

How to find tomorrow's top performers at yesterday's prices

It might be a buyer's market out there, but how do you find the killer opportunities? Kevin Eddy reports



Australia's property markets have undergone a transformation in recent months. No longer are large numbers of buyers clamouring to compete at auctions, forcing property prices higher and higher. Now, the picture in many suburbs is of sparsely-populated auctions, passed-in properties and discounted sale prices.

Does this mean that the great growth period of property is over? Far from it! After all, the Australian property market is far from a homogenous beast: markets will vary from city to city, from suburb to suburb and street to street. There will always be somewhere that's on the up.

Moreover, long-term capital growth is set to continue: while the rapid rise of interest rates and withdrawal of federal stimuli have dented the economy recently – not to mention the economic impact of the floods at the beginning of the year – the long-term economic fundamentals are strong and are likely to remain so.

What does that mean for investors? It means buying opportunities. As many buyers shy away from the market because of the short-term economic uncertainty, the canny investor can pick up quality properties at an excellent price. These could be in suburbs which might seem fraught with risk today but that are likely to see capital growth over the coming years.

But how can you identify these suburbs – and more importantly, how can you find the diamonds in the rough within these areas?

Crunching the numbers

The best place to start when identifying potential 'bargains' is with the numbers – and particularly the data located at the back of *Your Investment Property*.

There are two key indicators that you should be looking at to identify suburbs where you might be able to negotiate a great deal: vendor discounting and time on market. However, you shouldn't just look at these two in isolation – you

should marry up these indicators of how property stock is moving, with fundamental indicators such as long-term capital growth, solid rental yields and low vacancy rates, depending on your overall strategy.

There's no point in buying a bargain property in an area which isn't likely to experience strong capital growth or provide cash flow benefits: while you may see some profit, you won't be maximising your investment.

Tim Lawless, head of research at RP Data, adds that another key metric you should be looking at is the difference in median prices between neighbouring suburbs. He says that by comparing and/or identifying geographical trends in these price differentials using mapping programs, investors can identify pricing gaps where there may be scope for 'catch up' capital growth.

Buyer's agent Oliver Stier, director of OH Property Group, agrees that a lower median property price relative to



Key indicators for bargain hunters

Look out for the following indicators as possible hints for good investment opportunities at rock-bottom prices

- High vendor discounting
- A high time-on-market figure
- Consistent, strong long-term capital growth and/or economic drivers that suggest future growth, such as supply constraints, growing population, or infrastructure improvements and development
- Lower median prices than neighbouring suburbs
- Solid rental yields and increasing weekly rents
- Low vacancy rates

There's no point in buying a bargain property in an area which isn't likely to experience strong capital growth or provide cash flow benefits

adjoining suburbs is a key indicator. He suggests a number of other indicators that point towards strong future capital growth – or “outperformance” as he puts it – which you should also take into account. These include:

- Increasing weekly rental prices (reflecting high rental demand/attractiveness of suburb)
- Lower mortgage stress rates relative to average
- A lower ratio of median property price/median income relative to suburbs with similar median incomes
- An even distribution between renters and owner-occupiers (renters often eventually choose to buy close to

where they have been renting)

- Performance of local schools as seen on www.myschool.edu.au, and/or the number of private schools located in the council area/suburb
- Low supply of properties on market (some suburbs are highly sought-after, but there is very little supply of properties for sale)
- Low supply of vacant land for development (suburbs over 20km from CBD typically have a high supply of vacant land for development, meaning there will be a lot of new properties in coming years to compete with existing properties)

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Top 5 discounted suburbs – regional

NSW

Suburb	H/U	Vendor discount	Time on market (days)	Number sold	Median price	12 month growth	Average annual growth	Weekly median advertised rent	Gross rental yield	Average GPO distance
BROKEN HILL	H	-13%	81	218	\$111,250	-11%	12%	\$180	8%	936km
NELSON BAY	U	-13%	93	210	\$350,000	4%	6%	\$275	4%	154km
LAVINGTON	U	-12%	81	83	\$155,000	-4%	8%	\$180	6%	458km
OBERON	H	-12%	76	34	\$186,000	-12%	6%	\$220	6%	126km
NARROMINE	H	-11%	99	50	\$178,750	-6%	9%	\$213	6%	331km

QLD

Suburb	H/U	Vendor discount	Time on market (days)	Number sold	Median price	12 month growth	Average annual growth	Weekly median advertised rent	Gross rental yield	Average GPO distance
ROCKHAMPTON CITY	H	-19%	83	39	\$205,000	3%	14%	\$230	6%	519km
PARADISE POINT	H	-17%	57	108	\$865,000	3%	13%	\$450	3%	58km
HOPE ISLAND	U	-14%	83	442	\$426,250	-21%	6%	\$550	7%	55km
MERIDAN PLAINS	H	-14%	90	43	\$430,000	-4%	1%	\$410	5%	79km
BUNGALOW	H	-14%	59	28	\$322,500	10%	8%	\$300	5%	1,385km

