

MICRO-INDICATORS YOU IGNORE AT YOUR PERIL

When it comes to property investing, research is king. While big data is helpful in understanding the broader market, experts say micro-indicators are also worth your research.

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We're told property investing is all about data. That is, if you focus on the growth rates, rental yields and prices, you should be able to pick the outperforming investments.

The issue with this strategy is the numbers are based on a national, state or suburb level. They're not specific to the street or neighbourhood your property's located in, and the experts say this can be a problem.

Focusing solely on the statistics could lead to missing some of the fundamental shifts taking place on a micro level.

"So many buyers focus on the numbers that what they often fail to notice is what is right under their noses," says Cate Bakos, founder of Cate Bakos Property.

"Some of these changes can be subtle and some are obvious. The key is to know what to look for."

When deciding where to focus, there are two important factors to keep in mind: location and demographics.

"Location is a big decider of which micro-data is important," explains Jeremy Sheppard, creator of DSRdata.com.au.

"The most important micro-indicators may differ radically depending on the location."

The demographic of an area is another factor that determines which micro-indicators you should be taking into account.

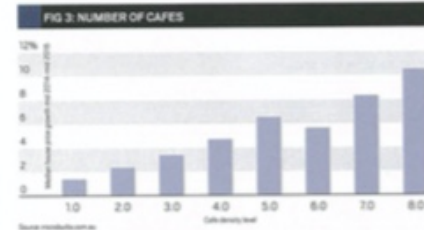
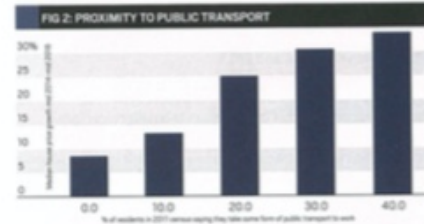
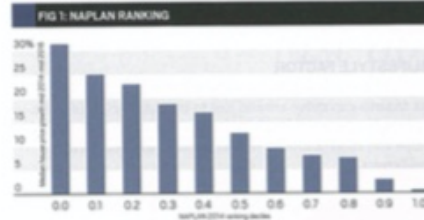
"If you're going to capitalise on the student demographic, for example, then you want properties near universities and nightlife with excellent public transport – and of course high speed internet is a must-have," he explains.

"Baby boomers, on the other hand, will be looking for suburbs within reach of grandchildren with good healthcare facilities.

"Perhaps the number and quality of walking tracks, golf courses and bowling clubs are the micro-indicators of importance for them."

In other words, the most important micro-indicators for investors are the attributes of the area that renters and buyers want but can't find. They're the on-the-ground facilities and amenities that don't usually pop out via a data-sort.

"From high-end pet stores to fancy yoga centres, popular coffee shops to cafes offering foodie items, to trendy boutiques and galleries, recognising those spend-magnets is key," Bakos says.



"Once lifestyle-money floods into an area, these types of shops quickly follow."

Early research by Microburbs.com.au reveals some interesting results showing correlation between micro-fundamentals and property growth.

■NAPLAN RANKING
According to the research site, those suburbs that have a high NAPLAN ranking outperformed those with a lower ranking.

"Demand from tenants or buyers could very well be triggered by their growing children's needs," explains Luke Metcalfe, founder of Microburbs.com.au.

"High NAPLAN score, playgrounds, proximity to school (both primary and secondary) and safety are going to be key considerations.

"NAPLAN figures are publicly available for every school and aspirational parents care a lot about it."

As Figure 1 shows, suburbs with schools that are in the top 10 per cent of the NAPLAN ranking grew 31 per cent, while suburbs in the bottom 10 per cent didn't grow at all.

THE DATA YOU MIGHT BE MISSING

Micro-indicators to include in your research

- Number of attendees at the open inspection
- How fierce the bidding is at auction rather than just the auction clearance rate
- Proximity to amenities (check out walkscore.com.au)
- Whether many properties are sold quickly off-market, without any advertising
- Absence of public housing and limited landlord-owned properties
- Uniqueness of the property compared to others in the street
- Mature trees in the properties and on the kerbs
- Low vehicle and pedestrian traffic for the street, ideally a cul-de-sac.

Tell-tale signs of an up-and-coming area

- It's difficult to get a breakfast seat on a Sunday morning at the local cafe
- There are dogs outside the cafe
- Prams are ubiquitous
- The menu features gluten-free/soy/smashed avocado.

