PRICE VERSUS VALUE

Property prices and their true value are not one and the same – and investors who know how to buy below market value and make money on the way in will be the most successful BY MICHAEL FULLER

'Price is what you pay, value is what you get.'

This quote from US property magnate Warren Buffett reminds us that price does not always equal value, particularly 'market value'.

As investors, we only make our money at the time of purchase. Paying too much for a property is a sure-fire way to negate any good capital growth you might have enjoyed by picking the right location.

At hotspotcentral.com.au we rely on a very powerful proprietary research algorithm called the DSR (demand-to-supply ratio) Score to help us quickly screen potential investment locations. The DSR Score analyses eight key indicators of supply and demand for units and houses in over 15,000 suburbs to predict the likelihood of imminent capital growth.

The highest DSR Score of 48 indicates a suburb where demand significantly exceeds supply and prices are likely to go up in the near term.

A mid-range score of 24 out of 48 indicates a location where supply and demand is balanced and prices are unlikely to move in the short term. Likewise, a DSR score of 23 or less suggests prices will drop in a location.

"PAYING TOO MUCH FOR A PROPERTY CAN BE DISASTROUS"

Michael Fuller, founder, Hotspotcentral

For more information on the DSR Score, go to www.dsrscore.com.au.

So once we have located an area with solid fundamentals we then focus on getting the best value in this good location.

Let's explore what the concept of value actually means.

When we make an offer on a property, we need to determine what a fair market price is. Paying too much for a property can be disastrous. Not only will the value of your portfolio stagnate when there is no equity available to add further properties, but you might lose your deposit if you cannot settle due to the bank declining a mortgage where the valuation is less than the contract price.

It's important to get a valuation from a valuer who sits on the panel across most lenders before you decide what price to offer. This way you know there will be no surprises at settlement. A good valuer will justify their price estimate based on comparable sales in the area and also provide an assessment of local market conditions that might be important to your decision.

And this is where the concept of value becomes important.

Good value is achieved when you pay less than fair market price for a property that is located in an area primed for imminent and sustainable capital growth.

THREE GOLDEN RULES FOR FINDING GOOD VALUE

1. **Instant equity** (at the time of purchase) accelerates wealth. Successful investors pay less than the appraised value and it's this saving that enhances rental yields and the ability to buy more property immediately after settlement. Instant equity also provides a buffer against interest rate rises or a market downturn.
2. **Imminent capital growth** improves your equity position and the ability to buy more property sooner, and is particularly useful when combined with instant equity through development or renovation.
3. **Sustainable capital growth** is important for buy-and-hold investors who don't want to worry about a property losing value due to bumps in the market like a downturn in the mining industry.

The table opposite illustrates how investors can acquire a property independently assessed at $343,000 for about $264,387.

Notice how an upfront discount of around 21 per cent against the property's fair market value pushes the rental yields up from 5.61 per cent to 7.28 per cent and produces a net gain of over $100,000.

For full details of this opportunity, type the following address into your web browser: **goo.gl/PLhswg**.

With reference to rule number two, these properties are located in an area with a DSR Score of 30. This indicates the location is undersupplied and therefore likely to experience imminent capital growth.

The location is also within a recognised commuter growth corridor into Brisbane but within easy reach of Ipswich and the Gold Coast. There is plenty of new transport infrastructure and a nearby train station provides quick access to Brisbane's CBD. These, and many other fundamental capital growth drivers, complement the underlying statistics and the upfront discount.

CONCLUSION

If you stick with my three golden rules of value, you will build a self-funding property portfolio much faster without relying on the market and savings for your next deposit. Acquiring property at near developer's cost price often requires a large capital investment unlike the standard 10 per cent deposit required when buying retail off the plan. But for many investors, this initial outlay is far outweighed by the instant capital growth and the fact the outlay can often be withdrawn at settlement while still only requiring an 80 per cent LVR mortgage. ■

NEW PROPERTY	WHOLESALE INVESTOR PRICE	RETAIL INVESTOR PRICE
Market value	$343,000	$343,000
less development profit	$52,409	$0
less selling commissions	$26,205	$0
PURCHASE PRICE	$264,387	$343,000
plus stamp duty*	$0	$11,082
plus legals, LMI plus mortgage interest saved	$0	$18,300
TOTAL PURCHASE COST	$264,387	$372,382
Instant gain	$78,614	-$29,382
Rental yield: rent of $370/pw	7.28%	5.61%
TOTAL SAVING	$107,996	$0

**Stamp duty saving depends on individual circumstances*

SCAN CODE FOR SAMPLE VALUATION

Scan the QR code or type goo.gl/PLhswg into your web browser to see an actual valuation on the property mentioned in this article