5 SURE-FIRE WAYS TO FIND VALUE IN A HOT MARKET

Property markets in some parts of Australia are heating up, with quick sales and sky-high prices. In such an intense environment it can be difficult to find a property with good investment potential at a reasonable price. Nonetheless, even soaring markets can offer good prospects to investors who know where to look

1 DO RELEVANT RESEARCH

The first step to buying well is identifying a fair market value for the property. Research is key, but investors must take care to find the right information.

"It's like for like. We want to check little green apples against little green apples," Smart Property Adviser director Kevin Lee says.

He suggests searching for sales data on comparable properties in the same post code over the past 12 months.

Director of Empower Wealth Cate Bakos says investors have to make sure previously sold properties are similar enough to compare.

"It has to have similar attributes, whether in age or style. The closer you can get to that word 'similar' across all those parameters, the better idea you'll have as to the fair buying range," she says.

Real estate agents can be an invaluable source of information when the market heats up. In Ms Bakos' experience, an agent who knows you well can help you identify bargain properties.

"After they've seen the colour of your money at an auction or private sale, they'll know that you're serious," she says.

"If you're prepared to share your criteria with them and you're realistic about buying at a fair market price, they might spot a property for you."

In some cases, agents might give you access to properties that have not even been advertised, director of Right Property Group Steve Waters says. This is where working with a buyer's agent can be helpful.

"Agents know that they can come to buyer's agents if a quick sale is necessary," Mr Waters says.

"A lot of the properties we buy in a hot market the public will never see on the internet because they don't need to be there."

Determining the temperature of a market can help the investor determine a fair price. To gauge the level of demand, Ms Bakos suggests looking at how quickly properties sell.

"Days on market is a good indication that properties are selling as soon as they hit the market and people are paying the full asking price or beyond," she says.

For auctions, she suggests the number of bidders and the pace of bidding can indicate the level of buyer interest.

High auction clearance rates can also be a sign of healthy market activity, Mr Waters suggests. However, buyers should be wary of blindly trusting statistics.

Mr Lee explains auction clearance rates are based on agents self-reporting successes. In many cases, agents will keep quiet about auctions that fail, skewing the statistics positively, he says.

2 KEEP YOUR EMOTIONS IN CHECK

For investors, property is a formula for making money. Emotion should never enter the equation.

"If it's an investment property, this is not an emotional decision; it's a business decision. You don't make business decisions based on what you feel," Smart Property Adviser's Kevin Lee says.

Particularly in markets with high buyer competition, investors may find themselves swept up in the drama of the purchase.

"Emotions run hot as people want to get in because everyone else is getting in," Right Property Group's Steve Waters says.

Agents and the media might contribute to this hype, Mr Lee says. To keep a cool head, buyers should devise a clear strategy and stick to it.

"You need to know how much you can buy for, how much you can borrow, and whether your income can support the loan," he says.

In his view, straying outside these guidelines can be "financially fatal".

Mr Waters encourages his clients to only buy properties that fit within their overall plan.

"You need to be aware of where that property sits in your portfolio.

"Knowing what that property will do when the market cools is just as important. That might be in terms of your rent or your cash flow, or it may be capital growth," Mr Waters says.

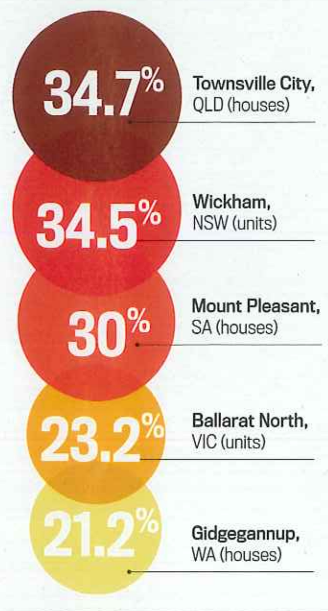
"Looking to the future is absolutely paramount."

