heavy drapes might seem like a good idea to retain heat, they're a breeding ground for increased condensation. She says in the worst-case scenario, it's virtually impossible to overcome damp and mould issues.

"You aren't going to be able to reduce the moisture levels enough or warm that external glazing enough to prevent it from happening.
"So in those cases a dehumidifier can be really useful but I always say that's the last resort."
As with everything related to rental accommodation however, property investors would do well to note that prevention of mould is, as always, really the best cure.