Finding your own property hot spots

Rather than being swayed by glossy brochures, you can outsource your research to find your very own property hot spots. Michael Fuller explains.

There are approximately 350,000 properties on the market at any given time. There are also 15,000 suburbs to choose from.

When deciding where to invest for the best capital growth and rental growth there are only two factors affecting price change: supply and demand.

Prices will rise if demand is growing relative to supply. Similarly, if there is a restriction on supply relative to demand then prices will rise. The property market is dynamic and constantly

Port Douglas, Qld	DSR Score: 6
Statistics	Value
Days on Market	348 days
Vendor Discounting	20%
Auction Clearance Rate	30%
Rental Yield	4.18%
Stock on Market	5.19%
Online Search Interest	4.2
Vacancy Rate	5.18%
Proportion Renters	53
Statistical Reliability	7.5

Mortdale, NSW	DSR Score: 38
Statistics	Value
Days on Market	40 days
Vendor Discounting	3%
Auction Clearance Rate	83%
Rental Yield	4.92%
Stock on Market	0.32%
Online Search Interest	33.3
Vacancy Rate	1.60%
Proportion Renters	34
Statistical Reliability	7.6

Transferring equity comparison

attempting to rebalance the ratio between demand and supply.

This 'property market' we all refer to is actually made up of over 15,000 markets known as suburbs. Each suburb in Australia has its own property market.

So how do SMSF trustees and investors decide where to invest for maximum relative return?

Top-performing investments are usually found through luck or sound research.
I know which I prefer (both). But as the famous golfer Gary Player once said: 'The more I practise the luckier I get'.

Learning about what constitutes good research is the same as learning how to execute the perfect golf swing.

The problem is, most investors have busy lives and find research overwhelming and time consuming and eventually leave the research to those who have a vested interest in their making a purchase.

Considering as much as 5% of the purchase price goes towards glossy marketing brochures and sales activity designed to elicit an emotional response, how are property investors expected to make an *objective* investment decision based on fact, not marketing hype?

It all comes back to sound research. Nothing particularly enlightening in that statement, I agree.

When evaluating investment-property opportunities, I'll follow a clearly defined procedure with an initial focus on finding locations ripe for excellent

short-term capital growth without foregoing decent long-term growth. Opportunities to accelerate or manufacture capital growth are also important and despite the perceived limitation on this within SMSFs, there are ways to do this (a topic for another time).

Types of research

There are two classes of research: *statistical* and *fundamental* (a third looks at the merits of the *property* itself but is out of the scope of this article).

Statistical (or technical) research looks at the auction clearance rate for an area, whereas fundamental research would highlight, for example, a new training hospital about to be approved for the area, bringing jobs and potentially greater demand to the area. Will prices go up?

Fundamental research is unquantified and subjective and is very time consuming. Statistics, however, provide a precise figure. For example, the vacancy rate is 1.2%, which is better than 1.3%.

Statistics help investors quickly filter a large number of possible investment locations and the fundamentals either validate the statistics or exclude the location entirely.

Demand to Supply Ratio

So how do we find these areas with a comparatively better chance of capital growth? Areas that are worthy of greater local-level research?

I use the Demand to Supply Ratio (DSR) to create the initial shortlist or to quickly determine if a 'hot tip' does indeed have investment 'hot spot' potential. In other words, how do I shortlist areas that are about to experience imminent capital growth? I don't want to verify those suburbs where the horse has already bolted.

The DSR is a careful examination of eight reputable property statistics, all

combined into a single figure from 0 to 48 indicating the magnitude of the demand-to-supply ratio for a suburb.

Depending on how well the suburb compares to the benchmark for each statistic, a weighting is applied. For example, a suburb in theoretical balance would have a vacancy rate close to 3%.

A suburb with a vacancy rate of 1.2% suggests high tenant demand relative to the benchmark and would score highly. A suburb with a vacancy rate of 4% would not only score poorly compared to our '1.2% suburb' but would also be penalised for placing outside the 'market in balance' benchmark of 3%.

Initial shortlist

Manually comparing the DSR for 15,000 suburbs is impossible but when you know the overall DSR Score it's easy to rank-order all the suburbs in Australia and make your pick based on both the score and the most important underlying stats behind the score.

To create your own shortlist, go to www.dsrscore.com.au.

I've compiled a shortlist of suburbs for both units and houses detailed in the table at right.