VIC

Suburb	H/U	Vendor discount	Time on market (days)	Number sold	Median price	12 month growth	Average annual growth	Weekly median advertised rent	Gross rental yield	Average GPO distance
MORWELL	U	-27%	48	56	\$134,750	-4%	16%	\$138	5%	142km
MILDURA	U	-15%	84	130	\$168,250	9%	7%	\$170	5%	475km
COBRAM	H	-11%	101	65	\$225,000	2%	8%	\$205	5%	219km
EILDON	H	-10%	59	30	\$173,750	4%	11%	\$185	6%	105km
KORUMBURRA	H	-10%	66	98	\$235,500	13%	14%	\$200	4%	104km

WA

Suburb	H/U	Vendor discount	Time on market (days)	Number sold	Median price	12 month growth	Average annual growth	Weekly median advertised rent	Gross rental yield	Average GPO distance
MANDURAH	H	-10%	74	59	\$305,000	-3%	14%	\$255	4%	65km
SILVER SANDS	H	-10%	70	26	\$455,000	0%	12%	\$290	3%	63km
MANJIMUP	H	-9%	94	49	\$275,000	15%	12%	\$250	5%	255km
WANNANUP	H	-8%	79	71	\$430,000	0%	18%	\$320	4%	74km
SOUTH BUNBURY	H	-8%	81	90	\$385,500	2%	11%	\$310	4%	156km

SA

Suburb	H/U	Vendor discount	Time on market (days)	Number sold	Median price	12 month growth	Average annual growth	Weekly median advertised rent	Gross rental yield	Average GPO distance
PORT AUGUSTA WEST	H	-13%	73	47	\$253,000	20%	15%	\$260	5%	282km
PORT PIRIE WEST	H	-10%	66	49	\$150,000	7%	15%	\$180	6%	201km
WHYALLA	H	-8%	65	42	\$302,500	-1%	13%	\$285	5%	230km
VICTOR HARBOR	H	-7%	69	143	\$315,000	5%	10%	\$250	4%	69km
CLARE	H	-6%	59	75	\$270,000	8%	11%	\$230	4%	121km

TAS

Suburb	H/U	Vendor discount	Time on market (days)	Number sold	Median price	12 month growth	Average annual growth	Weekly median advertised rent	Gross rental yield	Average GPO distance
STIEGLITZ	H	-14%	69	22	\$272,500	28%	17%	n.a	n.a	190km
SMITHTON	H	-11%	93	53	\$215,000	4%	13%	\$200	5%	291km
QUEENSTOWN	H	-11%	56	46	\$77,000	5%	15%	\$125	8%	171km
LUTANA	H	-9%	72	49	\$280,000	8%	15%	\$315	6%	5km
SANDY BAY	H	-9%	70	166	\$690,000	23%	12%	\$465	4%	3km

NT

Suburb	H/U	Vendor discount	Time on market (days)	Number sold	Median price	12 month growth	Average annual growth	Weekly median advertised rent	Gross rental yield	Average GPO distance
HOWARD SPRINGS	H	-7%	61	63	\$580,000	0%	11%	\$590	5%	23km
DRIVER	H	-7%	40	53	\$455,000	12%	11%	\$480	5%	15km
STUART PARK	U	-7%	44	68	\$397,000	8%	8%	\$450	6%	2km
FANNIE BAY	U	-7%	51	46	\$470,000	9%	9%	\$440	5%	4km
MILLNER	U	-6%	53	31	\$400,000	29%	11%	\$395	5%	8km

All property data were provided by RPData www.rpdata.com

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Top 5 discounted suburbs – cities

Sydney

Suburb	H/U	Vendor discount	Time on market (days)	Number sold	Median price	12 month growth	Average annual growth	Weekly median advertised rent	Gross rental yield	Average GPO distance
LIDCOMBE	U	-18%	66	169	\$370,000	0%	7%	\$400	6%	15km
ALLAMBIE HEIGHTS	H	-16%	55	97	\$910,000	13%	8%	\$700	4%	12km
PYMBLE	H	-16%	84	154	\$1,340,000	13%	8%	\$800	3%	15km
PUTNEY	H	-15%	60	62	\$1,215,500	30%	9%	\$595	3%	10km
DAVISTOWN	H	-15%	93	38	\$387,500	9%	9%	\$350	5%	45km

