

Melbourne beats Sydney on long-term returns

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Melbourne trumps Sydney as the best destination for real estate investment, according to the manager of a \$425 million east coast investment portfolio.

An audit of the 562 residential properties managed by investment firm Portfolio Management Services (PMS) found that Melbourne's east, which includes booming suburbs like Glen Waverley, Dandenong, Blackburn and Box Hill, has been the best-performing metropolitan area over more than a decade, generating an average 13.9 per cent total return annually since 2002.

Melbourne's northern, south-eastern and inner-city suburbs ranked second, third and fourth on the list, generating total annual returns of between 11.1 and 12 per cent, according to the independent audit by Atchison Consultants.

The best-performing Sydney market was its northern suburbs (including the likes of St Leonards, Ryde, Epping, Hunters Hill, Lane Cove and Macquarie Park), where total annual returns averaged 10.9 per cent.

Across the portfolio, the average total return was 10 per cent a year, beating returns by Australian shares, listed property and fixed interest products. Only commercial property – out of the price range of many small investors – generated a slightly higher return over the same period.

The results highlight the benefit of holding property with a long-term focus. They also reflect the historically stronger market fundamentals in Melbourne (more consistent price growth, stronger net migration), as well as the PMS investment philosophy, which is focused on investing in housing at below replacement cost in suburbs close to major infrastructure and where demand for rental accommodation is growing.

Melbourne's top-ranked eastern

Sydney v Melbourne

Total weighted returns by location, 2002-15 (%)

		Average total return per annum	Capital gain	Income (rental yield)
MELBOURNE	Eastern	13.9	7.8	6.1
	Northern	12.0	7.3	4.7
	South east	12.0	6.4	5.6
	Central	11.1	6.1	5.0
	Inner south	10.5	6.4	4.1
	Inner north	10.1	5.8	4.3
SYDNEY	Inner west	10.1	5.8	4.3
	Northern	10.9	6.9	4.0
	Inner west	10.8	4.4	6.4
	Eastern	10.4	6.4	4.0
	Inner east	10.1	6.7	3.4

SOURCE: ATCHISON CONSULTANTS, PMS PROPERTIES

Key points

Melbourne's east residential has returned 13.9 per cent a year since 2002.

Shares trumped; only commercial property better.

suburbs include growth areas like Box Hill, which has benefited from Chinese migrants, as well as from investment in transport infrastructure and hospital and education facilities.

"Our investments are driven by the dynamics of demographics and where people wish to live," PMS founder Jock Bing told *The Australian Financial Review*. He added that they also reflected the surge in Melbourne property values over a longer period of time and did not fully reflect the recent rise in Sydney values as part of the now-deflating property boom.

"You're paying the same price in Albert Park in Melbourne now as you are in Paddington in Sydney. Five years ago, there was a 30 per cent difference [in comparable suburbs]."

The audit of the \$425 million portfolio comes as November figures from CoreLogic RP Data show a 1.5 per cent fall in dwelling values over November, with Melbourne values falling 3.5 per cent and Sydney down 1.4 per cent.

Mr Bing said it was getting harder to find investments that meet its criteria: "We would like to keep buying in Sydney, but we now have to look at 15 properties to buy one. In Melbourne, we would have to look at 12 properties to buy one, and in Brisbane, six."

Mr Bing said it was likely that Sydney house prices had peaked and would, if anything, start to soften, but discounted any "major correction in either market". "The major movement could be in the house and land markets in the outer suburbs," he said. In the inner-city metro markets, Mr Bing said any correction would be no higher than 4 per cent in 2016.

Giving clues as to where PMS sees future growth potential, Mr Bing said recent acquisitions had been made in Frankston, an outlying suburb of Melbourne near the Mornington Peninsula, Brisbane and Geelong (which has historically underperformed its big-city rivals).