In addition, Empower Wealth's Cate Bakos encourages investors not to let a missed opportunity dampen their enthusiasm.

"Be prepared to have a punt on a few. You can't get despondent if you miss out on one," she says.

MOVING MARKETS

The hottest suburbs across the states*



*Based on quarterly growth in median house prices. Source: RP Data

3

STICK TO THE FUNDAMENTALS

As prices rise by the week, the pressure to buy may mount. In some cases, investors may consider snapping up a cheaper, less desirable property simply to get a foothold in the market.

Unless this property fits the investor's criteria, Empower Wealth's Cate Bakos advises strongly against this approach.

"That is one thing people shouldn't do - sign up for something that is not ticking all the fundamental boxes," she says.

In some cases, people may adjust their parameters to suit the area, she suggests. Particularly in inner-city areas, people might consider buying units rather than houses if the market becomes unaffordable.

However, even these compromises should be based on underlying potential.

"I think they're better off adjusting their parameters and buying well in the right area rather than compromising on something like buying on a main road or buying a property they are not able to renovate," Ms Bakos says.

> "CHEAP DOESN'T NECESSARILY MEAN GOOD; AND EXPENSIVE DOESN'T NECESSARILY MEAN BAD"

Right Property Group's Steve Waters warns loan applications may be affected if properties have undesirable characteristics like power lines or a nearby freeway.

"Cheap doesn't necessarily mean good; and expensive doesn't necessarily mean bad," he says.

The decision to buy should be based on your strategy rather than a desire to buy in a particular spot, he says.

Margaret Lomas from Destiny Financial Solutions shares a similar outlook.

"Once you buy the bad property, it will remain so," she says.

"You should never buy a property type because of pricing reasons. The property type you buy should always be determined by the demand and the demographics."

However, she believes some traits seen as "undesirable" - like an area's poor reputation - should not automatically deter buyers.

"It is worth buying in areas with a stigma if there is evidence of a shift or change to this stigma," she says.

She also reminds investors that buying the worst property in a good street can be a winning bet.

"You can buy properties in the lower price ranges in areas with growth drivers and still do well. Just stay away from the real problem ones," she advises.

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CONSIDER AUCTIONS

Many investors shy away from auctions when demand starts accelerating. Destiny Financial's Margaret Lomas suggests auctions in a hot market often lead to poor investment decisions.

"Buyer frenzy reaches its peak at auctions and once you add competitiveness, it's a volatile formula for paying too much," she says.

Similarly, Smart Property Adviser's Kevin Lee tries to buy outside of auctions so he has room to negotiate.

"If you're in an auction situation, you're negotiating on their terms," he says.

However, Empower Wealth's Cate Bakos believes auctions are more transparent than buying by private treaty.

With private sales, buyers are in the dark about other offers. She finds they often end up paying too much by trying to outbid another buyer.

"At least at auction, you know exactly how much the person behind you is prepared to pay," she says.

However, to be successful at auction, buyers must be prepared to walk away.

"I always feel that I've done the right thing when I've had a limit and I stick to that limit. And that limit has to be defined before the auction, not made up on the spot," Ms Bakos says.

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CONSIDER BUYING ELSEWHERE

Destiny Financial's Margaret Lomas' key piece of advice to people buying in a hot market is "don't". She believes buyers are better off looking for undiscovered areas where a majority of the growth is yet to happen.

"When rising prices are fuelled by buyer frenzy, it's an artificial situation," she says. "When the buyer frenzy diminishes, prices will settle back down and the buyers who bought at the peak will lose value in the short term."

A market with true growth drivers will still be worth buying into after the buyer frenzy has passed, she believes.

Right Property Group's Steve Waters also suggests buyers may be better off looking elsewhere for investment opportunities.

"I would open up my horizons as to where else I could buy and get a good result," he says. "That may not be where this hot market is; I might be buying in the bottom of another area's cycle."

The hotter the market, the easier it is for buyers to get burned. Buyers need to ensure any property they buy is worth its price. ■