Why affordable properties make sense in today's market

Business, Marketing

Property investment is considered a long-term wealth-creation journey, which is a premium property seems like the way to go in order to enjoy significant capital growth. However, a lot of investors in today's markets have been flocking into mortgage belts to purchase more affordable suburbs —is this a strategy worth the risk?

The rising prices across capital cities and tighter lending regulations being implemented across property markets have led investors to seek cheaper alternatives to premium properties.

CoreLogic's latest Property Pulse showed that the number of sales of properties worth $1 million and above has decline by 0. 8 per cent over the 2017-18 financial year. Meanwhile, the demand for affordable housing only continues to increase as Australia's population grows rapidly.

According to property specialists Victor Kumar and Steve Waters, aside from being a more practical choice, opting for affordable properties over premium ones is actually a good investment strategy, especially in today's market.

Mr Waters said: " Can you get more from diversifying your portfolio with $400, 000-properties versus one really good blue-chip property that will probably perform quite well over time? That's a really good question. We don't profess that the strategy we undertake is the only strategy, this just fits with our risk profile."

" At the end of the day, speaking from experience, I'd much rather control five $400, 000-properties than a single blue-chip property. We just don't do blue chip," he highlighted.

The property specialist said that affordable corridors allow them to maintain consistency in their portfolio, as in be able to continuously hold their assets, grow their portfolio and thrive in the venture no matter which direction the market is moving towards.

“ We’re not saying that the affordable properties are the only portion of a portfolio. It’s just a really good building base. As you become a more experienced investor, then you can branch out from there. At least you’ve got a really solid base to fall back on,” he said.

Diversification of demand

Initially, opting for premium areas didn’t just mean dealing with hefty price tags but also owning real estate assets located near central business districts, where most people presumably want to live in order to be close to their jobs and other other significant infrastructure.

However, over time, employment opportunities have ceased to be concentrated in certain areas. Demand for dwelling has scattered across cities following innovations that allowed a greater variety of ways to earn a living. All of a sudden, being close to CBDs has lost its relevance.

Now, ‘ premium’ became anywhere within the five- to ten-kilometre ring of an employment hub or, crudely speaking, ‘ where most of the money are’.

In New South Wales, for example, the premium areas would be the likes of Campbelltown, Blacktown, Parramatta, Grose Vale and Wyalong where employment opportunities are abundant, according to Mr Kumar.

He explained: “ They become blue chip because there’s a lot of money going through that local economy. There’s new money coming in rather than old money because people now have their degrees, their masters and they’re working in more white-collar jobs.”

“ They don’t need to travel into the city to actually do the job. If they are travelling to the city, the train journeys are fairly easy and transport network is pretty good,” the property specialist highlighted.

Due to the diversification of demand and other changing economic drivers, the line dividing premium properties and affordable properties is continuously being blurred by unique investment opportunities rising in today’s market.

Affordability and growth

Naturally, the most glaring difference between premium properties and affordable properties would be their price tags, but the specifics of the property markets in which they are situated are almost similar—an interesting dynamic created by economic drivers and financial fluctuations.

Gone were the days when going affordable means having to buy properties in the far side of the city where only a hundred people live.

According to Mr Kumar: “ Investing in affordable corridors is affordable from a cash flow point of view and a capital point of view, but the specifics of that property market is pretty much the same as those in the inner city of the main CBDs, except we’re probably paying $10 less for our smashed avocado.”

As in premium areas, certain affordable corridors also have good access to employment hubs, transportation and other relevant infrastructure and establishments. Moreover, they have significant growth drivers such as positive demographic trends and consistent job and wage increase.

For instance, in Blacktown, near the hospitals and other infrastructure, 34 km west of Sydney, three-bedroom houses can still be bought for around $650, 000 to $700, 000. Going further down to Castle Hill, 30. 1 north-west of Sydney, median house price sits at $1. 55 million. Castle Hill, in contrast with Blacktown, is less gifted with infrastructure.

The example above showcases a mere four-kilometre distance and an astounding $850. 000-difference in median house price, with one suburb being more superior in terms of growth drivers.

Mr Kumar highlighted: “ This concept of affordability is a very interesting one, but it comes down to the fundamental principles of what makes property markets move and the diversity of property around a particular employment node.”

“ There’s a big gap between market expectations. You’ve a ceiling of $1. 5 million but you can get in at $500, 000. Obviously, the $500, 000- property is not a $1. 5 million-property, but they’re in the same council area. You get a far greater chance of growth as more infrastructure is pulled into an area and these areas become touted as affordable corridors because you get more people coming there.

“ Automatically, the price resets because you’ve got a natural ceiling of $1, 5 million. I’m not saying the a $500, 000-property will become a $1. 5 million-property overnight, but you’ve got more chance of that happening,” he added.

A good time to invest

At the end of the day, the rising prices of dwellings across capital cities must not hinder budding investor’s from growing their portfolios. If anything, it should serve as a reminder that market movements are rarely straight lines but mostly cycles.

As long as you have control over your finances, from pooling resources for deposit to establishing safety buffers, you can start your wealth-creation journey, according to Mr Waters.

He said: “ Whether you’re chasing capital growth or cash flow, there’s always a market somewhere. It is always a good time to invest in property. Just make sure that every bit of preparation that you have is in place.”

Despite the doom-and-gloom headlines across the media today, no destabilising market crashes are bound to happen anytime soon.

Instead of focusing on these so-called ‘ warning’, experts strongly advise investors to do their own due diligence and make decisions based on thorough research and the guidance of property professionals, where appropriate.

According to Mr Waters: “ We don’t have a GFC scenario where prices are free-falling and interest rates are at 7 per cent of eight per cent. There’s very, very cheap money out there. Just look at the fundamentals in term of qualifying for funds and get rid of debt.

“ Immigration and population growth is still very strong, employment is average, money is cheap and consumer confidence is high,” the property specialist concluded.

Tune in to Investing Insight’s June episode to find out how different investment strategies can affect investment properties in today’s market.