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How to Identify Real Estate Hotspots

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In a nutshell ...

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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

Core Category #03
Urban Renewal & Government Policy

The Ugly Duckling process is a natural evolution. Core Category #03 is a planned process, with direct and major intervention from government.

There are three main ways in which government intervention can influence real estate:-

- **Through a planned process of urban renewal targeted on specific areas;**
- **Through regional plans designed to cope with growth across an entire city; and**
- **Through proactive action by energetic local councils.**

Most of our capital cities have regional plans which purport to control expected population growth for the next 10, 20 or more years.

The Queensland State Government announced the South East Queensland Regional Plan in 2005 as the blueprint for how the Gold Coast, Brisbane and the Sunshine Coast will evolve over the next two or three decades. (It's been updated more recently.)

There were many key points in that plan for property investors. One was that the Government planned to absorb some of the population growth through in-fill, allowing more medium and high-density development – i.e. more apartments and townhouses. This tended to make houses in good-sized allotments more valuable, particularly in the inner-city and middle-ring suburbs, because over time there will be relatively fewer of them.

It also planned to funnel more of the population down the Ipswich corridor, which stretches south-west from Brisbane to the satellite city of Ipswich and has evolved into one of the major growth regions of Australia. The Government has also earmarked Beaudesert Shire (now amalgamated with a neighbour to form the Scenic Rim Regional Council) as an area to absorb much of the metropolitan sprawl in the future.

The NSW State Government also has a strategy for Sydney which requires existing suburbs to absorb an extra 640,000 homes over the next 25 years. Again, this needs to occur largely through medium and high-density dwellings – and that would tend to make houses on good-sized blocks of land more valuable over time.

These has been a relaxation by many Sydney councils of what can be done with standard residential properties – for example, allowing the construction of granny flats or other dwellings on land that previously contained only one house.

The Victoria State Government recently announced its metropolitan planning strategy which gave more importance to suburban hubs such as Sunshine in the city's west.

At a more micro level, there are urban renewal programs. Most cities have urban renewal processes, which target specific suburbs for rejuvenation, either by converting industrial uses to residential or by renovating older housing stock.

Many local councils have revised their town plans to allow greater levels of infill development and higher development densities in existing suburbs.

These kinds of programs can transform areas that were formerly run-down into lively precincts.

In Perth, the Metropolitan Redevelopment Authority is having a significant impact on property markets in areas such as Armadale in the south-east.

In Brisbane, the Urban Renewal Task Force transformed rundown areas by removing industrial uses and injecting new residential, usually in riverside inner suburbs such as Teneriffe, Newstead and West End. Now the new Urban Land Development Authority is bringing big changes to Bowen Hills and Woolloongabba.

Areas with energetic local authorities can also prosper, on the back of the efforts of a proactive council to encourage and facilitate business development.

Urban Renewal areas to have price booms:

- West End, Queensland
- Armadale, Western Australia
- Sunshine area, Victoria

Locations where proactive councils have boosted markets:

- Cairns, Queensland
- Sunshine Coast, Queensland
- Blacktown, New South Wales

Core Category #04
Lifestyle Features

Three types of Lifestyle Features have an impact on the value of real estate if property has frontage/proximity to them or views of them: water, golf courses and lifestyle precincts.

Any residential property with those influences will command a price premium, compared with standard homes in the area. Of these, water commands the greatest premium.

Water has had a reputation as the ultimate millionaire-maker of property, although this is often over-stated.

Homes which front water – the ocean, canals, rivers and lakes – are usually very expensive, so the market for them is limited to a small top-end market segment.

Such markets can be volatile and are seldom market leaders on long-term price growth.

Which water is best?

Brisbane analyst Michael Matusik of Matusik Property Insights ranks water like this:

1. North-facing property on to ocean frontage or views.
2. East-facing property on to ocean frontage or views.
3. North-facing property on to canals, without restrictions to open water access.
4. The river and the rest.

For a while property watchers speculated that golf might be "the next water" – i.e. that homes fronting golf courses might match water-based property for popularity and value, creating what some referred to as Tee Change. That has not happened and is unlikely to.

Nevertheless, experience shows the market pays a premium for property in a golf course environment – the premium is not as high as water-based property, but two identical houses in a suburb will command different prices if one fronts a golf course and the other does not.