Brisbane

Suburb	H/U	Vendor discount	Time on market (days)	Number sold	Median price	12 month growth	Average annual growth	Weekly median advertised rent	Gross rental yield	Average GPO distance
RUSSELL ISLAND	H	-14%	94	71	\$225,000	-2%	15%	\$210	5%	41km
BARDON	H	-12%	44	180	\$799,750	19%	12%	\$450	3%	5km
ST LUCIA	H	-11%	68	60	\$990,000	14%	13%	\$570	3%	4km
CHELMER	H	-11%	60	73	\$885,000	10%	13%	\$473	3%	7km
CHERMSIDE	H	-10%	75	71	\$462,500	5%	14%	\$360	4%	9km

Melbourne

Suburb	H/U	Vendor discount	Time on market (days)	Number sold	Median price	12 month growth	Average annual growth	Weekly median advertised rent	Gross rental yield	Average GPO distance
DERRIMUT	H	-13%	38	87	\$390,000	6%	5%	\$320	4%	18km
UPWEY	H	-12%	58	99	\$391,000	6%	11%	\$340	5%	34km
OAKLEIGH	H	-12%	50	100	\$721,000	19%	12%	\$400	3%	15km
ASCOT VALE	H	-11%	71	195	\$721,000	18%	10%	\$430	3%	6km
RESERVOIR	H	-11%	64	527	\$495,000	21%	12%	\$320	3%	12km

Perth

Suburb	H/U	Vendor discount	Time on market (days)	Number sold	Median price	12 month growth	Average annual growth	Weekly median advertised rent	Gross rental yield	Average GPO distance
WEMBLEY DOWNS	H	-13%	41	52	\$1,124,000	11%	13%	\$575	3%	9km
MOSMAN PARK	H	-10%	69	76	\$1,450,000	17%	13%	\$750	3%	11km
BEACONSFIELD	H	-10%	70	52	\$680,000	5%	14%	\$450	3%	15km
GOOSEBERRY HILL	H	-10%	76	62	\$737,500	18%	13%	\$480	3%	18km
COMO	H	-10%	89	66	\$940,000	7%	12%	\$450	2%	5km

Adelaide

Suburb	H/U	Vendor discount	Time on market (days)	Number sold	Median price	12 month growth	Average annual growth	Weekly median advertised rent	Gross rental yield	Average GPO distance
DAVOREN PARK	U	-15%	70	29	\$155,000	1%	18%	\$185	6%	27km
GLENOWRIE	U	-11%	57	58	\$422,500	8%	13%	\$300	4%	9km
BURNSIDE	H	-10%	64	43	\$750,000	-1%	12%	\$460	3%	6km
DAVOREN PARK	H	-9%	56	106	\$205,000	1%	14%	\$240	6%	27km
PLYMPTON	U	-8%	44	64	\$270,000	7%	12%	\$260	5%	6km

Canberra

Suburb	H/U	Vendor discount	Time on market (days)	Number sold	Median price	12 month growth	Average annual growth	Weekly median advertised rent	Gross rental yield	Average GPO distance
DUNLOP	H	-10%	69	169	\$445,000	2%	12%	\$450	5%	13km
HARRISON	H	-7%	41	106	\$558,000	7%	7%	\$550	5%	9km
CALWELL	H	-4%	67	67	\$465,000	11%	10%	\$443	5%	18km
GORDON	H	-4%	48	74	\$505,000	9%	9%	\$465	5%	20km
NGUNNAWAL	H	-4%	53	99	\$412,000	10%	10%	\$420	5%	12km

All property data were provided by RPData www.rpdata.com

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“The only way to find an undervalued property is to see the entire market, and get a sense of what the market value is. You need to be thorough in your research”

Real-life bargain hunting

A junior agent was quoting a double-brick house in Sydney's north shore suburb of Killara as between \$1.1m and \$1.3m.

The marketing materials did not specify that this property was at the quiet end of an otherwise very busy road, which would have turned away a lot of potential buyers who may not be aware of this. At the auction – held on a Saturday in mid-December – there was only one registered bidder, who made an offer of \$1.1m.

We found out that the vendors were going through a very messy divorce and that the house had to sell on the weekend of the auction. We conducted due diligence and purchased the property (a full brick house in excellent condition and with land) on Sunday for \$1.135m – well below the \$1.25m land-only value which we had appraised.

Source: OH Property Group

Once you've identified suburbs with some or all of these characteristics, you can then investigate further.

On the ground

Data isn't the 'be all and end all'. To really get a sense of whether a suburb is a good investment area – and to be able to identify bargain properties – you need to get a feel for the area.

Stier reckons there's no substitute for actually going to a suburb and seeing it for yourself. "You can't just rely on data: you need to take into account qualitative factors," he says. "You need to understand the area inside and out. Are there developments or infrastructure projects taking place or being planned? Which are the good streets versus bad streets in the suburb?

