

Hotspotting

with Michael Fuller



How do property investment magazines' suburb predictions stack up once the year has flown by? Does the data match the reality?



At the end of each year, property magazines compile their 'top suburbs' lists – an amalgamation of expert opinion as to where the hottest investment locations might be for the following year.

These lists make good reading and many of the contributors are very competent in their fields. The question is: In hindsight, how well did the suburbs in these lists actually perform?

Have any of the readers taken the insights and bought into a suggested top location that has since rocketed? I would say the answer is 'yes'. That said, I'm sure some investors bought in a suggested top location that has proven to be a bit of a lemon too.

As the creators of Boomtown (boomapp.com.au), we've also been invited to provide our predictions,

and until recently, chose to abstain. We have declined in the past because we create our own 'top suburbs' list – every day – at the flick of a button. And the results of these lists speak for themselves.

Boomtown uses the powerful demand-to-supply ratio (DSR Score – dsrscore.com.au) to crunch millions of data points gleaned from most of the reputable online sources. These data points quickly give us a picture of the supply and demand situation for Australia's 15,000-plus suburbs.

I think few will argue the proven principle of supply and demand – that is, when demand outstrips supply, prices will go up. Measuring supply and demand is a challenge, particularly when it's the ratio between supply and demand that tells us how imminent price movements are and

to what degree they will go up or down. The DSR Score does a good job of this.

When I see these 'top suburbs' lists, I can't help but wonder how the contributors in the industry filter out the first 14,990 suburbs to derive their chosen 10 or so suburbs that the editors will roll into the final list. For that matter, I wonder how the editors make their final selection and then rank the suburbs accordingly.

Do these lists work? Yes, they do! We retro-analysed a list published in 2010. The average price increase across all the suburbs on that list was 7.3 per cent. That was a nine per cent margin on the national average – 1.18 per cent then – and a real return against inflation of about four per cent.

But these are just averages. You would have had to pick the average suburb or have bought every house in every suburb on the list to get the average 7.3 per cent growth.

Unlike a stock market index, you can't spread your bets across all the suburbs to get the average. So what can you do?

The answer lies in rating each suburb on the list against an objective benchmark.

In 2010, we created our own top suburbs list using the DSR Score. For those new to this column, the DSR Score benchmarks 15,000 suburbs against eight statistics – each an aggregation of various property statistics compiled off the internet. When analysed together, a single number is generated – the DSR Score – that indicates the gap in supply and demand for property in over 15,000 suburbs (for both units and houses).

By extension, this score also gives an accurate measure of the capital

➤ **Michael's observation**
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growth potential for the location, but most importantly, it's a number that can then be used to 'rank' a handful of suburbs based on how they compare when benchmarked against the various statistics.

It took us all of 90 seconds to generate our top suburbs list and when retro-analysed, the suburbs in our list returned an average of 11.7 per cent.

Apart from the actual performance, think about how much easier generating this list was for us in comparison to herding the industry cats for their predictions and the subsequent analysis involved – I can assure you there were some dreary-eyed editors by the end of the process.

So, how do you as an investor select a particular suburb meeting your particular need from one or more of the '2014 top suburbs' lists?



Here's the answer...

Go to DSRscore.com.au and sign up to get free access to Boomtown. Click on 'Hotspot Finder' and generate your own top 100 based on your criteria, like budget for example. As a special for *Smart Property Investment* readers, send me an email (michael@hotspotcentral.com.au) and I'll send you a promo code for a free upgrade. You can also check

the DSR Score for each suburb on each list as you filter out the 'no-go' zones.

Let's make 2014 a year when we base our investment decisions on experience coupled with facts and objectivity alone.

Michael Fuller

Founder,
Hotspotcentral

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Retail Yield	7.3%	5.6%
Interest Saving	\$8,800	\$0
TOTAL SAVING	\$126,000	\$0

