

# End of the property dream

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## Kath Walters

The days of property as a passive investment are over; it's time to take an active role. Those lucky folk who bought in the past 10 years got a jump in their property values without lifting a finger. People buying today will not share in their good fortune.

Renovating is not the only way to take an active role in improving your returns on property. There are other ways for investors to ensure they get the capital growth that, combined with rental returns, depreciation schedules and negative gearing, make the property investment sector worthwhile.

A starting point would be to know what buyers and renters actually want. A recent report by the Grattan Institute, [The Housing We'd Choose](#), reveals a big difference between what people dream of buying – a detached house – and what they actually choose after considering their budget and factors such as proximity to work, friends, family and services.

The report reveals an under-supply of semi-detached housing in Sydney (minus 13 per cent) and Melbourne (minus 15 per cent), and of apartments four storeys and above in Sydney (minus 10 per cent) and Melbourne (minus 10 per cent). It also reveals an oversupply of detached housing in both cities.

Another surprise is how quickly demand is growing in the “greyfields”: the suburbs between 10 and 20 kilometres from the CBD that were once considered a death knell for property investment. Innovative investors are getting into this zone while the prices are still good (see “Death of the zone” in the FYI section).

The director of city design for the City of Melbourne, Rob Adams, says suburbia is still a vital city element – “the green lungs of our cities” – but says we do not need to build more detached suburban housing. Development along major transport routes, particular trams and train lines in our major cities, will accommodate the expected growth in population.

Although there are opponents to Adam's ideas, which are outlined in detail in the City of Melbourne's [Transforming Cities](#) report, the transformation is already under way. “If you climb in a tram, you can see development popping up on all of those routes,” he says. “These are five to eight storeys, not high-rise. This isn't a theory; it is a trend of people coming back to the city.”

Buyers should be aware that precinct development is today's planning buzz word. The idea is that developers do more than whack up a block of flats. The best multi-unit developments today include shops, leisure areas, offices and private and shared outdoor spaces. This is different from the gated communities of suburban developments.

Increasingly, inner-urban developers improve property values by inviting the public into private developments, fostering services such as restaurants and gyms and creating jobs. A Melbourne developer, Hamton, is including about 30 per cent community space in its latest projects (see “River views in vogue”). Another example: Mirvac won council approval to develop the defunct Harold Park trotting track in Sydney by ensuring it would contain enough open space to create a 20-hectare “green belt” linking Bicentennial Park to Blackwattle Bay (see “Harold Park by Mirvac”)

RMIT University's planning professor, Michael Buxton, nominates Lend Lease's Edgewater development in Melbourne's inner-west as an example of progress in precinct development. It was the 2010 winner for urban renewal awarded by the Urban Development Institute of Australia, (UDIA). “The building types range from apartments through to large housing, so it accommodates different income levels; quite an interesting diversity,” he says.

Cities have their trends, too. In Melbourne, the hottest developments are along the city's rivers, the Yarra and the Maribyrnong. In Sydney, infill is “in” – the rezoning of land to create large residential developments within a handful of kilometres of the CBD, with Harold Park, Central Park off Broadway and Green Park near Alexandria giving investors the most to think about at present.

Another savvy investment trick is to check the local council site for planning reports. The city of Melbourne, for example, has explicit plans for development in some areas, while others are designated heritage, where the development rules will be tougher.

State government plans, such as designated business activity centres and growth corridors, affect property values. These areas attract funding, buyer's advocate, Frank Valentic of Advantage Property Consulting says.



That means upgraded public facilities that make one suburb outperform another.

Relations between councils and developers are fraught because of complex and inconsistent rules, the executive director of UDIA, Victoria, Tony De Domenico, says. "Catering for the market does not necessarily fit in with what council planners want," he adds. "The developer knows the market he needs to respond to."

However, progressive local councils are reasserting their planning roles by undertaking long-term studies of housing needs, design priorities and transport needs. "Up until now decisions on urban intensification have been made at state level and councils have felt relatively powerless to influence the type of development," RMIT's Buxton says.

Progressive developers are not fazed. Hamton's Paul Hameister had to pay \$30,000 towards a transport study for a local council recently but sees this as an investment in the facilities his buyers will eventually use.

Prices across all the big capital cities and large regions have been flat or falling and competition for properties is low, putting the buyer in the bargaining position.

In this *BRW* feature, we look at three current developments in Sydney, Melbourne and Brisbane that may be of interest to investors. They are off-the-plan opportunities, an area where investors need to be especially careful: buyer's advocates warn that the prices can be high and the pitfalls many.

"When you buy from the owner of an existing home, he is not out to make a margin," a director of JPP Buyer's Advocates, Ian James, says. "He wants the market value, not a 20 per cent premium."

Visualising the end result from plans is also a trap.