"It's not worth buying a 'bargain' if it turns out to be a sub-par property with likely below-average long run returns. For that, you need to get on the ground. You need to know the suburb and get an intimate knowledge of what the market is doing."

Stier suggests that a good way to do that is to speak to local real estate agents, shopkeepers and restaurateurs – people who are plugged into the local economy. He also recommends going to every inspection and auction in an

area that you can. "The only way to find an 'undervalued' property is to see the entire market, and get a sense of what the market value is. You need to be thorough in your research, view all the properties you can and follow them along the course of their marketing," he says.

"You can only spot a bargain if you have seen a lot of properties in the same area. Otherwise you risk doing the opposite, and overpaying for a property if you don't compare 'apples to apples'."

Looking at multiple properties can also help you get a sense for the demand for other properties within a suburb. Stier says "if you're looking at multiple properties, you can ask about other ones you're interested in without making it too obvious by bringing them up as 'chit chat'. For example, casually asking if there's much interest in a property you saw the other day, or whether it's sold yet.

"This is an area where employing a buyer's agent can be beneficial. By definition we're interested in multiple properties, are in regular contact with sellers' agents, and are able to bring up questions like this in a professional and less 'loaded' way," he adds.

Finding the hidden gems

Once you've got a good sense of the suburb, you can get serious about selecting properties. This is where savvy use of data can give you an advantage – yet again. Lawless argues that by analysing individual property transactions, you can put yourself in a strong negotiating position.

"Most information providers, RP Data included, provide information on transactions down to street and property level," he says. "You can use those tools to target specific properties, see selling prices, and see the marketing history of individual properties."

"So, for example, you can see recent sales, previous sale prices, whether a property has changed real estate agent, whether there's been a failed auction and so on. All that information can be used to bolster your bargaining power – and if you're not using it, you're potentially operating with one hand behind your back."

Stier adds that paying attention to 'ugly duckling' properties can work to your benefit too.



Real-life bargain hunting

An apartment in the Sydney suburb of Redfern was being shown early on Saturday mornings at 9:30am (before many buyers would be likely to arrive). The main photo in the online advertisement showed the living room and kitchen, which had huge patches on the ceiling – even though the problem had been rectified before the first inspection.

The vendors were going through a divorce and were living overseas, and the tenants had also vacated, leaving the property empty and not generating any income. The agent had also made a mistake with the floorplan and the apartment was listed as having a significantly smaller interior size than it actually did.

We purchased on behalf of our clients for \$30,000 below the advertised price, and much less than other similar apartments in the complex which sold just months earlier.

Source: OH Property Group

In most instances, you are better off paying market price for a solid property in a good location rather than trying to get a bargain just for the sake of getting a bargain

What to watch out for

Vendor discounting

Vendor discounting measures the average difference between the original asking price of a property and the final selling price. Higher levels of discounting suggest that vendor expectations are out of line with what buyers are willing to pay. Also, high levels of discounting imply that buyers are likely to have more opportunities for negotiating a lower price on a purchase and that vendors are having to considerably lower their asking price in order to make a sale.

Time on market

Time on market measures the median number of days between the initial listing date and the sale date in a suburb. A higher time on market figure can mean that there is also scope for negotiating a lower price as properties linger on the market and vendors lower expectations to make a sale.

He advises buyers to look out for:

- Properties which may not have any pictures of the interior online
- Properties which do not present nicely during inspection (quite often these are tenanted properties)
- Properties with difficult tenants (as the agent may be motivated to just sell to the first buyer that comes along to save hassle and effort)
- Lazy or incompetent agents who mis-market the property in some way
- The real reason behind the sale – particularly the triple Ds of a ‘motivated seller’: death, divorce and debt

Stier cites two properties that OH Property Group bought recently as examples of finding the right property and effective negotiation (see ‘Real-life bargain hunting’ on pages 42 and 44).

Buy cheap, buy twice?

Stier warns that investors shouldn’t get fixated on purchasing a cracking deal.

“At the end of the day, you should never buy a property just based on the price tag alone,” he says.

In most instances, you are better off paying market price for a solid property in a good location, rather than trying to get a bargain just for the sake of getting a bargain. Ultimately, you’ve got to find a good property in a good suburb, then negotiate to get your ‘bargain’.

It’s worth paying up to market price for something that will have a strong return. But if you do find a bona fide steal, though, you’ve got to be ready to move fast. “Make sure you have financing all lined up, a solicitor/conveyancer on standby to review the contract and a pest/building inspection or strata search ready to go,” adds Stier.

“Genuine bargains don’t last long and it can be a race to the finish line. You need to be prepared, informed and at the right place at the right time.”