An analysis of vacant allotment sales at six key Queensland golf estates by Matusik Property Insights found that buyers were prepared to pay an average premium of 92% to live on a golf course fairway.

How big a premium golf property can achieve depends on factors such as the brand name on the golf course.

Courses designed by big names such as Greg Norman attract higher premiums (and the land sells faster) than land in a non-brand golf course estate.

Buyers will also pay premiums for homes within 500m of noted lifestyle precincts – suburban high streets or café strips.

Such properties in Brisbane have risen in value at faster rates than the Brisbane average.

"Buyers in these higher-priced locations were paying 61% more than the average in 2002," Matusik said.

"This premium lifted to 81% when compared to today's median price. When comparing the results against the inner-city median house price, we found that the premium paid to live near a high street was 10% in 2002 and 16% today."

Core Category #05
The Boom Town syndrome

The biggest recent phenomenon in regional real estate investment has been the Boom Town syndrome. This relates partly to the impact of the resources sector but more often is caused by extensive spending on new infrastructure and property development in a strong regional centre with a growing population and a diverse economy.

Boom Towns are regional locations boosted by major events such as construction of a power station, a hospital and/or new transport infrastructure (which creates new jobs and therefore demand for homes). Sometimes infrastructure spending can create new industries and broaden the economies of regional cities, making them stronger places to invest.

Other Boom Towns are places which have surged thanks to mining operations or major industrial projects.

But pure mining towns are probably the riskiest of all residential property investments – because while investors who get in early can make big capital gains, these markets exist in a bubble which can burst if demand for Australian resources drops or if the local mine closes – or accommodation demand declines once a big project is built and the workers leave town.

The Australian continent is littered with the carcasses of former mining Boom Towns – notably, right now, the coal mining towns in Central Queensland.

Moranbah has been a Boom Town. It sits in the coal-rich Bowen Basin in central Queensland and has many active mines. Until recently, Moranbah had an accommodation shortage.

Before 2013, Moranbah's median house price had grown an average 30% per year for the previous decade, reaching $750,000, while typical house rents were $1,800 per week.

But there was a stark decline in rents and prices in 2013, as vacancies rose quickly to around 10%, and this continued in 2014, 2015 and 2016.

This was caused by downsizing in the coal industry and by growing use of Fly-In-Fly-Out workforces, which has reduced demand for housing in Moranbah. By early 2017, property values and rents had dropped to a fraction of those previous peak levels, with a median house price around $150,000.

Because of this kind of volatility in mining towns, Hotspotting prefers to focus on well-rounded regional centres with diverse economies. Some may have an impact from the resources sector as well, but we regard this as bonus activity rather than the core element that gives a regional centre Boom Town status.

Townsville is a regional city that fits the Boom Town criteria. It has a wonderfully diverse economy, with strong elements of government administration, tourism, education, military and manufacturing.

There is also some impact from the resources sector: many mining sector workers live in Townsville and fly-in-fly-out, while the city has a number of major refineries which process minerals extracted out west and a significant export port. But Townsville's Boom Town status is more to do with growth in its diverse economic sectors.

Boom Town locations which have had price booms:

- Toowoomba, Queensland
- Port Lincoln, South Australia
- Sunshine Coast, Queensland
- Dubbo, New South Wales
- Wollongong, New South Wales

Core Category #06
The Stayers

While buying property influenced by the Boom Towns syndrome can be risky, buying Stayers is one of the safer options.

Many property consultants, including buyers agents and valuers, advise investors always to buy property in the tried-and-proven areas. These often are city suburbs with long-term records of steady growth in values - the ones that perform steadily year-in year-out.

According to conventional "wisdom", they're usually suburbs close to the City centre, or down by the water.

But conventional wisdom often proves to be myth. Hotspotting research shows that high-priced city markets are often volatile and can deliver inferior long-term capital growth rates.

Our definition of a Stayer is any location which maintains value through all stages of the cycle. They're as likely to be a regional centre or an outer city suburb as a "prime" inner-city enclave.

These places may not have shown the strongest growth in the last 12 months, but they will perform steadily over five or ten years.

Currently around Australia, there are towns and suburbs which sell consistent numbers of houses, month after month, quarter after quarter.

Buderim, a suburb of the Sunshine Coast, consistently sells 250 to 260 houses per quarter. Sunbury, a suburb of Melbourne, sells 180 to 190 houses quarter after quarter.

