How to Escape the high cost of living in the City.

In July 2012, journalist Aidan Devine wrote:

With research and clever timing it is possible to score top performing properties in the most unlikely of places – Australia's country towns. Your Investment Property finds out how to do it

Property investors are warned regularly about far-flung regions of Australia. "Don't touch 'them," we're told, interspersed with horror stories of the brave, but stupid few who ventured and invested into the wilds of the outback, never to see their money again.

It makes for a great investor bed-time story, but anyone who has observed population statistics might realize an undeniable fact: 6.45 million people live outside of Australia's 20 largest urban centres. This constitutes a fairly significant market of people – Aussies who eat, sleep and spend money in a variety of sectors, including property.

The places they live in might not be the most attractive markets for investing, but they are there. They aren't what many investors first turn to for an investment destination, but somewhere, people are making money in these markets.

The advantages they provide are numerous. Disregarding towns that are currently in the clutches of the resources boom and prominent regional centres with populations of over 70,000, there's a wide scope for buying ridiculously affordable property.

The median house prices in some Australian towns are well under $150,000, and the quality of property you can expect to buy is often quite high.

Knowing the risks that these areas are known to carry (population growth is often slow and capital growth can be flat for decades) an interesting point of discussion is how it would be possible to successfully invest in these markets? Is it possible to find a high growth market in a “country” town, even if it is remote and has a low population?


The right ingredients

According to the Destiny Estate Group a property investor with more than 40 properties in areas as diverse as Queensland’s Whitsundays coast and Victoria’s Gippsland and Sunraysia regions – the short answer is yes, although it is highly unlikely.

The only country towns with rapidly rising populations and large-scale infrastructure projects in the pipeline stand any chance of having properties that will see good capital growth.

Plans by a local town council to upgrade existing infrastructure are critical. It is rare for a town to have these in place unless there is fast population growth, which is what you want in an area because it means prices will start to increase soon.

Population growth alone is not enough. High population growth doesn’t necessarily mean that infrastructure upgrades are coming soon, and without this, services could come to a screeching halt in the future and that’s going to impact property prices. When there’s infrastructure plans in place, it is a positive sign that population growth and price increases are going to continue.

The local economy is another vital issue. Investing only in markets where the growth in median household income beats inflation. This normally indicates an area that is becoming affluent and where people will be more likely to spend money.

A burgeoning local economy is also evident by a large number of new businesses going up in an area – just as the rate at which older businesses close down remains lower than average.

It's rare for an economically vibrant town to become a ghost town, Also look for a big kicker: something big that's going to occur in the area, which will guarantee growth. This could be an airport under construction or a new hospital. If there's a project that may attract people for employment over an extended period, you can be pretty sure that the property market will be good – regardless of it's in a country town or a major city.

Markets that will heat up

Property Strategists, believes that timing is just as important as location when it comes to any investment destination, but especially in smaller markets.

Many beginner investors don't recognize that smaller markets [also] experience cycles that may not always move in line with the broader market, The major factor influencing capital growth in property values is the relationship between supply and demand. When there's a lot of supply and not much demand, capital growth is poor. When there's low supply but plenty of demand from purchasers, capital growth will be strong.

The key to investing in smaller areas is knowing when that market has reached a favourable supply demand balance. However, the chances of this balance existing become rare the deeper one goes into regional Australia

Outside of cities, there's lots of land (ample supply) and much of the demand comes from a small segment of the market – first homebuyers (restricted demand). This keeps a lid on capital growth.

Getting your hands dirty
Finding those rare country towns where demand looks sets to outstrip supply for a fairly substantial amount of time requires a lot of work. Redwerks a property investor with 17 properties, believes that investors should keep an eye on a number of far-ranging indicators.

They believe that statistics such as auction clearance rates, vendor discounts, vacancy rates and rental yields will give you a good indication of how well demand stacks up to supply.

Vendor discounts are a good barometer of demand, because a low discount rate means that buyers don't have to drop their prices for properties to get sold. At the same, high auction clearance rates suggest that properties are in demand and get sold easily.

High rental yields and low vacancy rates mean that the area is popular with renters, a precursor to growth. "When a location becomes popular, tenants will be the first to move there, This places stronger demand on rents, initially pushing them up. Then investors wade into the market attracted by the higher yields. Some of the renters by this stage may decide to buy. All this buying activity now places pressure on property prices.

Another way to gauge if a country town will be the recipient of growth in the future is to look at its recent sales activity. *Mastering the Australian Housing Market,* by John Lindeman, he believes that it comes down to asking some hard questions about how an area's sales compare with state-wide or national averages. Including::

- Is the 10-year annual average growth higher than recent years?
  - If the answer is yes, capital growth or rent increases are likely.
- Is there a growing gap between capital growth and rental returns?
  - If yes, the lower figure is about to rise.
- Over the last 12 months, have sales been falling or rising?
  - Rising sales means prices may increase.
  - Falling sales means rents may increase.
- Are prices or rents at their upper limits compared with similar areas?
  - If prices are high, rent increases are likely.
  - If rents are high, prices increases are likely.
  - If both are high, neither prices nor rents are likely to rise.

Markets that always fail
As important as supply and demand is. Be weary of how diversified a country town's economy is. "If the local economy is based only on timber, coal, or agriculture that's usually a sign that it is a poor investment choice," she says. A good regional property market is one where, if something catastrophic were to happen to the main employer in the area, people will still have opportunities to find work in other industries.

The only country towns that are likely to exhibit such features will be reasonably close to a prominent regional centre, with a large, established population base.

Economic diversity is essential and says that in order for your property to stay tenanted and be in an area where peoples' buying activity is continually contributing to prices growth, there needs to be a good mix of employers. The less diverse the economy of the area you are investing in, the greater risk your investment carries.

This is one reason that investors should steer clear of regions that rely solely on tourism.

They can be very dangerous because they are unstable. Tourist areas are seasonal – they come in and out of vogue. People might think it's a good idea to buy there and then use it later for their personal uses, but it is much better just to buy in area that is going to perform well today. If you've built up a great portfolio, you can later holiday or retire anywhere you want.

It's important not to get stuck in the aesthetics of an area. Many people fall into the trap of buying with their hearts overruling their minds. [They] kid themselves and tell their friends and family that they bought a holiday property for financial reasons when, in reality, they fell in love with the idea of owning a holiday home and often paid scant attention to the investment fundamentals.