The 3 Rules for Property Investment Selection
Part 2: Locations

My ‘Three Rules’ for property selection have been assisting my clients to put logical choices behind their investment decisions for the past 15 years. In part 1, we discussed the Three Rules.

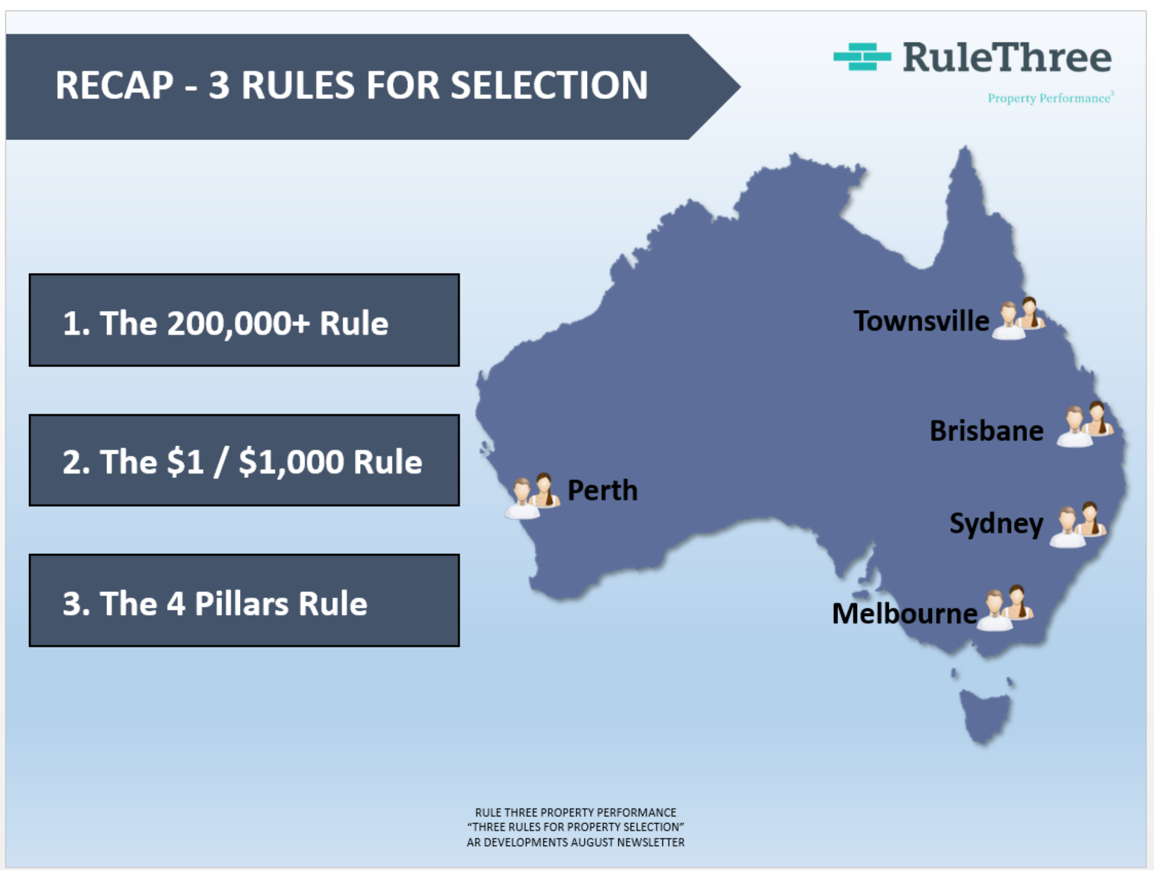
1. The 200, 000+ Rule – The area has a population of 200 000 or more
2. The $1 / $,1000 Rule – You should receive $1 rent for every $1000 spent
3. The ‘Four Pillars’ Rule – You are looking for self-generating economies that have a good spread of employment across at least 4 industry sectors

By applying these together with reputable property data we are able to identify the location and type of stock to focus on when looking for an investment property.