Once you have your own shortlist (or perhaps you are just checking out the stats at a glance for one particular suburb) you can then 'drill down' into the data to get a better sense of what's happening in the suburb.

There are a lot of variables that make up the DSR and a lot of calculations for each one too. That's what makes the score so convenient – it combines multiple statistics into one meaningful, objective figure.

Putting this into practical use: let's say you own a property in Port Douglas and see Mortdale is at the top of your shortlist. Do you think you might consider selling in Port Douglas and transferring the equity into a property in Mortdale?

Your fundamental research and factoring in the costs of selling and then buying will give you an objective basis for a decision, not the glossy brochure I referred to earlier.

Michael Fuller is the founder of research technology company Redwerks, creators of the www.dsrscore.com.au and location-research app Boomtown.

Statistic	The meaning	The ideal
1. DOM	Days on Market. This is the number of days a property has been listed for sale.	The lower this figure, the more quickly property is snapped up by buyers, showing high demand.
2. Discount	This is the percentage difference between the original asking price requested by the seller and the eventual sale price agreed by the buyer.	The lower this figure, the more demand there is since sellers don't need to be as open to negotiation in order to get their property sold.
3. ACR	Auction Clearance Rate. The percentage of auctioned properties that actually sell.	The higher this figure, the more demand there is from buyers since fewer properties are passed in.
4. Yield	The percentage of rental income to property value.	The higher this figure, the more demand there is from renters to live in the location.
5. Vacancy	This is the percentage of properties that are vacant.	The lower this figure, the lower the suply of rentable accommodation or the higher the demand for it, or both.
6. SOM %	Stock On Market. This is the number of properties for sale as a percentage of properties in the area.	The lower this figure, the lower the supply of property or the more demand for it, or both.
7. Renters	This is the proportion of renters to owner-occupiers that live in a suburb.	The lower this figure, the less supply of rentable accommodation there is. Owner-occupiers tend to take better care of their properties than tenants and are usually of a higher income demographic.
8. OSI	Online Search Interest. This is the ratio of people searching for property online to the number of properties for sale.	The higher this figure, the more demand for property compared to supply for would-be buyers searching online.

Source: www.dsrscore.com.au

STATE	POST CODE	LOCALITY	DWELLING TYPE	TYPICAL VALUE	DSR /48	DSR SUMMARY
WA	6025	PADBURY	House	$436,000	42	V.Good
NSW	2234	BANGOR	House	$695,500	41	V.Good
NSW	2761	GLENDENNING	House	$380,250	41	V.Good
NSW	2048	WESTGATE	Units	$506,000	40	V.Good
NSW	2113	EAST RYDE	House	$876,750	40	V.Good
NSW	2116	RYDALMERE	Units	$370,000	39	V.Good
WA	6148	FERNDALE	House	$420,000	39	V.Good
NSW	2528	MOUNT WARRIGAL	House	$349,500	39	V.Good
NSW	2232	LOFTUS	House	$615,000	39	V.Good
WA	6163	COOLBELLUP	House	$415,000	39	V.Good
NSW	2558	EAGLE VALE	House	$310,500	39	V.Good
NSW	2220	HURSTVILLE GROVE	Units	$477,000	39	V.Good
NSW	2222	PENSHURST	Units	$383,500	39	V.Good
NSW	2250	NARARA	House	$272,000	39	V.Good
NSW	2113	MACQUARIE PARK	Units	$427,250	39	V.Good
NSW	2250	KARIONG	House	$397,000	38	Good
NSW	2119	CHELTENHAM	Units	$450,000	38	Good
WA	6148	RIVERTON	House	$587,000	38	Good
NSW	2226	JANNALI	Units	$352,000	38	Good
NSW	2218	CARLTON	Units	$427,000	38	Good
NSW	2227	GYMEA	Units	$477,500	38	Good
NSW	2232	KIRRAWEE	House	$678,750	38	Good
NSW	2223	MORTDALE	Units	$396,000	38	Good
NSW	2079	MOUNT COLAH	Units	$450,000	38	Good
NSW	2154	CASTLE HILL	Units	$522,500	38	Good
WA	6006	NORTH PERTH	Units	$256,000	38	Good
WA	6027	HEATHRIDGE	House	$414,000	38	Good
VIC	3765	MONTROSE	House	$469,000	38	Good
NSW	2227	GYMEA BAY	Units	$600,000	38	Good
WA	6164	SOUTH LAKE	House	$390,000	38	Good

source www.dsrscore.com.au

Areas with the potential to triple the national average