

PROPERTY HOTSPOTS

AIM TO BUY THE BEST PROPERTY AT THE LOWEST PRICE

Regardless of whether you are purchasing property for occupation or for investment, your aim should always be **to buy the best property at the lowest price**. But don't just buy it anywhere, suss out the locations that should give you the best long term growth and rents. The combination of buying the best property at the lowest price with the potential for best capital growth should be your minimum requirement when starting your search.

The best researchers use a combination of statistical data and non statistical data to arrive at their conclusions. Statistical data is available from the ABS and would include such things as First Home Buyer penetration and migration, whereas non statistical data will look at things like demographic shifts, infrastructure improvements etc.

We looked around for the latest available information to help you do this. The following excerpts from the **Residex "Top Budget Suburbs"** report compiled to 30/4/09 gives an insight into where to start buying your best property at the lowest price. The report looks at suburbs in NSW where properties have **median** values of less than \$400k and are predicted to have the best growth over the next 5 and 8 years.

Residex Reported:

Concerns over Lower-Cost Housing

Due to the rising cost of properties everywhere, many investors are finding that they cannot afford to buy in some of the areas listed in our regular Future Growth Predictions report. It is for this reason that we have prepared these lower-cost predictions. This report contains the top suburbs with median value less than \$400,000 that we predict are statistically the most likely to perform the best over the next five years.

A concern for some investors is that because they are investing in a lower-cost area, which can have lower returns than higher-cost areas, their investment might not be a good investment. This is not necessarily the case. Some of the advantages are:

1) Affordability

Being able to comfortably afford the property you buy is a major advantage. If you take out a mortgage that you can barely afford to repay, you risk getting caught out by a change in interest rates or some other change in circumstances. A golden rule of property investment is that you must decide when you sell. An affordable property helps you keep control of this decision.

2) Diversification Possibilities

Even if you could afford a higher cost property, you might prefer to have a diverse portfolio by owning several lower-cost houses rather than just one investment property. For example, three carefully selected \$300,000 properties will be less risky overall than

one \$900,000 property. Housing is a low risk investment anyway, but diversification will lower the risk even further.

If you are buying a house, the old saying about “buying the worst house in the best street” certainly holds true.

Getting Good Returns from Units

If you are going to invest in units, there are a couple of things to bear in mind. Units *are* more affordable, but because they have little or no land content, their potential for growth is more limited than houses. Also, if you are going to invest in units, it's always best to buy units in a small block (or better yet, buy an entire block of small units), rather than buy a unit in a big development. Larger developments are generally more prone to body corporate hassles because of the sheer number of owners that make up the body corporate. In addition, if you are trying to sell a unit, it is harder to get a good price when you are competing with lots of other owners of similar units in the same development.

'We Are Not Gods' - Predicting the Future

Before we go any further, we will let a rather big secret out of the bag. We are not gods. We do not *know* what the future holds. We do not provide ironclad guarantees of what the housing market will do in each suburb. Some of the suburbs will not achieve the growth rate we have predicted. Others, happily, will surpass the growth rate predicted. But we can not, will not and do not claim 100% accuracy. Just because our accuracy is not one hundred percent, that doesn't mean that it's *zero* percent. What has been provided is a list of suburbs that have the highest statistical propensity to grow well in the future. So, let's have a crack at translating that into English, shall we?

What we mean is that the suburbs listed are the ones that we would expect to perform the best in upcoming years based *purely* on the statistical patterns we have identified in those suburbs' historical growth rates. In other words, we have considered no other factors whatsoever, apart from the historical growth rates. We haven't allowed for new developments, changing demographic patterns, improved infrastructure or any other such factors.

Why haven't we allowed for those non-statistical factors? Because usually they don't have an enormous impact on the market. Usually, the general market trends that our statistical methods pick up are far more important than these other factors.

So, to summarise what we've covered so far. This report contains a list of statistically generated suburbs that we expect to be among the top performers over upcoming years. Most of the time, the impact of non-statistical factors such as demographic shifts, infrastructure improvements and new developments etc., will be minor. Key phrase there: 'most of the time'. 'Most' is not the same as 'all'.

