THE OBSERVER EFFECT

With so much data presented to property investors in the media, it's hard to tell if it is causing price movement or simply reflecting what has already happened in a particular market BY MICHAEL FULLER

The reality is that a minority of investors cash-in when they enter the market based on sentiment that is driven by the data behind media commentary.

Is market data the cause of property price movements or is it a measure of the effect of market sentiment?

Hotspotcentral.com.au is the only property investment company in Australia adopting 'algorithmic suburb selection', which means our technology crunches the property data across multiple third-party data suppliers, compares it against known price growth drivers and then generates a single score – also known as the demand-to-supply ratio, or DSR – for every suburb in Australia.

Based on my experience, property data can be the cause of price movement and also a reflection of the activity in the market driving these prices.

As an example, let's take the recently climbing auction clearance rates in Sydney. The press reports this fact and, as a result, buyers that were sitting on the fence previously begin to get nervous

Michael Fuller, *founder, Hotspotcentral*

that they might miss out, so they enter the market. Prices climb further and the data positively reflects this, so the next wave of buyers enters the market... and so it continues.

I'm often asked the question: do all the property statistics provide an early indication of a market on the upswing? Is it a driver of sentiment and therefore a driver of market prices?

One of the eight statistics (see right) our DSR algorithm factors into the overall calculation of the ratio between demand and supply is the vacancy rate of a location.

The argument is, if the vacancy rate is very low then investors can assume there is demand for their property and they can expect prices to increase. When vacancies are tight, rents go up and the corresponding value of the property should increase as more investors enter the market, chasing the growing yields.

Does this mean low vacancy rates that lead to higher rents, in turn leading to price increases, is a capital growth driver? I would say they are a reflection of something about that area that is making it desirable to tenants,

DEMAND TO SUPPLY RATIO STATISTICS

DOM

Average number of days a property spends on the market before it sells

Vendor discount

Average discount from the original asking price to the eventual sale price

ACR

Auction clearance rate

Vacancy rate

The proportion of rental properties that are currently vacant

Renter proportion

The proportion of renters in the market (as opposed to owner occupiers)

Rental yield

The rental income as a percentage of the property's value

SOM

Stock on market as a percentage of total properties

OSI

Online search interest – i.e. the number of online searches compared with the number of properties for sale and therefore rent increases.

What about the often-quoted statistic days on market?

Days on market (DOM) is a good indication of the strength of a particular market. Obviously the speed in which properties sell is a good indication of demand relative to supply, but this is not a driver of prices. It too is a reflection of what's already happening.

What if the average DOM for a suburb is high? Would it mean there is little chance of imminent capital growth? Not necessarily. Look at the stats for Halekulani, NSW (see opposite, or visit boomapp.com.au – it's free). It takes over 132 days to sell a property there. This is way above the benchmark of 92 days for a balanced market.

In isolation, this statistic would paint a poor picture for this location.

So why is it the other statistics for Halekulani, when combined, suggest the market could experience price increases?

Vacancy rates are zero while the number of people searching the web for property there is very high relative to the availability of properties.

Rental yields are quite high too, meaning vendors do not need to take a big hit on the final sales price – vendor discounting is a solid five per cent on average.

So before committing to a property in a specific location, ask yourself: how much of what I am about to base my decision on is factual and anchored on known capital growth drivers like new infrastructure, a diverse economy, diverse and changing demographics bringing in a growing level of income?

In summary:

- Make sure you examine the statistics in conjunction with one another
- Look at the underlying trend in the statistics to determine if there is a growing gap in supply and demand
- Compare target areas using the statistics and select the winner based on fundamentals price drivers
- Monitor the statistics after purchase, as they are a terrific selling indicator too

Boomtown can help with this. Register for free at boomapp.com.au or visit hotspotcentral.com.au/spi414 to review a practical example of a comprehensive location analysis. ■

HALEKULANI, NSW	BENCHMARK	ACTUAL
Days on market	92 days	132 days
Vendor discounting	6%	5%
Auction clearance rate	65%	67%
Rental yield	4.5%	5.76%
Stock on market	3%	0.28%
Online search interest	26 views	42 views
Vacancy rate	3%	0.0%
Proportion renters	37.5%	19%
Statistical reliability	6.5+	7.2
DSR SCORE		36