Old vs new

When it comes to property selection, are there better returns for investors in old, established suburbs or new, up and coming areas? **BEN POWER**

Tony Hayek, the chief executive of property research and education company Blue Water Property, lives in the inner western Sydney suburb of Epping with his wife and three children. But he wants to move his family to Sydney Olympic Park, a new suburb in western Sydney, some 16 kilometres from the CBD.

"Epping is very much an older-style suburb; it's very much an established-type suburb with tree-lined streets," Hayek says. "But it doesn't really provide you with much more than your own backyard.

"With a place like Sydney Olympic Park, you can take the kids to Bicentennial Park, or take them to the Olympic Swimming Pool, or go and watch a concert at Acer Arena, or have dinner at Ribs and Rumps. I'll be moving my family there in a couple of years."

Hayek's choice between Epping and Sydney Olympic Park illustrates a common choice facing homebuyers and property investors: do you buy in an older suburb that's most likely closer to the CBD and with established amenities; or do you buy in a newer suburb, typically further from the CBD but with other advantages including newer houses and modern facilities?

Diversification for property investors is crucial and investing in a spread of geographic locations is one of the most effective ways to minimise risk. So it's important to know, exactly, the costs and benefits of choosing to buy in an established, older suburb; or in a newer suburb.

They both have pros and cons, and understanding them will allow you to make a fully informed investment choice and one that delivers what you're after.

DO OLDER SUBURBS REALLY OUTPERFORM?

Conventional wisdom holds that older, established suburbs outperform newer suburbs in capital growth. But newer suburbs deliver higher yield.

This is backed up by data. According to Australian Property Monitors (APM), for the past 10 years, prices for three-bedroom homes in inner suburbs, which are older, have risen by 92 per cent, middle suburbs by 73 per cent, and outer suburbs, typically newer ones, by 76 per cent.

"Returns on inner city, older areas have definitely been better," says APM economist Matthew Bell.

PAUL PHILIPSON

Angie Zigomanis, senior analyst of residential property at BIS Shrapnel, agrees that if you compare more established suburbs, such as New Farm in Brisbane, with outer suburbs, such as newer suburbs around Ipswich on the outskirts of Brisbane, the old suburbs would have outperformed over the past 10 years.

"You're more likely to get higher capital growth because you have more existing infrastructure in the area and have less competing property," he says.

"If you're in the right kind of areas there might also be a lot more public transport which may help rentability."

Matthew Hardman, head of portfolio management and research at Rismark, says established suburbs don't get higher capital gains because they're older.

"It's not because they're older, it's because they tend to be closer to the CBD and good transport," he explains. "You may have very old suburbs very far from the CBD that don't perform better."

He says older suburbs have less supply because no new houses are being built. With a growing population, that means they rise up the wealth and income brackets. That growing wealth, and stable supply, pushes up prices and delivers 'alpha' – or outperformance of the market – by about one to two per cent a year.

Old suburbs might get better capital gains but Zigomanis says you're usually trading off yield for capital growth.

"You're more likely to get higher yield in outer suburbs," he says.

Hardman says the reason newer suburbs yield more is simple: yields tend to decrease as prices rise. Prices in newer suburbs tend to be lower, so yield more.

"Rental yields for a $400,000 property are much higher than for an $800,000 property," Hardman says.

"With the $400,000 property you would probably get $400 a week, but you won't get $800 a week for the $800,000 property, you might get $650 or something like that."

Hardman estimates that rental yields in newer suburbs are around one per cent higher.

THE GOOD AND BAD OF BOTH

Hayek says there are many benefits to older suburbs.

"In general, old suburbs typically have established infrastructure, established business, established communities," he says.

But there's one thing he believes is missing. "Older suburbs quite often lack facilities for the modern day lifestyle," he says. "Newer suburbs typically have been developed around the modern day lifestyle. They have a lot more facilities for children, dining, including outdoor dining and socialising."