There are a number of online resources you can use to gather information about the property on a micro level, including microburbs.com.au, ripehouse.com.au and Google Maps. This should be the online research you nail before calling local agencies and finally visiting the location.

■PROXIMITY TO PUBLIC TRANSPORT
Areas with existing public transport fared much better than those without, according to Metcalfe's analysis.

However, he says it's important that you check just how far the property is from the train station or bus stop, as this will have an impact on the desirability of your property.

■NUMBER OF CAFES
Find out how many cafes are nearby. It's not enough just to have a barista within a few kilometres, it's the concentration of them that matters, according to Metcalfe.

Areas with the most cafes within five kilometres grew the most in the past year, up by 11 per cent according to the Microburbs data. In contrast, areas with the least number of cafes barely grew at all, as shown in Figure 3.

■EDUCATIONAL LEVEL
It's got nothing to do with class, but data shows that working class areas haven't performed well in recent years.

"This shows up in professions, education, even handyman amenities like the humble backyard shed," Metcalfe says.

FIG 4: EDUCATION LEVEL

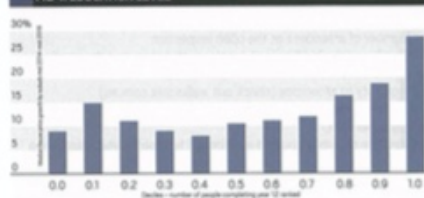
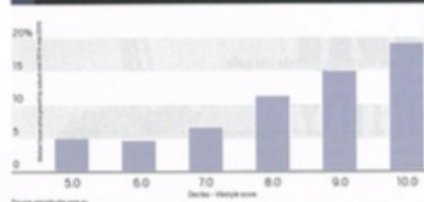


FIG 5: LIFESTYLE FACTOR



THE FLIPSIDE

The challenge of going micro

While this early research shows some correlation between micro-fundamentals and property value growth, it's important not to rely on it completely according to DSRdata.com.au's Jeremy Sheppard.

"Much analysis has been attempted along these lines, for example comparing growth of properties close to a train station," he says.

"But usually, so many assumptions were made and so much data was left out, that I'm not confident of any figures these reports have concluded.

"There are a few steep numerical barriers to get genuine evidence," he explains.

Firstly, the smaller the geographical area you cover, the smaller the sample size in your analysis.

In Sheppard's view, you're unlikely to get a sample large enough to accurately model the property value projection in your analysis.

There are also a very large number of variables to consider.

"You can't isolate a couple of stats in your study and draw a meaningful conclusion," he says.

For example, Sheppard points out that some train stations are on an infrequently traversed line.

"Others have high volume and perhaps are interchange lynchpins to other rail networks. These will be more highly prized by potential residents.

"Some properties close to train stations may have double-glazed windows to reduce noise.

"Others may have natural barriers like hills, high commercial buildings or trees.

"What if one train line accommodated freight trains in the dead of night while others didn't?

"Is the calculated distance from the train station parallel to the train line or perpendicular to it?

"The point is you can't just grab the coordinates of properties and train stations and look at some sales history and draw a reasonable conclusion. Every variable needs to be considered.

"This is why 'big data' becomes so important. Because that's exactly what it's about," Sheppard says.

"Make sure you check that at least 30 per cent of the population has completed year 12," he adds.

LIFESTYLE FACTOR

You may have already factored in transport and employment, but tenants can move around just to try out a better lifestyle.

Metcalf's research has found that you need a diversity of shops and entertainment venues in order to attract tenants and buyers.

"Lifestyle factor is a better predictor than cafes alone because it takes into account the breadth of amenities," he explains.

"Tenants will always pay a premium for convenience and lifestyle."

As Figure 5 shows, areas with excellent lifestyles performed strongly between 2014 and 2015.

HOW TO FIND THESE MICRO-INDICATORS

The best way to find this information is to interview local real estate agents and property managers and then visit the location.

"Sometimes just asking a local real estate who has been in the area for a long time gives more insight to the rate of change of the suburb than an economic data report," Bakos says.

"A good agent will be able to chat openly about the areas which are more tightly held, the age, profession and originating suburb of recent buyers, and the rate of investment in the area.

"They should be able to share what local council has in store for the area, and where the government is investing money.

"Schools, local traders, new buyers and under-bidders will all share their insights on a particular area. You just need to be prepared to ask them."