"The contract never says: 'These materials will be used in the finishes'. If you're not careful you can end up with polystyrene cornices," Amanda Segers, a Sydney buyer's agent says.

Although a buyer's advocate is unlikely to drive down prices much on an off-the-plan purchase – perhaps the 2 per cent a selling agent might otherwise have ended up with – they are experienced at assessing floor plans, display suites and design, scouring contracts, comparing prices, judging the quality of interiors, negotiating extras and spotting hidden fees.

*BRW*'s advice is that today's off-the-plan property investor can do well by studying recent research about demand and supply, buying in at today's relatively low prices, following development trends and fashions, hitting the investor blogs to determine the most reputable developers, assessing the commercial and planning nous of the local councils before they buy and using the right advisers.

Properties that hold and improve their value are those that appeal to the widest number of people. Valentic warns that buyers should aim for well below their city's median price, which in Melbourne is \$450,000 for apartments, and under the median price for the suburb, too.

"Five per cent of our property transactions take place over \$1 million and 80 per cent of transactions are under \$600,000," he notes. That is the sweet spot for investors.

## **Condominium conundrum**

### **Michael Bailey**

With 8000 expressions of interest for 1250 homes, owner-occupiers are hot to trot about the residential re-invention of the Harold Park paceway. Professional investors, however, are keeping hold of the reins.

Informally known as "the backyard of Glebe", Harold Park will become Sydney's 652nd official suburb when construction begins next year. That's 14 more than there were in 2009, with most of the new names due to land releases on the city fringe (want to check out The Ponds? Head to Kellyville, 36 kilometres north-west of Sydney, and keep driving. North-west.)

But this latest suburb is a different story. Situated only 2.5 kilometres west of Sydney's central business district, Harold Park will be a planned community of 1250 homes built not on former bushland, but a dirt trotting track.

The NSW Harness Racing Club sold the 10.6 hectare site to Mirvac last December for \$187 million.

Ironically for a development that's touting its access to Sydney's new-ish light rail line, a shed that once housed Sydney's first generation of trams will become Harold Park's shopping centre.

Investing in something as well-positioned as Harold Park would have been a no-brainer during the mid-2000s boom, especially when factoring in the 8000 expressions of interest Mirvac claims to have received for the 1250 apartments and townhouses, the first 296 of which will shortly go on sale off-the-plan.

But unfortunately it's 2012 not 2006 in which Harold Park will get under way, and property advisers interviewed by *BRW* advised caution.

"Mirvac's got a strong reputation, it will be a good-quality build, and I love the locality so it doesn't surprise me they've had a high level of pre-interest", **Matt Walker, a director at financial planner WLM Financial Services** says.

"But it is a lot of properties to go on sale at the same time. You have to ask yourself what's the prospect of strong sale prices in the uncertain economic environment we've got."

With the growing trend toward 'infill' residential developments on re-zoned land close to CBDs, Walker says investors should also consider which other nearby sites might get the 'Harold Park' treatment.

"Learn the lesson of Ultimo," he implores, referring to a former warehouse precinct 2 kilometres southwest of Sydney's CBD.

"People jumped on the first developments down there in the '80s. Great – lovely refurbished old buildings, close to the water, but they kept going for another 15 bloody years. The guy who bought the first property paid his \$500,000, then had to compete with the next development, then the next one, 100 metres down the road but all at \$500,000 too. That guy was on a hiding to nothing."

More recent examples of the 'Ultimo lesson' can be found directly south of Harold Park at Camperdown, Sydney buyer's agent Amanda Segers says. One-bedroom units at another 'infill' residential development, the site of the old children's hospital, were priced at \$370,000 at the start of the year but are now trading at \$320,000, she warns. And up the street at Bridge Road on the Stanmore border, a Segers client has just paid \$315,000 for a unit in a converted warehouse sold off the plan last year for \$411,000.

"I have so many people ringing me at the moment, saying 'I bought off the plan and now I can't get rid of it – have you got a buyer?'"

Segers, like many Sydney buyer's agents, avoids buying off the plan but taking the risk does have its benefits, Andrew Peterson of property developers (and *BRW* Fast Starters) Thirdi Group, argues.

"If you're buying brand new, then hopefully you're not going to have many maintenance costs and you have the advantage of a fully loaded depreciation schedule," he says.

"So you're writing off your building over 25 years but your fixtures and fittings over 10. On a \$400,000 unit you're writing off ten grand per year, maybe more in the first few years if you're using the 'diminishing value' method."

Peterson estimates the studios and one-bedroom units in Harold Park can achieve a 5 per cent yield. (Yield is the annual rental income from a property as a percentage of its purchase price. So the studios, priced by Mirvac at \$499,000, would need to be rented out at just over \$2000 a month to achieve this).

