

# FINDING A 'TURNAROUND' SUBURB

Property investors are faced with a choice of over 15,000 suburbs and constantly changing market conditions, so successful buyers need to know when a suburb is about to pick up

BY MICHAEL FULLER



Searching for a suburb that is about to take off can be a daunting task

**F**act: A property investor's task is difficult! There are over 350,000 properties for sale in about 15,000 suburbs and all markets are in a state of flux. Investors may spend months researching, only to find the results are redundant when they are finally ready to act. And, when they do invest, they don't always get it right. The Australian Taxation Office (ATO) says the

average negatively-gearred investor lost over \$10,000 in the 2011 tax year, and 72 per cent of investors own just one investment property. So how do you quickly pick investment winners? You need to separate the tasks of research and search, and get organised. At hotspotcentral.com.au we're always evaluating property deals for investors. Each year

we help around 50 investors to acquire property at 20 per cent below market value by stripping out retail costs like commission, developer's profit, and sometimes stamp duty. We call this 'buying wholesale'. While making an upfront profit is important and the project figures must stack up, it is crucial that we develop in locations that will benefit from ongoing capital growth. Before we consider a project,

we make sure the location stacks up. To do this, we use our free, objective, Boomtown app (boomapp.com.au), which sorts, ranks and analyses 15,000 suburbs. Boomtown is powered by data from eight recognised online property statistics providers and gives suburbs a DSR Score (dsrscore.com.au) based on the location's potential to achieve imminent capital growth. In this article, I'll briefly explain how

we used Boomtown to decide whether to proceed with a development. Scan the QR code opposite for an in-depth video walk-through of the steps we took in Boomtown. We were recently presented with a project in one of the Gold Coast's main urban centres, Upper Coomera. My immediate (subjective!) thoughts were that this area has seen a lot of development and in recent times prices have come right back, but I took a few steps to determine (objectively!) whether units in Upper Coomera deserved further research.



**Step 1:** I went to boomapp.com.au and searched for 'Upper Coomera (Units)' to check the overall DSR Score and find out the area's capital growth potential. The score was 25 out of 48, suggesting the market is 'balanced'. I typically prefer delving deeper into suburbs with a score of less than 30 out of 48, but 25 is better than I expected.

**Step 2:** I examined the eight property stats that are passed through the algorithm to derive the overall DSR score. I discovered:

- The rental yield is good – probably because prices have come back
- The vacancy rate for January 2014 was 0, suggesting

Statistics	Info	Value
Typical Value	1	\$288,000
Days on Market	1	165 days
Vendor Discounting	1	7%
Auction Clearance Rate	1	29%
Rental Yield	1	6.28%
Stock on Market	1	0.02%
Online Search Interest	1	6.00
Vacancy Rate	1	0.02%
Proportion Renters	1	48
Statistical Reliability	1	7.20
Accurate for		JAN

a very tight rental market. This can be a precursor to capital growth, as more investors move in to capture the yields

- The split between renters and owner occupiers is about 50/50 – perfect as tenants pay the mortgage and owner occupiers later pay your capital growth
- Stock on market is very low at 0.02 per cent, suggesting the excessive supply may have been absorbed and demand relative to supply is on the increase (again this pushes prices up)

The real research treasure chest is in the trends, so I used Boomtown

## “GETTING INTO A MARKET THAT IS ‘TURNING’ CAN BE MORE PRUDENT THAN CHASING A HOTSPOT”

to look at how the stats had changed over 12 months – and this is where Upper Coomera started getting interesting:

- Vendor discounting has steadily dropped by 46 per cent. The lower this figure is, the more demand there is, since sellers don't need to be as open to negotiation in order to get their property sold
- The DSR Score has increased by 45 per cent, from 17 over a year ago to 25 today
- Twelve months ago it took over 250 days to sell a unit in Upper Coomera.

Now it takes about 160 on average, indicating an upturn in demand relative to supply

My interest peaked. Getting into a market that is 'turning' can be more prudent for the patient investor than chasing the hotspot that everyone is already talking about.

The statistics are just the beginning and must be supported by fundamental capital growth drivers like new infrastructure (a new shopping complex, for example), new schools and



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many other factors that bring more people and money into an area. After doing our research on the suburb's statistics and putting the project through our Property Selection Index, we decided to 'green light' the project. ■



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New Townhouse	YOU	Typical
Cost Price	\$337,000	\$337,000
Selling Commission	\$0	\$21,000
Stamp Duty	\$0	\$12,500
Developers Retail Profit	\$0	\$51,500
<b>ACTUAL COST</b>	<b>\$337,000</b>	<b>\$420,000</b>
<b>Upfront Equity</b>	<b>\$85,000</b>	<b>\$0</b>
Retail Yield	7.3%	5.6%
Interest Saving	\$8,800	\$0
<b>TOTAL SAVING</b>	<b>\$126,000</b>	<b>\$0</b>



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