These markets fit our definition of "Stayers". If you're an investor who doesn't like to take risks, The Stayers are a good option.

Locations which sell consistent numbers of homes over time:

- Robina, Queensland
- Lakemba, New South Wales
- Cranbourne, Victoria
- Hallett Cove, South Australia
- Greenwith, South Australia
- Frankston, Victoria

Core Category #07
Education-Medical Infrastructure

Many of the leading growth areas of our major cities have a standout feature in common: they have hospital and university facilities at the centre of the precinct.

It's common for major medical and educational facilities to be located in the same area of our biggest cities. The presence of these complexes means many thousands of teachers, students, doctors, nurses and other professional staff coming into the area to work each day – and that translates into strong local demand for housing, both for purchase and for rental.

In Adelaide, a notable precinct for long-term capital growth is a cluster of suburbs near the Flinders University and Flinders medical precinct.

In Melbourne, a cluster of suburbs in the Brimbank local government area in the western suburbs has several locations with outstanding growth rates. This precinct has the Sunshine Hospital and two major campuses of Victoria University.

Other Melbourne locations with education-medical clusters include inner-city North Melbourne and the City of Casey in the south-east of the metropolitan area.

The Westmead precinct in Sydney's western suburbs has a major (and expanding) cluster of medical-education facilities.

Brisbane's leading growth areas include the Woolloongabba-Dutton Park precinct, which has several major hospitals, several private schools and bridge access to the University of Queensland on the other side of the Brisbane River.

Another Brisbane suburb, Kelvin Grove, has a major hospital and a university campus.

Significant impact from hospitals and education campuses occurs not only in our capital cities but also in many regional cities, such as Wagga Wagga, Orange, Port Macquarie, Townsville, Bendigo and Warrnambool.

Growth areas with education-medical influences:

- Westmead, New South Wales
- Brimbank City, Victoria
- Casey City, Victoria
- Kelvin Grove, Queensland
- City of Ryde, New South Wales

Core Category #08
The Ripple Effect

A real estate up-cycle tends to begin in the inner-city suburbs – and radiate out from there. A strong real estate market seldom covers all of a capital city at one time, but starts at a central point and ripples outwards over 3-4 years.

You can chart Sydney's boom from 2013 to 2016 in this way. The areas that had high price growth first were those in the inner city. A year later suburbs a little further out were the ones with the highest growth. Finally, in 2015/2016, it was the outer ring suburbs with the most activity and high price growth.

This pattern has also unfolded in Melbourne with its recent up-cycle. The biggest activity early on was in the top-end suburbs but, by 2015 and early 2016, the major market expansion was being seen in the middle and outer ring suburbs.

It often happens this way. The inner suburbs grow first. Eventually their prices become a bit rich for mainstream buyers. So they look to the next suburbs.

Those who can't afford Surry Hills (in Sydney's near-city suburbs) might look in Newtown. Those who can't afford Newtown will look a little further out in St Peters.

(The median house prices in Surry Hills, Newtown and St Peters are, in order, $1,386,000, $1,250,000 and $1,010,000)

Eventually prices rise in neighbouring suburbs, forcing buyers to go further out. And out. And out.

In this way, the price growth ripples outwards from the centre. It's like dropping a stone in a bucket of water and watching the waves ripple from the centre to the outer edges. Hence, the Ripple Effect.

This phenomenon happens on a larger scale as well. A major up-cycle started in Brisbane around 2001. But it didn't start then on the Sunshine Coast. There was a delay before the upward trend in prices radiated out to the coastal regions of the Sunshine Coast.

But while it was happening on the coast, it wasn't happening up in the hinterland, in the hills around Maleny and Montville. That didn't happen until later, in 2003 and into 2004. Maleny got a Ripple Effect from the coast, which had earlier got a Ripple Effect from the capital city.

Tasmania can attribute part of its 2003/2004 boom to the Ripple Effect – the boom had been raging on mainland Australia, including nearby Victoria, for two years before it rippled across Bass Strait to Tasmania. A similar syndrome appeared to be emerging late in 2016 and early in 2017

More recently, regional centres close to Sydney caught the wave from the property boom in the capital city. Locations such as Gosford, Wollongong and the Southern Highlands experienced strong price growth in 2014-2015.

