THE Real Estate Conversation

DEC 6, 2019

Home truths: Why not to invest in your own suburb

"Ironically – a much better opportunity (to invest) may be only 30 minutes' drive away. "

JAMES NIHILL

New research has revealed that most Australian property investors choose to buy a property in the suburb they live in.
Data was analysed from 1,150,000 mortgage applications between 2003 and 2009 and showed that two-thirds of investors are backing their home ground.
This is astonishing given the performance of Australia's property markets over the last five years, where the property investments offering the best growth potential are often located in other states.
It is also a big no-no from a risk perspective as it means the risk of the investors mortgages is completely concentrated in one area.

When the combined total of residential mortgages is considered – the risk for the investor is significant.
Economics experts from the University of Tasmania and University of Sydney analysed the data and conclude that 'home bias' has driven this trend with investors simply favouring the familiarity of their hometown.
It could also be said that convenience is a factor with some 20 per cent of Australian investors opting to self-manage their property investment.

This shows a level of emotion and subjectivity that isn't helpful or wise when making investment decisions.
There is a clear formula to what makes a good investment property.
Location is critical – however your location may not be the best.
Investors need to do their sums and evaluate investment properties objectively.
Unless part of the strategy is retiring or relocating to the investment property at some stage – it doesn't matter if it is located in an area you would like to live in.

As long as the numbers stack up.

Other financial decisions are easier to be impartial about.
Shopping around for a competitive interest rate is a good example – you will obviously take the lowest rate available, providing there are no tricky clauses in the fine print.
Investment properties need to be researched and selected by looking at the numbers in black and white.
Before even contemplating the location to invest in, investors need to identify their objectives and what they want from the investment property such as growth, income, tax breaks or a combination of all three.
Investors need to consider locations earmarked for growth backed by solid population and employment figures, potential improvements to infrastructure and the micro-economy and also look at rental and vacancy rates in the area.

It is sad to think so many automatically invest in their own area only on the basis they feel comfortable and feel like they "know it" when many wouldn't have scratched the surface to look at this kind of data.
Ironically – a much better opportunity may be only 30 minutes' drive away.

Fundamentally – the factors that come into decision-making for a location for a home to live in and a home to invest in are very different.

Usually when choosing where to live your lifestyle plays a large role and you will choose an area you can afford that is accessible to work, schools for your kids, other family members and any entertainment or hobbies. Property price growth and rental return do not normally factor into this decision-making process.
For most people, buying a home and investing in property are the single biggest financial decisions they will make in their lifetime and also represent significant debt and as always, an element of risk.
Unbiased information about investing in property is critical for people to understand what makes a good investment opportunity, how to compare investments and how to plan their strategy to ensure they achieve their objectives.

It is unlikely that the best investment opportunity is simply another house in your street… and if it is, you are very fortunate indeed.