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SE Smart Money

HD **Property pie in the sky**

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Off the plan Make sure when you buy you know exactly what you are getting – and what it will be worth – writes Rebecca Thistleton.

Buyers wanting a piece of what is set to be Sydney's tallest residential tower queued in their hundreds at the future site of the $690 million Bathurst Street project last Saturday. Within an hour of opening, 90 of the 120 apartments released to market by Shanghai-based Greenland Group (and slated for a 2017 finish) had sold.

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Sydney is not alone in rapid sales of off-the-plan apartment projects, with new unit approvals hitting record levels. The number of new apartments is also rising in Brisbane and Canberra, while Melbourne's supply levels continue to grow almost four years since the city's property market peaked.

Buying an apartment that's yet to be built is a bit like buying a pair of shoes without trying them on. Even so, owner-occupiers and investors are falling over themselves to pay anywhere from half a million dollars – often much more – for apartments yet to be built.

The trend – driven by record-low interest rates, offshore investment (non-residents are only eligible to purchase new properties) and affordability issues – is shifting cityscapes and how people live and invest their money.

Property commentators and investment specialists are warning punters to pay attention to supply levels, location and capital gains potential as more towers crop up.

Oversupply concerns and a potential interest rate rise may put people off. But for now, developers and agents are cashing in and buyers are hunting for the next unit boom suburb. What buyers should look for, says Troy Gunasekera, national manager of investment group Property Club, is a suburb with "lots of rental and buyer demand but low supply, resulting in more competition for properties and pushing up prices".More growth ahead

Last year's rise in house prices filtered through the apartment market – and there is more growth to come.

Property research firm Residex founder John Edwards says dwelling values will keep rising this year, although he cautions units are predicted to deliver lower returns than houses. "Anybody buying property over the next 12 months needs to be aware of the growth patterns – now more than ever it is important to do solid research around the market to back up your decisions with data and insight," he adds.

The best returns are expected to be in the inner suburbs – around 4 per cent to 8 per cent in the next five years. But each city's market is at a different cycle stage and therefore offers varying growth potential.

Almost 5000 apartments are mooted for Sydney's central business district, according to research from consultants Deep End Services and Landsburys. Only 8 per cent are under construction, which shows how much the city landscape is set to change over the next few years.

The biggest increase in Sydney apartments will be along the corridor between the CBD and the airport, predominately Mascot, Zetland and Waterloo, where gentrification is gaining momentum and industrial land is being snapped up for residential projects.

In Melbourne, offshore developers from China, Malaysia and Singapore are building some of the country's tallest residential towers around the CBD, Southbank and Docklands. Local developers are concentrating on the inner-ring suburbs.

Apartment numbers keep growing around Melbourne's CBD, sparking oversupply concerns as rental yields soften and the vacancy rate increases. But the inner-ring suburbs, which are five to 10 kilometres from the city centre, still offer among the best returns in the country, Residex's Edwards says, particularly Elwood, St Kilda and Richmond.

"Melbourne is defying past predictions," he says, referring to predictions the market would soften across the city.

"My feeling is that there is an oversupply of property, especially units, but demand is currently being propped up by three main factors: property developers are managing their units well; international buyers are supporting new unit sales; and higher public confidence is being driven by factors like good clearance rates at auction."Brisbane may be the next big thing

Property pundits tip Brisbane as the next city to experience a rise in values and investment. Neil Smoli, managing director of financial advisory service Aviate, says new infrastructure projects, projected economic growth and a housing undersupply will tip the investor market in Brisbane's favour. He avoids "hot spots" – pockets that the broader market has cottoned on to and where prices are inflated.

"Instead, we focus on markets primed to outperform over the long term. While we understand that many investors are attracted to Sydney, we won't recommend investing in property in Sydney in the current climate," Smoli adds.

A look at prices between the capitals also offers an insight as to why more investors are considering buying off the plan in Brisbane. The median unit price is $359,000, compared to $448,000 in Melbourne and $552,500 in Sydney.

Buyers in Greenland's latest Sydney venture paid from $595,000 for a one-bedroom apartment, which are 38 to 66 square metres. Three-bedroom apartments start at $2.17 million and measure between 105 square metres and 144 square metres.

While the potential for property price growth is luring buyers, economists predict an interest rate rise as early as September this year. Most agree there will be at least one increase by the end of the 2015 financial year.

Interest rate rises need to be accounted for ahead of purchase and settlement, and are part of why Loan Market mortgage broker Marios Rokka says the long-term settlements inherent in buying off the plan can be fraught with danger.

"The overall negative impact of buying off the plan is that the valuation of the property is unknown until it is complete," he explains.

This makes lending difficult.

For example, a $500,000 apartment with a 10 per cent deposit from the buyer would require a 90 per cent mortgage of $450,000.

Building apartment projects can takes about 18 months to three years. If the market dips in that time, and the final valuation comes in at $450,000, the bank's 90 per cent mortgage would be $405,000. The $95,000 shortfall between the mortgage and the original purchase price would fall on the buyer.

Rokka says another problem is buyers aren't always sure what value the bank is lending on – "the contract price or valuation, whichever is lower". "Be ready for additional costs. If the valuation falls, then mortgage insurance may become a cost to the loan which could negate stamp duty savings."Buying in advance

Buying so far in advance means buying a **property** in two years' time at today's prices, which is both a pro and a con.

