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property market outlook

Okay, your super has taken a flogging and your shares may have tanked. But for the first time in many years I reckon now is a good time to invest in property. Prices have dropped, interest rates are low and rents are up, and while I'm not expecting a boom any time soon, if you choose the right property in the right location, the long-term growth prospects are good.

I know many people will shudder at the thought of borrowing in a debt crisis. Sure, if your job's looking a bit shaky, you'd be wise to build a buffer of savings rather than sign up for a new mortgage. But if your job is reasonably secure, there are compelling reasons to consider a rental property.

First up, the property market is in the doldrums, and it always makes sense to buy an asset when prices are depressed.

Figures from the Real Estate Institute of Australia (REIA) show the average 3-bedroom Sydney home currently costs around \$529,000 – about 3.5% less than you would have paid a year ago. Median unit prices have also fallen, down 2.7% over the last year to \$360,000.

To give you an idea of the sort of value this translates to, Kent Lardner from Price Finder (formerly PDS Live), cites the example of North Epping, where house prices are currently around \$625,000 - down from \$715,000 12 months ago. Yet this suburb enjoys excellent proximity to the M2, the North Ryde business precinct and Macquarie Uni – all of which signal positive growth prospects.

It's the same story in areas like Forestville north of Sydney. Lardner says the suburb currently has a median house price of about \$793,000 compared to \$856,000

this time last year. However long-term it has healthy growth potential, given its location of just 13 kilometres to North Sydney.

While units are often a popular bet with investors, prices have dropped in some areas to the point where it can make more sense to buy a house, which is likely to give better long term capital gains.

In Newtown for example, Kent Lardner says house prices have dropped around \$37,000 over the last 12 months. The suburb's median price is currently \$620,000, but canny buyers can pick up a house for the same sort of money as some inner city units.

While Sydney prices have fallen, rents have been creeping up, rising by up to 17.8% in 2008. Meanwhile Sydney's vacancy rate is a tiny 1.2%, meaning less chance of lengthy periods between leases and better odds of securing a quality tenant. Not surprisingly, one agent from the Raine & Horne network says 70% of apartments in an Ashfield block were recently snapped up by investors.

The big factor fuelling the sale of properties priced below \$500,000 is first home buyers. Up to this price, first timers get a full stamp duty exemption, and between now and 30 June, the First Home Owner Grant (FHOG) has been beefed up from \$7,000 to \$14,000 if you buy an existing home, or \$21,000 if you build a new home.

In parts of the inner west, agents report that up to 80% of buyer enquiries are coming from first home buyers, but for many investors, rent returns, or yield, is the big drawcard as this is a certainty unlike capital growth. For strong yields it can be hard to go past western Sydney. In Liverpool for instance, Raine & Horne reckon a home worth \$280,000 can

rent for \$300 to \$320 per week. That's a yield of almost 6%. Apparently it's the same story with units that are selling for less than \$200,000, but commanding weekly rent of around \$240. It's worth noting though that historically, the outer suburbs don't deliver the same level of long term price appreciation you might find in suburbs closer to the city.

I'm not suggesting that we're on the verge of a new property boom. A slowing economy and low levels of confidence make that a remote possibility. But whether you're buying as a first timer or as an investor, it's a no-brainer to buy good quality investments while the price is cheap as long as you have a long term view of, say, seven to ten years.

Paul's tips

- ~ Low interest rates and a slow market make now a good time to borrow sensibly to invest in property.
- ~ House prices in some good Sydney suburbs are down by about around \$60,000, so there are bargains to be had.
- ~ Despite sluggish prices, rents have increased by up to 17.8% and the vacancy rate is just 1.2%. In parts of western Sydney rental yields are as high as 6%.
- ~ Expect plenty of competition in the under-\$500,000 price bracket. First home buyers are taking advantage of the beefed up FHOG to snap up bargains in this price range.
- ~ With a long term view and sensible use of debt, it's a no-brainer to buy a quality property when prices are cheap and interest rates are low.

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