As investors you can make money out of this syndrome. If a suburb or region is experiencing strong price growth, look to the suburbs or regions nearby. If they have not yet experienced that same kind of price growth, there's a good chance they will soon (assuming that there are no detrimental features suppressing values there).

So buy there now, before the boom starts.

Core Category #09
Sea Change/Hill Change

Everyone knows about Sea Change. It's been one of the biggest movements impacting on Australia over the past 20-30 years.

You can be forgiven for thinking it's not a big factor anymore because it's not being written or talked about much these days. But it remains an influence on the creation of real estate Hotspots.

Australians are more drawn to the beach than any other people on the planet. That's the view of Bernard Salt, the country's best-known expert on demographics. Salt tells us that 84% of the Australian population lives within 50km of the ocean. In a typical year, tens of thousands of Australians move to a location on the coast outside a capital city.

Being a Sea Change location in itself doesn't necessarily create a hotspot – because there are so many of them. Some of the most iconic Sea Change locations have been under-achievers on capital growth for significant periods during the past 10 years – including the Gold Coast, Noosa and Byron Bay.

There need to be other factors in play. A powerful combination to look for is Sea Change and Transport Infrastructure. A coastal location made more accessible from a major population centre by a new motorway or rail connection has the potential to become a compelling hotspot.

In 2014 and 2015, we saw the emergence of Sea Change locations which were previously poor performers on capital growth. The key factor was a marked increase in spending on infrastructure, such as hospitals, universities, airports, seaports and roads. Examples include Cairns, the Sunshine Coast and Port Macquarie.

One great unknown for Sea Change property is the impact of climate change. If the most serious predictions about rising sea levels and increasingly severe weather events are correct, valuable seaside real estate will be adversely affected. It's impossible at this stage to predict the level of impact, given the uncertainty about the physical consequences of global warming. But it's worth noting that there have been significant erosion events impacting seaside homes in Byron Bay, the Gold Coast and elsewhere.

After Sea Change came Hill Change - also known as Green Change and Tree Change.

Many Hill Changers have made the decision to get out of the city and have a more relaxed lifestyle. Given a choice between the beach and the hills, some have opted for a rural setting ....

- Cheaper.
- Quieter.
- Less congested.
- Less invaded by tourists.
- No high-rise.
- Easier to find "community".
- Easier to find affordable homes with privacy and space.

These are all reasons why Hill Change happened. It gathered pace after the property boom took hold in the early part of this Century, once capital city and Sea Change locations started to become expensive. People wanted cheaper alternatives in an appealing environment and started to look in the hinterland areas.

Maleny north-west of Brisbane is a classic Hill Change location. It's an historic village in an attractive green hills environment. It's an hour from the City. It's 30 minutes from the beach. And it's cheaper than the city and the seaside.

The best Hill Change locations are within 1-2 hours of a major city, have character homes and appealing streetscapes, and sit in attractive natural environments.

Many have claimed that Hill Change is not as powerful a force as Sea Change, and that Hill Change locations don't have capital growth as strong as Sea Change.

But there has been good growth in the hills - in places like the Blue Mountains west of Sydney, the Southern Highlands south of Sydney, the Victoria Goldfields which include Ballarat and Bendigo, and the Adelaide Hills.

In 2015 and 2016 there was an upturn in the towns of the Macedon Ranges LGA north of Melbourne, including Kyneton, Woodend and Gisborne.

The Adelaide Hills, a classic Tree Change environment, had another factor working in its favour. With the opening of the Heysen Tunnels which greatly improved road links to central Adelaide, it also enjoyed the benefits of new Transport Infrastructure.

Both Hill Change and Sea Change locations are likely to grow in popularity as the Australian population ages – particularly those with good amenities such as medical facilities.

Sea Change and Hill Change locations which have had price booms:

- Cairns, Queensland
- Sunshine Coast, Queensland
- Adelaide Hills, South Australia
- Tweed Shire, New South Wales
- Port Macquarie, New South Wales
- Sthrn Highlands New South Wales
- Mandurah, Western Australia
- Macedon Ranges, Victoria

Core Category #10
Jobs Nodes

Among many reasons why affordable areas often record strong capital growth rates is their proximity to employment nodes.