Five per cent yield is usually cited as the minimum required for an investment property to make sense – remember that real estate agents talking 'yield' really mean 'gross yield', so tax on the rental income, strata levies and maintenance costs have to be deducted as well.

Thirdi's Peterson says history shows investors who benefit most from planned communities like Harold Park are the ones that buy nearby.

"You buy 500 metres down the road and get access to all the same stuff, without paying a premium," he says. "It's like the bloke next door to you over-capitalising – he spends \$100,000 to put \$20,000 on his bottom-line, but he probably also puts \$5000 or \$10,000 on yours."

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## **Brisbane's 90-storey phoenix a test for investors**

### **Michelle Singer**

The highly publicised approval of Billbergia Group's 90-storey residential tower has been hailed as a sign of Brisbane's economic revival – a green shoot proving the city is on the way up again, literally.

At 274 metres tall, the five-year project is the biggest to be tackled in Brisbane's CBD. The proposal includes one 36-level commercial building, an 800-unit 89-storey residential tower and the city's first five-star hotel to be built in more than a decade. But it's not entirely a first. Billbergia bought the site, an excavated hole on the corners of Mary and Margaret streets, in 2010 for \$40 million from receivers that sold it on behalf of the failed developer Austcorp.

The original \$1 billion project was a 76-storey tower with 376 owner-occupier units, 13 floors of commercial

space and retail outlets but slow sales and funding difficulties brought the project to a halt in 2008.

Urbis property economics director Malcolm Aikman says unlike the previously approved Vision Tower, the still-nameless Billbergia project hasn't tried to fit its mixed uses into the one building. Aikman, who worked with Billbergia in its approval stage, says the submission and approval reflect increasing confidence in Brisbane and its long-term prospects.

He says while the previous apartments, priced at \$1 million-plus, were marketed at Brisbane's top end, the 800 units in the new project would attract a different market at varied price points.

"What makes this more viable for the developer is they are getting more out of the site than Vision did," he says.

"A project of this scale is always going to be associated with risk. It's the biggest hotel and apartment project in Brisbane that's ever been undertaken. This project will take five years to be completed, so you need to be picking your cycle well ahead of where it is now."

The commercial A-grade tower is largely already committed to AMP, a big tenant that helps to reduce risk, according to Aikman, who said the building was also a "digestible" size and scope for the city's commercial sector.

Brisbane's commercial market has halved its vacancy rate in the past 12 months, recovering faster than anticipated on the back of mining companies leasing space, according to Matusik Property Insights director Michael Matusik.

The independent property analyst was a consultant for the Vision tower but has reservations about the redesigned project's potential for success based on the long-term average sales rate for off-the-plan product. "There's a certain type of person who buys in a high rise tower, they're very proud of where they live and they want people to know about it," he says. "In this market investors, who would look for substantial price growth, are speculators and there's not a lot of them around at the moment. They have to look at other returns other than price growth and our experience is in projects like this it's difficult to get good deals."

In Queensland, 65 per cent of attached dwelling approvals have not been started, according to Australian Bureau of Statistics figures to September, a sign of ongoing difficulties in securing finance, according to Matusik.

Place Advisory researcher Lachlan Walker expects some of the stigma around the failure of the Vision site to stick but sees a demand for greater diversity of units in the Brisbane CBD. The hotel and mixed-used components are expected to be attractive propositions for investors.

"Investors worry about the body corporate fees, however I believe the market will respond well," he says. "Having said that, Brisbane development is dependent on sales and banks have set a high pre-sale hurdle of 70 per cent before construction can start. Brisbane's current pipeline of 13,000 apartments suggests up to eight years supply, with only about half of that expected to be developed with the rest sold as sites or reconfigured."

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## **Haven on the River**

**Source:** Hamton

Address: 697 Victoria Street, Abbotsford

Site size: 14,220 sq m (includes two other buildings, Eden, sold out, and another to be designed).

Site price: \$30 million, less a portion sold for \$11 million.

Project funding: \$150 million. Secured.

Construction, in two stages, is due to start in December 2011.

Project partners: Industry Superannuation Property Trust, a wholesale property fund.

Total number of units: Haven: 201 units. Total development: 586.

Height: Nine storeys.

Range of beds: 1, 2, 3 and one 4-bed.

Price range: \$365,000 to \$3.9 million

Developer: Hamton

Architect: RotheLowman

Builder: L.U. Simon Builders.

Percentage sold: 30 per cent

Body corporate fees: \$2500 to \$3000

Body corp manager: Hamton

Communal amenities/space/ retail: roof-top communal vegetable patch and gardens, two restaurants on Yarra River side, a cafe on Victoria Street frontage, a gelateria, a produce shop, several offices and studios, a yoga studio and outdoor adventure hire shop. Access to public bike path via a new stairway.