In Sydney, for example, Hayek says suburbs such as Sydney Olympic Park, Rhodes and Newington that came on the scene in the past decade, now boast impressive facilities and amenities including restaurants, tennis courts and proper swimming pools.

"If you roll the clock forward in terms of property investment, new suburbs provide a better opportunity for a better return because they suit the modern day lifestyle," he says.

"Over the years demand for living and renting in those suburbs will more than likely be higher.

"If you go and spend some time in any of those places, there's a bit of a burgeoning sense of demand."

According to Jacque Parker, director of Sydney-based buyers agent Homesearch Australia, there's a raft of other benefits to investing in newer suburbs.

Because they're newly built there's often less property maintenance required.

"When tenants move into new properties it's easier to track repairs and their source, for example dents in walls, missing window treatments, broken tiles, etc.," Parker adds.

There will also be few surprises, such as termites, with new homes and there may also be a building warranty for a period after construction.

Parker says one of the main benefits of

newer suburbs is superior initial depreciation on new homes, which reduces out-of-pocket holding costs.

The building, as well as fittings and fixtures, can be depreciated.

The Australian Tax Office allows new homes to be depreciated at an annual rate of 2.5 per cent over 40 years, which can significantly cut your tax bill and help cash flow.

But it's not all plain sailing. New suburbs are often further away from the CBD and transport hubs.

Hardman notes that most homes in newer suburbs are built on smaller blocks.

"Nobody's building on 1000-square-metre blocks any more," he says.

Hardman also says because they're new it doesn't mean the building is better quality than older homes.

"It depends on the builder," he says.

"If you buy very old properties, obviously it's going to have some issues, though many of the older properties have had some element of renovation."

Parker agrees: "Depending on build quality, the workmanship (on newer homes) can be poor and require the builder to repair work, which can be stressful for new owners chasing such issues."

Parker says there's also limited room to add value to new homes and increase equity immediately through renovations and improvements.

But the main danger in new suburbs is oversupply.

"The main difference (between older and new suburbs) is that you have a lot more supply coming online in those areas (newer suburbs)," Zigomanis says.

"You're always competing against brand new product in the area.

"If you ever wanted to sell your property someone has the option of your dwelling or a brand new one in the area."

CASE STUDY

One of each

David and Julie (surname withheld) have firsthand experience in the 'old suburb versus new suburb' debate: they own investment properties in both. Their property portfolio includes a house in the 'new' suburb of Kellyville, which is 35 kilometres northwest of the Sydney CBD. They also own a house in the 'old' suburb of Invermay in Launceston.

David and Julie, who live in the Sydney suburb of Baulkham Hills, bought a two-storey, four-bedroom, two-bathroom house in Kellyville in June 2002 for $469,950. The purchase of the 34-square-metre home on a 452-square-metre block was made three months before it was completed.

The house was one of seven that were being developed. Four out of the seven were for sale at the time. Six of them formed a row in the street, but the house David and Julie bought was around the corner from the others.

"What we liked about this one was it was north facing on a corner block," says David. "It took in the sun beautifully."

The house was well located – just 100 metres to Bernie Mullane Reserve, which has four soccer fields, as well as tennis and squash courts. It was also 500 metres to a high school, 600 metres to a primary school, and one kilometre to shops.

"It was also in a really good part of Kellyville," David says.

The couple took advantage of the developer wanting to finalise before the end of the financial year and negotiated for air conditioning, worth around $8000, to be installed.

It appeared to be a great investment straight away. By July 2003, less than a year after they bought it, the house was valued at $650,000, a gain of $180,000.

"That was the dead set height of the boom," David says. "For the first year or so it was good."

But then they got caught up in what is perhaps the biggest danger of new suburbs. "There ended up being an oversupply in the area," he says. "At the height of the boom and about a year after 2004/05 there were about 170 properties for rent in Kellyville. For about three years it was pretty bad."

Rent slumped from the $480 per week when they bought it to just $400 a week, which cut the yield to four per cent. The market was also affected by rising interest rates.