Your chances of achieving the predicted returns will be maximised if you look for those areas where the non-statistical factors *do* have a large impact. If you find an area where there has been or is about to be large-scale development, or vastly improved infrastructure, or a very positive demographic shift *and* it's in the list then it's extremely likely that the suburb will be a good investment area. It's the *combination* of the statistical factors and the non-statistical factors that will make the suburb most likely to achieve our predicted returns.

Ensuring You Receive The Predicted Growth Rate

There is one sure-fire way to absolutely, positively, one hundred percent totally ensure you receive the predicted growth rate. And that's to not sell the property for anything less than the price you paid for it, indexed up by the growth rate.

Yes, that's kind of a trick answer, but there's no other way to get one hundred percent guarantees other than with trick answers. Remember, we are not gods. If you're willing to accept something a little less than a one hundred percent guarantee, then the trick answer contains an important grain of truth.

If you've combined our statistical list of suburbs with some non-statistical research into the area then you've already maximised your potential growth. But the other important factor is to ensure that you pay the right amount for the property in the first place. Every dollar too much you pay for the property impacts negatively on your future growth rate. Conversely, if you can find a bargain, that will improve your future growth rate.

This other half of the equation is highly important. If you pay the right price for a property *and* it's in a suburb with good statistical factors at work *and* its non-statistical factors encourage growth also, then your chances of achieving excellent capital growth in your investment are as high as they're ever likely to be. We strongly recommend that in whatever area you decide to consider for investment, and particularly where you are selecting a regional area, that you do your homework and consider such things as:

Financial Trends: are interest rates likely to rise or fall, and if they rise, will this slow the growth rate of your selected area and will your level of proposed debt be serviceable into the future?

The Economy: what is driving the local economy? Are there new primary (eg mining, agriculture), secondary (eg industrial, construction) or tertiary (eg education, tourism) projects underway or in the pipeline?

The Population: what is the population composition and growth rate, local employment prospects and what are the implications for the housing market?

The Housing Market: For many places, you will need to wait and maintain vigilance for purchase opportunities. Given the increasing scarcity of well located quality yielding properties, it will be the vigilant and considered investor who succeeds. Talk to the local council. They will

be able to tell you the name of the local paper and whom you should contact to get a copy. They also may have a local publication that will help you understand the potential or lack of it in the area. Talk to local real estate agents, and register on the above websites to receive free and automatic email notification as soon as properties in your selected areas and price range come on the market. Negotiate hard. Do whatever you need to do to ensure you pay the right price for the property.

'Do Not Panic' - The Long Term

Once you've chosen a good suburb and found a good property and paid the right price for it, then comes what, for many people, is the most difficult part - waiting for the predicted capital growth to arrive.

The most important thing to remember during this stage is not to panic. The housing market does not grow at a steady flat rate. Instead, it typically surges forward for a few years, then flattens out for some more years before surging ahead again. The figures provided are the *average* growth rates that we expect the suburbs to achieve. Some years the market will grow by more than the average rate. Some years, it will grow by less. The key here is to hold the property long enough for the year-by-year fluctuations to be overtaken by the average growth, as predicted. Property is a long term investment. Do not panic about short-term factors."

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Top Suburbs

The report is available for NSW, Vic and Qld and contains an ordered list of the top suburbs in each state with median values of less than \$400,000 that Residex predicts are statistically the most likely to perform the best over the next eight years. Note that this report features only suburbs whose property markets are predicted to grow substantially in this time.

In NSW the top suburbs were selected from the following postcode ranges:

2000 - 2319

2500 - 2530

2552 - 2570

2740 - 2786

Note: While Residex evaluated budget house and unit markets in greater Sydney and all other metropolitan areas in NSW in the above postcodes, no unit market showed acceptable capital growth predictions, so as a result, units do not feature in this quarter's report.

Suburbs in Western Sydney Predicted to Grow by More than 7% pa over 8 Years

Bligh Park
Claremont Meadows
Currans Hill
Doonside
Emu Heights
Erskine Park
Fairfield Heights
Glendenning
Guildford
Hassall Grove
Hinchinbrook
Holsworthy
Horsley
Hoxton Park
Kearns
Liverpool
Lurnea
Minchinbury
Mount Druitt
Oakhurst
Plumpton
Riverstone
South Wentworthville
South Windsor
St Helens Park
St Marys