HOW TO BUY UNDER MARKET VALUE

If you want to be in the top one per cent of investors and own six or more properties, then you need to know how to tell the difference between a discounted property and one that is a real bargain

BY MICHAEL FULLER

Like most investors, you are probably tired of pouring money into a property portfolio that is going nowhere. By the very fact you have bought this magazine, I can assume you want to be in the top 0.9 per cent of investors who, according to the Australian Taxation Office (ATO), own six or more properties.

You also probably want to reach a point where you can retire from your job, which has become a necessary evil for two out of three investors to fund the average $10,000 shortfall in their property income. Essentially, many investors are paying to keep their tenants under their roof. You're probably also hoping your property pursuits fund an enjoyable retirement.

What is it the one per cent does right? How do these ordinary people – and most of them are ordinary – manage to own six or more properties?

Most valuable property portfolios are built on the strength of the previous property purchase, and so buying under market value is a must. Most investors overpay without realising it until it's too late.

This is not to be confused with buying at a discount. US business magnate Warren Buffett famously once said: "Price is what you pay, value is what you get". Buying at a discount is buying a property for less than the original asking price.

This has hidden pitfalls. Estate agents often inflate the price to get the listing and then go back to the vendor later and say, "The market is telling us we need to reduce this price". They go back to interested buyers with a lower price, who now think they have bagged a bargain.

At Hotspotcentral we're more focused on building wealth through capital growth by choosing properties in the right locations. Our research tools allow us to measure and compare 15,000 suburbs by their demand-to-supply ratio (DSR), and choose properties in locations that, according to the facts, are set to do well. We do this by examining eight statistics that together produce a single measure (DSR Score) of the capital growth potential of the suburb – for both units and houses.

One of the eight statistics – vendor discount – tells us how much properties are being discounted by comparing the actual sales price versus the listed price. It's also a useful indication of demand in an area.

We're giving *Smart Property Investment* readers exclusive

STATS MEASURED BY THE DSR SCORE

Days on market – average number of days a property spends on market before it sells

Vendor discount – average discount from the original asking price to the eventual sale price

Auction clearance rate – the percentage of properties sold at auction

Vacancy – the proportion of rental properties that are currently vacant

Renters – the proportion of renters in the market (compared to owner occupiers)

Gross yield – the rental income as a percentage of the property's value

SOM – Stock on market as a percentage of total properties

and free access to our latest report, *Australia's Top 50 Markets by Vendor Discount*, and free access to our research web app – Boomtown – which is a handy way of checking the DSR Score and the associated eight statistics for over 15,000 suburbs countrywide.

There is a caveat though. I would argue that a majority of suburbs with a high vendor discount will not have a corresponding high DSR Score, meaning few will have solid future capital growth potential.

You see, highly discounted suburbs can be masking other issues and the discount can be indicative of lower demand (or an oversupply) when compared to similar areas with better statistics.

Don't get me wrong; there are many opportunities out there where true discounts can be found, and I'll give you a great example below. The industry mantra: 'your price, the seller's terms' means there are instances where vendors are happy to meet your price, or offer a discount to market value, if you are prepared to meet their terms.

We recently syndicated a four-townhouse project in Greenslopes (about five kilometres from the Brisbane CBD) for our investors.

The owner of the original standalone home on the site wanted to remain there after we had built the townhouses, so she gave us a big discount on the market value of her property as long as she could buy one of the four townhouses at cost price. So not only did we get a great price but she was happy to give us plenty of time to get development approval before settling.

She got a brand new, low-maintenance townhouse that is worth more than the old house on the undeveloped block and she doesn't have to move away from her community and local private hospital.

"MOST VALUABLE PROPERTY PORTFOLIOS ARE BUILT ON THE STRENGTH OF PREVIOUS PROPERTY PURCHASES ... BUYING UNDER MARKET VALUE IS A MUST"

So you can see how her terms, along with the significant discount on the price we paid, meant we all got a great deal.

Our investors each got one of three townhouses at a significant discount to true market value as part of our 'passive development program' (hotspotcentral.com.au/wholesale) and the strong possibility of above average future capital growth, as reflected by the area's demand-to-supply ratio, the site's proximity to the hospital, direct access to Brisbane's CBD, and many other supporting attributes.

There are other strategies to obtain property below market value beyond the scope of this column.

If you'd like to learn more about acquiring brand new property at developer's cost price, and get a free copy of *Australia's Top 50 Markets by Vendor Discount*, please visit us at hotspotcentral.com.au/spi. ■

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