Some off-the-plan buyers celebrate a rise in value between **purchase** and settlement, but with so much supply coming to market and the potential for volatility in the broader economy, counting on capital gains is dangerous.

The **Gold** Coast market is still suffering after the **apartment** glut and market downturn after the global financial crisis. Off-the-plan **apartment** buyers who signed contracts before the market slumped found themselves lumped with units worth less than **purchase** price. The result was a string of mortgagee sales which hit the market towards late 2010 through to 2012, which are still being absorbed.

Buying in over-supplied pockets becomes a problem if rental demand is overtaken by supply. Returns fall or, worse, the **property** sits vacant. An oversupply also makes it tougher for owners to on-sell their **apartment**.

The buoyant established housing market has made detached housing unaffordable for first-home buyers and upgraders wanting to live near the centre of their city. At the same time, state government stamp duty discounts on new dwellings have made off-the-plan apartments more attractive, so there are more off-the-plan buyers than ever before.

Offshore investment is also thriving as Australian **property** is seen internationally as a safe place to **park** money. Credit Suisse says **Chinese** buyers have snapped up $24 **billion** worth of Australian housing in the past seven years and will spend another $44 **billion** in the next seven years.

In the 12 months to February, almost 80,000 new apartments were approved. While Australia has a well-documented housing shortage, a concentration of apartments in one suburb could reduce values and returns in the short to long term.

Savvy developers are taking note and are exploring undersupplied areas. Melbourne developer Tim Gurner has lodged plans for a $600 **million** project in Brisbane's Fortitude Valley in an effort to capitalise on the value for money and yields to be had up north.The right terms and conditions

Similarly, fellow Melbourne developer Paul Fridman will soon launch an Erskineville project in Sydney's inner west. Fridman said the move is sharpening the business skills of Fridcorp, the **company** he started as a 20-year-old. Fridman will still have a Melbourne presence, but will focus on smaller suburban projects to avoid the oversupply around the city.

"In two years there may be other developments being **sold** off the plan similar to, or better than, the **property** you are buying, which could reduce the value of your **property**," Loan Market's Rokka says.

"Additionally, if the development is coming to its conclusion, the developer may reduce the prices of some of the apartments in order to sell, which again reduces the value of your **apartment**."

This is why securing the right mortgage terms and the right location are crucial. Residex's Edwards says finding emerging areas where demand is likely to increase ahead of supply is the key. "Many suburbs that were once considered rundown and undesirable have since transformed into **property** investment hot spots," he adds. "Clues are cafes and retailers opening in the area, as well as an influx of young residents with solid incomes."

Looking at predicted capital growth patterns, Edwards says Sydney and Melbourne's growth rates are expected to slow down in the next six months, and in 2015 across other cities.

But for now, Edwards says every capital city has inner-ring areas ripe with opportunities. "Although inner-ring areas often fall into the least affordable class compared to their suburban neighbours, the data indicates there are still opportunities for savvy investors, in the right suburbs."

For first-time buyers or investors considering off-the-plan, the process can be daunting. Troy Gunasekera, national manager of **Property** Club, offers some pointers.

■ Get out of the mindset that you need to invest in the area you live in. That could limit opportunities to **buy** in areas experiencing capital growth and rental demand. Remember growth can happen in regional areas as well as urban. Successful investing needs a business mindset.

•Target areas where new infrastructure is to be built. Suburbs close to where new roads, freeways and public transport are to be constructed will be more attractive to tenants and are a sign of where the population is expected to grow.

■ Identify **commercial** and social investment areas. Find areas where new shopping centres, hospitals and schools are to be built in the future. This also applies to gentrifying areas where new cafes and shops are opening.

■ Invest in areas with more demand for housing than supply. Look for areas just starting to experience an increase in house prices and with low vacancy rates. A low vacancy rate means you will be more likely to tenant an investment **property** quickly.

■ Invest in surrounding suburbs. If you miss out on a **property** in a booming area, consider the suburb next door. In many cases the surrounding suburbs are likely to become hot spots themselves with time. You can piggyback the success of the existing hot spot while likely paying less for your investment.

■ Speak to investment experts and like-minded investors.

It's the **million**-dollar question for any prospective home buyer – do you put your money into a brand new home or is it better buying an established **property**?

Buyers' agents often steer prospective home owners towards older properties because they have a track record. But many buyers feel they're buying peace of mind by buying new.

"I didn't have to worry about anything," says 28-year-old accountant John Cousins of his three-bedroom new-build **apartment** in Sydney's Zetland. "I knew the developer, and that I could rely on them for a good product." He bought the home from an investor shortly before settlement, and hasn't looked back.

"I was confident prices in the area were only going to get higher," he adds. "But also, I just wanted a nice place to live and it's good moving somewhere that hasn't been lived in before."

For Cousins, buying a new unit meant he could get into Sydney's housing market in a sought-after location without having to pay the world.

"Established properties the same size in the area were a lot more expensive, and the amenity wasn't nearly as good."

Melbourne buyers' agent Richard Wakelin acknowledges it can be easier to **buy** new apartments than old, but still advises against it.

"We would rather **buy property** the second time around, so that all the building issues in a new **property** have been ironed out, and the expectations are clear," he says. "People make assumptions based on one development that's been packaged well and that can be dangerous."

Wakelin says established **property** also tends to be unique and in shorter supply: a new-build **apartment** in a block of 200 has little unique pulling power when the time comes to sell it on.

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