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Back on the prowl

This week's interest rate cut is expected to lead to an investor resurgence.

With the arrival of spring, they started emerging from their winter bunkers, scouring every neighbourhood, on the prowl for the easy kill. As December broke and interest rates fell again this week, they became bolder and began pacing, waiting and watching for their weakened prey.

And now, finally, they've begun to pounce. "Yes, at last we're seeing evidence of investors returning to the apartments market," says John Edwards, managing director of residential property researchers Residex. "There's real activity now from the investment community and we're predicting we'll soon see that translated into a lot more sales."

The latest rate drop in the cash rate this week, a further 1 percentage point to 4.25 per cent, is expected to further lure the investment hunters. "It will have an effect over time, especially if the rates stay permanently down," says Australian Property Monitors' senior economist Liam O'Hara.

It's amazing to see them stalk in terrain that otherwise looks so parched and barren but the experts are adamant: with falling interest rates, rising rents and the continuing sharemarket volatility, the conditions are perfect for the lean and mean to make an absolute killing.

FIRST BLOOD

It's a blood sport witnessed, too, by the finance world. There's been a sharp spike in the number of inquiries by potential investors wanting to raise capital for apartment buys. "We're now seeing a fair amount of people who are being pre-approved for buying investment properties," says mortgage broker Justin Doobov of Intelligent Finance.

"In the next couple of months, we'll see a lot more people acting on those. A lot of people think interest rates will drop further and we're telling people it's a good time to buy if they think they're getting the apartment for its lowest price."

Real estate agents also scent blood. Colliers International NSW director Murray Wood reckons the fiercest and smartest investors are bringing back the best bounties. "What we're seeing is the true believers or most savvy people certainly active," he says.

"With prices coming off and affordability plateauing, they're pushing prices hard and picking the eyes out of the market."

Ray White Double Bay agent Craig Pontey says he's seeing the same in the eastern suburbs. "With the double whammy of interest rates still going down and rents still going up, we are certainly noticing investors coming back over the last two to three weeks," he says. "But they're becoming more discerning about what they're looking at." After the crash in the number of investors in July and August this year, with activity 70 per cent down on the previous year, it went up 30 per cent in November (2008) alone, reports Edwards, predominantly, that is, for investors in apartments. It's still below last December's levels but is recovering well.

"We see what's happening in advance of sales because our reports are about predicting what's going to happen," Edwards says.

The key is interest rates. With so many recent falls, even a drop of 2 percentage points means in effect a cut of almost 20 per cent in the cost of holding property, argues Doobov. In addition, buyers are finding it possible to argue prices down further. Last month for instance, a one-bedroom apartment in Randwick that had been sold at $575,000 two years before went onto the market at $500,000. Doobov negotiated the final sale for $441,000.

The most recent RP Data Rismark International Property Values Index shows that in 2008 to October, median unit values fell by 1.05 per cent and now sit at $419,337. "Yields continue to improve and Sydney has some of the nation's strongest yields, with units yielding an average of 5.74 per cent," says RP Data senior research analyst Cameron Kusher. "If this continues, we could see a return of investors as more and more properties become cash-flow positive."

Not even the demise of no-deposit loans will hold back these investors, says financial planner Andrew Bowring of Maven Financial. "These are second or third investment property buyers so it won't affect them," he says.

THE KILLING FIELDS

Investors are circling anywhere that offers the kind of lifestyle tenants favour. Certainly the city, eastern suburbs and inner west look good – particularly in the $350,000-750,000 price range, according to Pontey but so, too, does anywhere serviced by good infrastructure, public transport and places such as cafes, restaurants and gyms. Some of the best unit returns are being found even in areas of western Sydney, around Parramatta and Bankstown, Kusher reports.

"The bottom line is that the Y generation, particularly, like to live in apartments," Edwards says. "They want to be close to transport and rail heads, with convenience." He suggests investors target smaller – under 50 units – buildings, with fewer facilities such as gyms and thus lower strata levies.

In the east, agents are starting to get more investor inquiries for traditionally favourite tenant areas such as Potts Point, Elizabeth Bay, Darlinghurst and East Sydney, particularly with apartments under $1 million, reports Mark Murphy of Belle Property. "A lot of people are shifting out of shares and coming back into property," he says.

New apartments also are proving attractive to this pack of investors. At the 86-unit East Central development in Botany, 10 per cent of the new buyers are investors. "Coming off a base which, over the past few months, has been closer to zero. That's huge!" says Tony Pizzolato, general manager NSW residential of developer Australand.

But at Elysia, a new, three-staged, 58 strata-titled townhouse development at Glenmore Park in the west (see box), three investors are buying to each owner-occupier. "Investors are coming back in," says developer Sunland's NSW general manager Kate Braybrook. "The depreciation benefits are appealing, as are the low maintenance costs, the huge rental demand in the west, particularly for new property and 5 to 5.5 per cent yields."

At the FKP development Artise in Rosebery, 85 per cent of the units sold of the 52-unit second stage have been to investors. The low Sydney vacancy rate and fresh appeal of off-the-plan buying are thought to be the reason.

In this market, however, Doobov sounds a note of off-the-plan caution, saying buyers should check developers haven't tried to cut costs by lowering the quality of buildings and fittings.

Professional building inspections are a must.