Property investment: Regional Victoria the place to build portfolio

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Samantha Michelson with sold sign in front of her parent's home in Croydon Hills, one of Melbourne's fastest selling suburbs.

MUM and dad property investors being priced out of the Melbourne market can still build profitable property portfolios if they look beyond the city, new data suggests.

With rental yields at a record low and fewer homes selling for under $400,000 than ever in metropolitan Melbourne, experts say small-scale property investors may find more opportunity in the country.

CoreLogic RP Data analysis has determined the Victorian towns with median values less than $400,000 generating the highest "indicative gross rental yields".

This is an estimate of average rent yield an investor can expect to earn in a suburb, based on the typical asking rent and the typical prices being paid for housing there.

Earning rent is one of two ways an investment property can make money, the other being growing in value over time or making "capital gain".

Experts say regional properties typically attract stronger rental yields, while capital gains are generally stronger in cities.

According to CoreLogic, houses in Ouyen in the state's northwest — where the median home value is about $136,000 and median weekly rent $165 — are generating the highest gross rental yield of Victoria's affordable towns with 9.2 per cent.

Nhill, in the state's far west, is next with a 8.8 per cent yield for houses. The town's median value is about $134,000 and median weekly rent $175.

Houses in nearby Dimboola (8.8 per cent yield) and in Mallee towns Merbein (7.8 per cent) and Red Cliffs (7.7 per cent) rounded out Victoria's top five highest yielding regional areas.

CoreLogic head of research Tim Lawless said rental yields in the Melbourne metro area were comparatively at a record low of just 2.9 per cent for houses and 4.1 per cent for units.

"Regional markets are typically offering a higher yield profile," Mr Lawless said.

"On the other hand, capital gains (in the metro area) have been tracking at around 14 per cent over the past 12 months, which is substantially higher than most regional markets around the state."

CoreLogic senior research analyst Cameron Kusher said properties priced under $400,000 had become "extremely scarce" across Australia's capital cities, making up a record-low 25 per cent of all home purchases.

This scarcity made it harder for "price-sensitive buyers" to buy into city property markets, he said.

In comparison, 95 per cent of capital city houses sold for this price range 20 years ago and 34 per cent five years ago.

"Although we anticipate that the rate of capital growth will slow over the coming year we still … expect a further decline in the proportion of homes selling below that price," Mr Kusher said.

But buyers advocate Frank Valentic said there was "plenty of opportunity" for investors to find affordable properties close to Melbourne's CBD — especially in 'middle ring' suburbs' like Reservoir or Highett, which were high in demand and had strong capital growth.

"If you are looking for properties under $400,000, there's also no reason why you can't purchase an apartment," he said.

"Apartments in the right locations can deliver strong rental returns."

Mr Valentic urged would-be investors to do their due diligence when looking for properties.

"While it can be easy to be lured by 'cheap' or affordable regional or interstate properties, without knowing these markets well or undertaking any research you can easily buy a property that is not a solid investment," he said.