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Ryder Property Research
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How to Identify Real Estate Hotspots

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In a nutshell ...

Introduction

Consider this scenario ...

It's 2012. An investor wants to invest $600,000 in residential real estate.

She's considering two courses of action: buying in Sydney or buying in Darwin.

The Darwin market is booming. The market in Sydney is not (and has been poor for many years).

What does the investor do? Her decision will impact on her financial future.

The 2012 choice: mediocre Sydney ....

.... or booming Darwin

Fast forward five years ...

If she took the Darwin option, the investor would have had solid growth, perhaps 6%, in 2013, but little or no growth in 2014 and price decline in 2015 and 2016. With the market past its peak, and the Northern Territory economy struggling, prospects for ongoing growth in the short-to-medium term were not as strong as other cities.

Sydney, on the other hand, had a strong year in 2013, with prices rising an average 14-15%, followed by even stronger growth in 2014. The strong price rises continued in 2015 and 2016. After 10 years of under-achievement, the Sydney market burst to life in 2013 and overtook Darwin and Perth to become the capital growth leader among the capital cities. This situation continued in 2014, 2015 and 2016.

Over three years after 2012, Sydney values rose an average 50%.

The Hotspotting Process

The Sydney v Darwin example is a classic case of what we call Hotspotting, the process of identifying the real estate hotspots of the future.

Report author Terry Ryder, founder of hotspotting.com.au, has been researching and writing about real estate for the past 35 years. But in the 12 years he has been particularly studying hotspots and how they are created.

This has revealed that there are specific events or circumstances which create hotspots. We have grouped them into ten categories which we call Hotspot Core Categories. They're all events or situations that can turn a location into an out-performer.

The Hotspotting Process is simple: it is to find locations that have multiple Core Categories in play. The best bets are the locations with three or four Core Categories working in their favour.

Before explaining how to find them, let us first identify the ten Core Categories. Some of them you'll be very familiar with – others may be new to you.

Core Category #01
Transport Infrastructure

In all of our biggest cities, transport infrastructure is an ongoing issue. Roads, tunnels, bridges, busways, rail connections.

This is especially true in Sydney, Melbourne and Brisbane, but it's also happening in Adelaide and Perth. It's in the news almost every day. Sydney has big problems dealing with its traffic congestion and the problems of its public transport system. Melbourne has issues too.

Brisbane and South East Queensland constantly plays catch-up, trying to keep up with population growth. Recently completed in Brisbane are the Ipswich Motorway upgrade, duplication of the Gateway Bridge, the Clem Jones Tunnel, Airport Link, rail links to Springfield and to Redcliffe, and various busways. Other multi-billion-dollar projects are in planning.

Various State Governments have gone billions of dollars into debt, borrowing big to fund new infrastructure, of which the biggest expense by far is Transport Infrastructure. The Federal Government also directs considerable resources to transport infrastructure.

Why do we care? Because a new motorway, rail connection or bridge can revolutionise property markets. A suburb that was 90 minutes drive from the CBD can be brought 20 or 30 minutes closer by the opening of a new freeway – and suddenly have far greater appeal for home buyers.

The Gateway Bridge and motorway gave suburbs both sides of the Brisbane River much faster access, including to the Gold Coast and the Sunshine Coast. The opening of the eight-lane Pacific Motorway between Brisbane and Gold Coast had a huge impact on residential property in the northern reaches of the Gold Coast, because getting to the Brisbane CBD became faster – plus there was also a new fast rail connection.

The WestLink system in Sydney is important, because it connects three motorways. The EastLink motorway in Melbourne has also had a big impact. It has affected property values, both with industrial and residential property.

In 2015 and 2016 there were major new announcements of transport infrastructure projects, including new motorways and new or extended rail links in all our major cities. Sydney and Melbourne are both spending multiple billions of dollars on their road and rail networks.

The extensions of the Kwinana Freeway south from central Perth have been instrumental in generating capital gains for property in areas like Mandurah, which became one of the biggest growth areas in Australia. The extension of rail links to those areas and the construction of the Mandurah Bypass enhanced the process.

The Geelong Ring Road brought major benefits to property owners south of Melbourne. The $5 billion Regional Rail Link, which opened in September 2015, has reduced commuting time to Melbourne from Geelong, Ballarat and Bendigo.