Martin Josselyn, Rule Three Property Performance

Martin Josselyn is a licensed agent, qualified financial planner and mortgage broker and has over 15 years of experience in direct property investment portfolios

Location

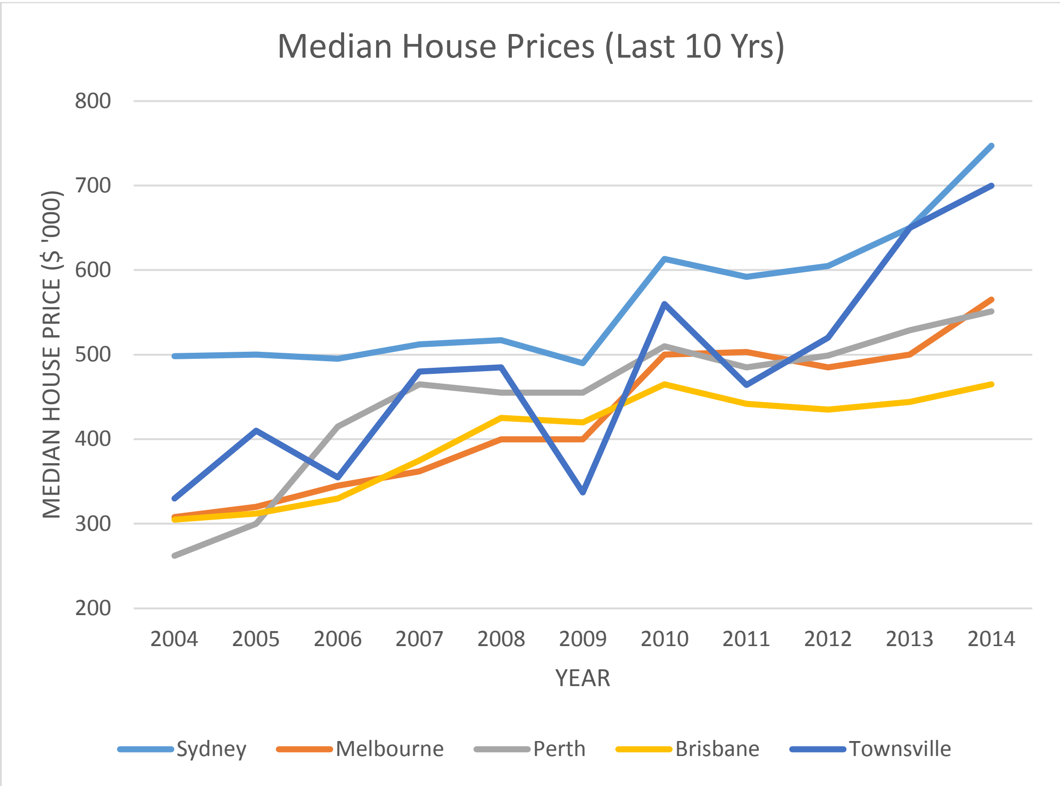


When we apply the Three Rules to areas around Australia, we are able to identify eight locations - Sydney, Melbourne, Brisbane, Perth, Townsville, Gold Coast, Hobart and Adelaide.

However, three of these areas - Gold Coast, Hobart and Adelaide are weak in the 'Four Pillars' rule, so are not ideal investment locations. Therefore we are left with five investment property locations to focus on – Sydney, Melbourne, Brisbane, Perth and Townsville.

Property Research Factors

Having an investment portfolio across multiple markets makes sense. By varying the locations of your investment properties it is likely that when you are looking to buy or sell, one market will be working harder than another and each will be at different stages in the property cycle across the country. This in turn gives you choices about capital or income returns. This is evident in the graph below.



