Domain INVESTMENT CHRIS TOLHURST

Be a part of the new wave

Prices in cheaper suburbs rise off the back of more expensive areas.
PICTURE: VIRGINIA STAR

Learn to ride the ripple effect to maximise your property profits.

TIM Fletcher believes in the "ripple effect". "It's the most powerful driver of all in determining why suburbs increase in value," the director of Fletchers Real Estate says. What he means is that more buoyant housing conditions in upmarket suburbs eventually spread to adjoining lower-priced suburbs and then throughout the city.

Buyers and investors can exploit this trend if they stay ahead of the pack. One strategy is to give a wide berth to the best suburbs, where house prices are already sky-high, and instead look for good properties in the next-best areas. In these areas you're more likely to find well-priced properties and you may achieve a high rate of capital growth.

You might be too late, though, Mr Fletcher says. The ripple effect has already swept though and changed the market in many areas of Melbourne. "A year or so ago, if you were looking at Surrey Hills or Camberwell, you could buy in Burwood pretty cheaply," he says.

"Now Burwood has changed and you have to move to another suburb further out. I think people underestimate the significance of the ripple effect. So many people aspire to live in a suburb of their choice and they can't be accommodated. They end up having to go elsewhere and that usually means moving further out."

Burwood isn't an isolated case. Prices are now quite high in many middle-ring suburbs. This makes it harder to pinpoint areas that may be set to rise, though some property observers believe the ripple effect also works in reverse — when buyers, for instance, give up on the "pricey" middle ring and switch to buying "quality" in the inner city.

Others maintain it is a market influence at any stage of the property cycle.

The same pattern can be seen in Melbourne's west. Prices in Yarraville, Newport and Seddon have moved on the back of Williamstown's rise. Similarly, the evergreen popularity of Brighton has fired demand in Brighton East, Hampton and Sandringham.

The best way to identify out-performing suburbs and the next-best suburbs that haven't yet surged is to analyse price data, available on the internet. Many investors search out suburbs that have, in the past year, under-performed their five-year growth averages. If these suburbs adjoin others with higher growth rates in the past year, they may be set to boom.

Phil de Fegely, a property advisor with MGI Melbourne, says buyers should check that a freeway is not about to slice through an area before they invest. You should also check whether shopping centres or schools are earmarked for closure.

"That could affect the demographics of the area," Mr de Fegely says. "But if you are backing on to a suburb that has some growth in it, you would think the neighbouring suburbs would also grow in a reasonable amount of time."

The ripple effect swept to prominence following the recession of the early 1990s. While many households have benefited from the surge in prices, low and moderate-income earners are being priced out, according to Swinburne University housing studies academics, Terry Burke and Kath Hulse.

In a new study, the two compare house prices in real terms in 1981 and 2009 in five corridors of Melbourne, each stretching from the inner city to the outer suburbs.

Dr Burke says that in 1981 prices were relatively flat for the entire length of each of the corridors. For example, prices in Ringwood weresimilar to those in Box Hill or Camberwell but, by 2009, prices in the inner to middle-ring suburbs were considerably higher than those in outer areas.

He says lower-income households in 1981 were able to buy into a large segment of the market but can now only afford to buy in a tiny segment: "What sits behind the ripple effect is that any low- or medium-income household has to move, either [to outer suburbs] or switch to a different type of accommodation," he says.