WHICH RESEARCH?

The fundamentals and statistics of an area provide a leading indication of which direction property prices will take in the future

BY MICHAEL FULLER

I am often asked whether statistical research or fundamental research is more important.

You only get wealthy from your property portfolio when the demand from tenants and buyers in your investment area exceeds the availability of property for sale or rent (i.e. supply).

Most of you reading my column recognise that research is everything. Without it, you are flying blind and potentially putting your future at risk.

Research comes down to certain key principles that could dramatically improve your chances of buying a 'cash machine' rather than a 'money pit', and I'll briefly share these with you here.

There are essentially three areas of research: statistical, fundamental and property-specific.

A property bought at 10 per cent below bank valuation, with a solid rental yield, might look good today but could potentially become a drain on your portfolio tomorrow if there are no other supporting fundamental capital drivers pushing prices up over the long term.

Investors in our wholesale property acquisition program relish saving $100,000 on a $400,000 property due to the 'forced' appreciation structure of our model. However, wholesale opportunities are limited because finding the optimum mix of instant equity in an area with sound fundamentals and statistics is challenging.

Few investors have the time, experience or indeed funds to get this mix right, and therefore focus on an area of research they are comfortable with, neglecting the others.

FUNDAMENTALS

The fundamentals that change demand and property values include:

- Transport infrastructure
- Educational facilities
- Shopping centres
- Healthcare
- Commercial precincts
- Lifestyle amenities
- Employment opportunities

Great fundamentals need to be balanced with changes in supply. Supply can be affected by local council planning policies or increased building activity, which bring more housing stock into the market.

The challenge is there are 15,000 suburbs in Australia, making it impossible to do fundamental research on all of them to get a good comparison.

Most investors shortlist a handful of suburbs for more detailed fundamental research using lists from magazines like *Smart Property Investment*, what they read in the

mainstream press or a tip from a family member or friend.

If fundamental research is so important, why do we not do it properly?

For starters, it is very time consuming. Imagine trying to Google all the fundamental research search terms for every suburb country-wide and then attempting to make sense of it all. By the time it's all done, your earlier research would be outdated.

Fundamentals are a qualitative measure of a location and therefore subjective. Investors typically struggle to separate their own biases from what constitutes a good investment. You might not want to live near a train station but many tenants do.

It's also difficult to quantify the relative contribution a fundamental capital growth driver actually makes to price movements. How much will prices go up if a new hospital is built? What if a similar suburb is seeing a surge in average income of the residents? Which suburb will you choose?

STATISTICS

Statistics are great for quickly shortlisting a handful of suburbs from 15,000 by comparing them like-for-like using objective data such as the auction clearance rates, the number of properties on the market, vacancy rates, rental yields, vendor discounting, et cetera. Together, these stats give a good measure of the gap between supply and demand.

I liken this to comparison shopping. It's quite easy to find 10 suburbs with a rental yield of 10 per cent or more, where vendors are offering good discounts. The same can't be said when comparing the fundamentals.

Statistics are also great for timing the market by showing us how vendors and buyers are responding to changes in the market by analysing the trends in the data. I'd be interested in a suburb where the stock on market is tightening but discounts are still available. Combine this with strong rental yields and improving auction clearance rates and you might be on to a winner (depending on the fundamentals, of course).

Obviously there can be anomalies in the data, so it's important to choose quality data sources and ensure you get sufficient depth and breadth in the data to give it meaning.

If you want to find your own investment hotspot by comparing 15,000 against all the best data in seconds, use our free 'Boomtown' app. To register and get some freebies, visit www.hotspotcentral.com.au/spi

In Boomtown, you'll notice each suburb has a statistical reliability score (SR). The SR is a measure of the quality, depth and breadth of all the data sources used to measure the overall capital growth potential for a suburb. Your own hotspot is just a few clicks away. ■

TOP TIP:
THERE ARE ESSENTIALLY THREE AREAS OF RESEARCH: STATISTICAL, FUNDAMENTAL AND PROPERTY-SPECIFIC

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