Hotspotting research shows that city suburbs with commuter train links generally have higher capital growth rates than those without train services.

For any investor thinking of capitalizing on the Transport Infrastructure influence, it's important to be aware of this factor: there are usually three waves of increases in property values. The first comes when government makes the initial announcement of plans for a new road. The second comes when they start construction. And the third happens around completion of the project, when people can see tangible evidence of the effects of the new infrastructure.

So you make the biggest gains if you buy early, as soon as the new road (or tunnel or rail line) is announced. But be warned: Transport Infrastructure is a popular political football and governments often announce big projects as an election approaches and forget about them later.

In addition, Transport Infrastructure can result in problems rather than benefits, especially for properties too close to the new facility. So there can be risks if investors take a punt and buy property because of political talk of a new transport project.

But if you get it right, you can make lots of money.

Locations which have had price booms due to (or partly due to) new Transport Infrastructure:

- Mandurah, Western Australia
- Ipswich City, Queensland
- Blacktown, New South Wales
- Geelong, Victoria

Core Category #02
The Ugly Duckling syndrome

This may seem an odd name for something to do with real estate. But it's appropriate, we think, because it relates to the story of the ugly duckling which evolved into a beautiful swan. This kind of thing can happen in real estate.

Every major city in Australia has suburbs which once were considered downmarket areas, or rough areas, or "social security areas" – suburbs that were stigmatized in some way and where many people would not have chosen to live.

But they've changed. They've been discovered. They've become gentrified. In Melbourne, Richmond was once considered a down-market area but today it's a trendy area and quite expensive. In Sydney, there are areas with lots of cute workers cottages – like Balmain - which once were considered down-market but now are greatly sought-after.

In Brisbane, the Bulimba area was once considered downmarket and undesirable. It was a rough precinct and its main street, Oxford Street, was not a prosperous place. There were no cafes, businesses were struggling and there were many empty shops. The pub was a dangerous place and the one-screen cinema was a candidate for demolition.

Today Oxford Street is one of Brisbane's trendiest destinations. Restaurants and cafes everywhere, lots of boutiques, the pub has been converted into a family entertainment centre and the picture theatre is a modern multi-screen cinema complex. Residential property values have grown strongly (the median price has grown at an average rate of 13% a year since 2013, well above city averages.)

Bulimba, and nearby suburbs like Balmoral and Morningside, got "discovered". People began to realize the area was close to the City, it was on the Brisbane River, there were lots of character Queenslander houses on big blocks of land, and it was cheap. People bought houses and renovated. Very quickly the area became popular.

Bulimba was an Ugly Duckling suburb which evolved into a real estate swan. And this kind of process will keep happening. Usually it happens quite naturally. This is not a planned urban renewal process by government, but a natural evolution.

But sometimes it has a boost from a government entity. Bulimba, for example, was a beneficiary of the SCIP program. SCIP means Suburban Centre Improvement Program, a scheme run by the Brisbane City Council to spruce up the main streets of selected suburbs. It wasn't the main reason Bulimba was transformed, but it helped.

The Ugly Duckling syndrome has become one of the most significant influences in real estate.

For one important reason: affordability.

Recent price rises mean many people seeking to own their home are forced to consider areas they might have previously rejected. This is why middle-ring and outer-ring suburbs often show the best capital growth rates in our major cities.

To be an Ugly Duckling hotspot, suburbs need to be more than just cheap. They need to have identifiable reasons to grow and improve.

It also helps (in these days of high petrol prices, road tolls and CBD parking fees) if they are connected to the city centre by rail. That's why we refer to our favoured Ugly Ducklings as "Cheapies with Prospects".

Frankston in the Melbourne metropolitan area is a prime candidate to evolve into a real estate swan: its bayside, it's where the new EastLink motorway starts, it's on the train line to Melbourne's CBD, there's lots of government money being spent to improve the foreshore – and it's affordable.

Rockingham City is the south-west of the Perth metropolitan area has similar qualities.

Ugly Duckling locations which have had price booms:

- Bulimba, Queensland
- Blacktown, New South Wales
- Ipswich corridor, Queensland
- Frankston suburbs, Victoria
- Marrickville, New South Wales