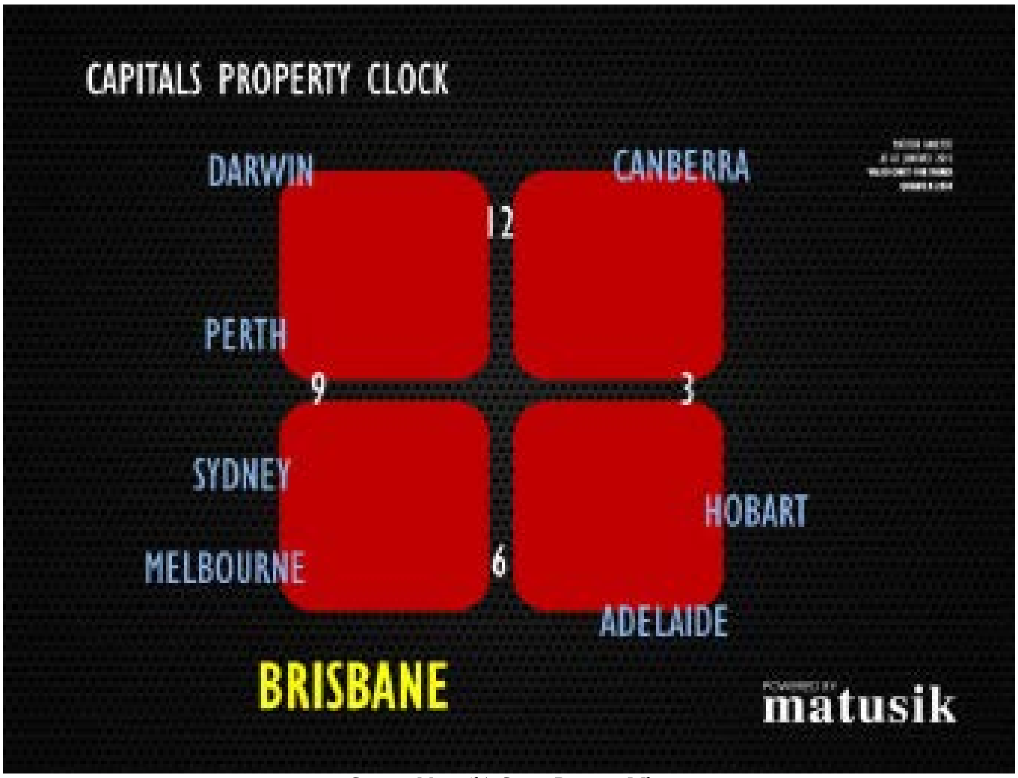
Data source: RP Data & Realestate.com.au

Based on this graph, let's look at these areas more closely. As shown, Sydney and Melbourne are heated markets and have already grown rapidly, looking toward a peak.

Perth has been through the majority of its growth, and with the eminent ease of supply of product this will help to reduce overheated demand and the market will start to level out.

The Townsville market is one of those sleeping giants where there isn't anything remarkable about the market, but property within certain areas has consistently given steady growth and high levels of tenancy over the past 20-30 years. It should certainly be considered as an option when trying to diversify a residential portfolio.

Upon closer analysis, Brisbane seems to be the real opportunity – the market is beginning to mature and is starting to push upwards, ready to move into a period of growth. This is also illustrated by experienced property commentator Michael Matusik's property clock. According to this property clock, Brisbane is the focus as it recovers rapidly and moves into a growth phase, presenting itself as a real opportunity in coming years.



Source: Matusik's Seven Reasons Why

Type of Property

In saying that, not all suburbs within Brisbane or any other suggested area are necessarily going to be profitable. Data shows that properties with the most stable rental return are within 20km from CBD and close to amenities or lifestyle facilities and this is certainly the case for Brisbane. Obviously, the availability of property within those sectors is becoming more and more limited due to supply or pricing constraints for average mum and dad investors as demand lifts.

For this reason, we tend to focus on a differentiation of product type, and we look towards new townhouses within 'infill suburbs', not traditional house and land packages that are often on the fringe of the CDB radius. For example, Eastern suburbs like Wynnum West are just 16km from CBD, close to the bay and numerous shops, schools and recreational areas and provide easy access to major roads and infrastructure. They are attractive to tenants, owner/occupiers and investors alike.

Summary

Therefore, by applying the Three Rules together we have identified five key potential property investment locations around Australia.

When further observing the current state of the market in these areas and cross referencing this against reputable property research, we are then able to identify Brisbane as a 'potential opportunity' market, with a preferred property type leaning towards three to four bedroom townhouses in infill suburbs.

Next month in part 3 I will provide an example investment analysis for a property which matches these requirements to clearly identify costs and returns.

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