"It's a mortgage belt," David says. "It's an area that would suffer if interest rates go up."

The value of the property fell back from $650,000 to $550,000.

Since then things have improved. In the past two years rent has shot back from $400 a week to $570 a week and the house is now valued at around $700,000.

By contrast the couple's investment in Launceston's Invermay, which is two kilometres or a 15-minute walk to the city (and a one-kilometre walk to Hawthorn's home ground Aurora Stadium), has been more stable. The house is older with three bedrooms and one bathroom and sits on a good-sized block for the area of 550 square metres. The couple paid $183,000 and settled on the property in October 2008. It's now worth around $220,000 to $230,000. The house rented for $250 a week when they bought it and has since risen to $270 per week, a yield of 7.7 per cent.

David says the Invermay property, being older, does require more maintenance. Unlike Kellyville, there's also no depreciation on Invermay. Kellyville's depreciation initially ran at close to $8000 a year. With depreciation on lights and fittings having dropped off, total depreciation benefits have fallen to a still-healthy $5700 with the building portion over $5000.

So in hindsight would David go old or new again?

"Preferably older," he says. "If I did it again I wouldn't get a house and land. I think a lot of premium is in the price because it's new. With a new house you can negotiate a little bit. There's not that much you can do with a developer to bring them down in the price too much. With the old stuff you can negotiate – and then value add."

But what about the superior rental yields of newer properties?

"You can get that, but when there's an oversupply then you don't," he says. "Our experience is if you get in at the right time you can get a pretty good yield to start with. But if it's an outer suburb, and then if you get an oversupply of properties, your yield will actually back off and so will capital growth.

"You're better off looking at areas that over time have consistent growth (be close to town so it isn't subject to the variations a new estate can have), have good yield (neutrally geared if possible), and continue to have good capital growth as long as employment prospects are okay."

Zigomanis says the problem is made worse because new homes are often not much more expensive than existing homes due to competition between developers.

If those problems scare you, maybe older suburbs are more suitable.

Many of the benefits of older suburbs are simply the reverse of new ones: they're close to the CBD and amenities. But Parker says there are many others:

- Older suburbs with 'character' houses hold more appeal to certain groups of people.
- You can add value, both yield and capital value, through structural or cosmetic renovation of older properties.
- Older houses tend to be on bigger lots: for example, older areas such as Castle Hill in Sydney have lot sizes averaging around 600 to 700 square metres, versus 450 to 550 square metres for the nearby newer suburb of Kellyville.
- There should also be fewer surprises with surrounding land and rezoning if the area is already built up.
- It's easier to price older houses because of comparisons found in the same or surrounding suburbs.
- Finally, there should be existing 'hard' and 'soft' landscaping and other extras already fitted, such as sheds, window treatments, air conditioning, gas outlets, and storage.

Of course there are downsides to older suburbs as well. Upkeep and maintenance costs are often higher, there's less depreciation on the buildings and fittings, and possibly less tenant demand; though Parker says tenant demand will depend on the condition of the property and could be offset by tenant desire for superior location.

There's no clear-cut picture on the rent situation.

"You may find you get slightly fewer long-term tenants in the outer suburban areas – people are moving up to buy a house," Zigomanis says. "But that also happens in inner city areas as well."

COMPARING APPLES WITH ORANGES

Hayek warns against being overly prescriptive on 'old' versus 'new' suburbs.

"I just don't think it's a rule (where) you can just say 'I'm investing in new suburbs versus old suburbs'."

He also says each city has a different story when it comes to the debate. For example, Brisbane is a 'one-city town' which makes newer suburbs further away from the action, whereas in Sydney there are a number of centres such as Parramatta, Castle Hill, Bankstown and North Sydney.

"Make sure you do your research," he says.

But many investors will eventually face the choice: do I buy in an older or newer suburb?

It's essential to be across the pros and cons of each, and then tailor them to your own situation.

The old suburb versus new suburb debate is really "horses for courses," Zigomanis concludes. api

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