Area of public space: 3419 sq m of publicly accessible outdoor space with community and resident amenities. A public walkway, Acacia Place, is 95m long and ranging from 10m to 30m wide.

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## **Flat out at Harold Park**

Address: Ross Street, Glebe (suburb to be renamed Harold Park)

Site size: 10.6 hectares

Site price: \$187 million

Construction to start: Early 2012

Total number of units: 1250

Height: Eight storeys

Range of beds: Studio to three-bed terraces

Price range: \$499,00-\$1,400,000

Developer: Mirvac

Architect: Mirvac Design/SJB Architects

Percentage sold: On sale soon

Body corp fees: TBA

Body corp manager: TBA

Communal amenities/ retail: Pocket parks and 5.8ha "green corridor" to harbour, tram shed conversion to retail

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## **River views in vogue**

### **Kath Walters**

In Melbourne, real estate development is all about the rivers. Bayside development within 10 kilometres of the CBD is exhausted. Water views – more than city, parks and tree tops – are the people's choice, says Ian James of JPP Buyer's Advocate, which provides advice to property investors and home buyers and negotiates prices on their behalf. Rivers are the next big thing.

Haven on the River is located on a bend in Melbourne's major waterway, the Yarra River, which borders two sides of the site: north and east. Haven is in the former industrial suburb of Abbotsford, facing the old money of Kew. Three blocks will be built and the principal architect for the project, Chris Hayton of RotheLowman, says almost all units will have river views. The project involves three stages. The first, Eden, is sold; the second, Haven, is just released. Building will start at the end of this year. The riverside location marks out this project, says developer, Paul Hameister of Hamton Property Group. But town planner Rob Adams says location on a public transport route – in Haven's case, a tram line – is the element that is more likely to contribute to its success. Adams, director of city design at the City of Melbourne, says the properties in demand are those that provide walking links to transport.

Frank Valentic from buyer's advocate Advantage Property Consulting recommends that investors check potential purchases with WalkScore.com to assess this important element of a property purchase. Haven scores 85 for access to shops and cinemas (Victoria Gardens), schools, parks, pubs, books and restaurants.

Valentic says the river location is always going to have a "wow factor" and people can often pay a premium to buy or rent near it. "That is a positive, but it has offsets because it is a busy spot."

Formerly an industrial site for technology company Honeywell, the project will provide public access to the river bank from Victoria Street for the first time. A walkway between Eden and Haven provides glimpses of the river's trees and is designed to entice public entry. Shops, clear signposts and good lighting encourage explorers and the river soon becomes visible. It is meant to be used night and day by the residents and the community.

Adams says creating a public amenity adds value to a development. Valentic points out that some buyers will not want to live in such a high-activity zone. "We recommend side streets near activity but not right in it," he says.

The buildings face north and the architect has angled the apartments on the west side to maximise views and balconies. Ground-floor flats get courtyards, upper floors get large balconies and the highest floors are closest to roof gardens.

Buyer's advocates, however, do not recommend off-the-plan purchases. Reading floor plans is a specialised skill. Architect Chris Hayton says the minimum bedroom size is about 3 metres square. A queen-sized bed (1.4m by 1.9m) in such a space leaves a metre at the bed's end and 75 centimetres on either side.

"It is difficult understanding the outlook when you can't walk in and see it," James says. "You can't judge if it will get light or sun. You don't know what the feel of the property is going to be and feel is the last 5-10 per cent of the price." Properties under 40 square metres will struggle to attract a mortgage for more than 50 per cent of the property's value.

Buyer's advocates also warn that property investors pay the developer's margin on new properties and may make more money on a property two to three years old.

Hameister counters that the river location gives the investment the scarcity value that investors prize. To reduce disappointment risk, James says buyers should look at other projects built by the developer, ideally five to 10 years before. "See what the building looks like now and how it feels," he says. If it looks grungy, walk away." Hamton has completed 12 projects in the six years since it started.

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## **Vital statistics**

Name: 111+222 (working title)

Address: Corner of 111 Mary and 222 Margaret Streets, Brisbane.

Site size: 5478 sq m

Site price: \$40 million sold 2010 via receivers.

Project funding: AMP to partly finance commercial tower

Construction phase: 2012 to 2015

Project partners: Billbergia Group and AMP Capital Investors

Total number of units: 800 units, 380 hotel rooms, 34,000 sq m of commercial space.

Height: 90-storey residential tower (274m approved), 34-storey commercial tower.

Range of units: One-, two- and three-bedroom apartments and penthouses.

Price range: TBA

Developer: Billbergia Group

Architect: Bates Smart Architects

Percentage sold: Expressions of interest being taken

Communal amenities/space/ retail: Five-star hotel, ballroom, restaurants, bars, 1000-space car park and a public link from Mary Street to Margaret Street.