Factories, industrial estates, logistics centres, regional shopping centres, seaports, airports, office parks, hospitals, universities, theme parks and many other centres of major employment reside in the suburbs, often a long way from a city's CBD.

Proximity to work is a major influence on the choices of home-buyers and tenants. A recent study by Westpac found that this was the single biggest locational factor in the choice of properties by home-buyers.

Hotspotting research indicates that this factor is part of a "holy trinity" that is one of real estate's power combinations: affordability, transport infrastructure and jobs nodes.

Increasingly the location of employment nodes is influenced by the development of road infrastructure. Motorway upgrades have generated a shift in emphasis for industrial estates and logistics businesses – examples include the relocation of many big operations with major warehousing needs to the north of Melbourne (around the Metropolitan Ring Road and the Hume Highway) and to the west of Sydney (near the intersection of the M4 and the M7 around Eastern Creek).

A 2016 study found that the location in the Melbourne metro area with the highest level of "stickability" (i.e. residents who moved there stayed long-term) was the Epping precinct in the far north. This is an area of major employment nodes, as well as very good (and improving) infrastructure, including road networks and expanding rail links to central Melbourne.

The emergence of Blacktown as a centre of economic and real estate growth has been influenced by the presence of education and medical facilities (always big job nodes) and proximity to the M4/M7 intersection. And in 2015, the Blacktown LGA was the No.1 growth area in Sydney in terms of land values, according to the NSW Valuer-General.

The Blacktown LGA is part of the strongly-emerging Western Sydney economy, which will be greatly strengthened with the construction of the Badgerys Creek airport, associated infrastructure and surrounding industrial precincts.

Growth markets influenced by proximity to jobs nodes:

- Dandenong, Victoria
- Northern suburbs of Brisbane, Qld
- City of Casey, Victoria
- Blacktown, New South Wales
- Epping precinct, Victoria
- Rockingham City, Western Australia

How to use this knowledge

The key to finding locations with the best chance of value growth, the ones that will out-perform the general market, is to look for places with multiple Core Categories working for them. The more of these Core Categories you can identify in a given location, the better its chance of becoming an enduring hotspot.

To demonstrate the principle, here are some case studies from around Australia ...

Scenario #1: Geelong, regional Victoria

- Core Category 1: Ugly Ducklings
- Core Category 2: Transport Infrastructure
- Core Category 3: The Stayers
- Core Category 4: Government Policy

One feature about Geelong that stands out is the long-term capital growth performance. Most suburbs in the City of Greater Geelong have solid growth rates. It has shown itself to be one of *The Stayers* of Victorian real estate.

Geelong has been nominated as a region for population and economic growth by successive State Governments, which have been keen to redirect resources to ease the growth pressures on Melbourne.

Geelong benefits from new *Transport Infrastructure*, including the Geelong Ring Road and the $5 billion Regional Rail Link which was recently completed.

Geelong has long been in Melbourne's shadow and regarded by many as a downmarket area with economic problems, but work by civic and business leaders has cast that image into history and Geelong shapes as an affordable location with a strong future.

In 2014, Geelong had a series of bad news announcements, including the closure of major manufacturing businesses. But Geelong is now a city with considerable diversity and strength to its economy, including educational, medical and information technology services. The number of jobs being created by new ventures far outweigh those lost in closures such as the Ford car plant.

The decision of located the Australian headquarters of the National Disability Insurance Scheme in Geelong is an example of the emerging new economy in this vibrant regional city.

Scenario #2: Blacktown, western suburbs, Sydney

- Core Category 1: Jobs Nodes
- Core Category 2: Transport Infrastructure
- Core Category 3: Government Policy
- Core Category 4: Ugly Ducklings
- Core Category 5: Education-Medical

The emergence of the Western Sydney economy as a major player in the economic life of NSW has led to major price growth in the suburbs of Blacktown City in recent years.

Upgrades to rail and motorway links (*Transport Infrastructure*) have been a key influence and have helped to create significant *Jobs Nodes*, such as those around Eastern Creek where two major motorways intersect.

The City of Blacktown also has major *Education-Medical Infrastructure* in the mix, including $1.6 billion in upgrades to hospitals in the area.

The decision (*Government Policy*) to build a second Sydney airport at Badgerys Creek will further enhance the economic importance of the City of Blacktown, as it will create tens of thousands of jobs and facilitate new spending on road and rail infrastructure.

Part of the impact of the airport is the attraction of businesses with a desire to be close to the facility, which will result in the development of major industrial estates nearby (*Jobs Nodes*).

Scenario #3:
Redcliffe, bayside, Brisbane

- Core Category 1: Lifestyle Features
- Core Category 2: Transport Infrastructure
- Core Category 3: Ugly Ducklings

The Redcliffe Peninsula, traditionally regarded as a downmarket area, has undergone a renaissance (*Ugly Ducklings process*) through apartment development and upgrades to its foreshore areas.

But it remains an area that offers affordable bayside living (*Lifestyle Features*). Most suburbs have median house prices in the $300,000s or $400,000s, with apartments in the $300,000s.

But the key prospect for this area is the extension of train services (*Transport Infrastructure*) via the $1.2 billion Moreton Bay Rail Link, which was completed late in 2016. The new rail service, promised by politicians for more than 50 years, is a game-changer for the Redcliffe Peninsula and suburbs with train stations such as Kippa-Ring.

Scenario #4:
Dubbo, regional New South Wales

- Core Category 1: Boom Towns
- Core Category 2: Hill Change
- Core Category 3: Education-Medical
- Core Category 4: Transport Infrastructure

Dubbo is a strong and growing regional centre, which draws in population (including retirees) from the surrounding Orana region because of the range of facilities it offers (*Hill Change*). It is a major crossroads location for NSW, sitting at the intersection of three major highways, with strong rail and air transport links as well (*Transport Infrastructure*).

Its diverse economy, which includes tourism generated by the Western Plains Zoo and an important agricultural sector, is being boosted by the evolution of major resources projects in the region (*Boom Towns*).

Dubbo also benefits from expanding infrastructure, including hospital and university facilities (*Education-Medical Infrastructure*).

Scenario #5:
Frankston, bayside, Melbourne

- Core Category 1: Lifestyle Features
- Core Category 2: Transport Infrastructure
- Core Category 3: Government Policy
- Core Category 4: Ugly Ducklings

Frankston, a suburb in Melbourne's south, has four Core Categories working for it. It's on the bay, with good foreshore facilities, so it has *Lifestyle Features*. The EastLink motorway starts there, the $2 billion Peninsula Link is now completed and there are rail links to central Melbourne, so *Transport Infrastructure* is a significant influence.

Government has spent a lot of money rejuvenating its foreshore, so it has *Urban Renewal/Government Policy* working for it. A new marina is planned for Frankston (although has been stalled for a number of years).

Frankston's median price early in 2017 was $450,000 (and about $320,000 in Frankston North) and has strong growth prospects, so it qualifies as an *Ugly Duckling* (affordable areas with the potential to grow). Given that its median price has grown for most of the past decade, Frankston is also one of *The Stayers.*

Finding information easily

It's one thing to have a theory to help you identify coming Hotspots. It's another to make it work. To make it work for you, be informed about the events that matter.

There's little point in knowing that a major new freeway can create real estate hotspots if you aren't aware that a major new road or rail link is planned in, say, Adelaide. If you live in NSW or WA, how will you know that a $1.2 billion rail link recently started services to Brisbane's Redcliffe Peninsula?

Investors need to become readers, listeners and surfers. They need to read information services, listen to news radio and tap into the vast resources offered by the Internet.

But busy people can't spend half of every day on the computer or plowing through piles of documents.

So here's what you can do.

Periodically you can visit onlinenewspapers.com where you can find the website of every major newspaper in the country, and many minor newspapers as well.

There isn't time to look at all of them – there are hundreds – but investors might examine the newspaper websites covering the eight capital cities and/or some of the key regional centres. If a new freeway has been announced by government, there will be an article on it. If a new rail line is planned, or a major new mine is proposed, or there is movement of significance in a local economy, chances are it'll be covered by the local newspaper.

You can also use Google Alerts, which provides a daily service of information based on the keyword phrases the researcher has requested. You might seek reports on a range of topics, including "transport infrastructure", "interest rates", "housing affordability" and "hospital developments".

There are many websites with background information about towns, suburbs and regions. If you're interested in investing in a particular location, key in the place name in Google and it'll bring up a smorgasbord of websites with all sorts of information on an area.

Google Maps can provide an easy snapshot of the amenities available in a target area.

As a property investor, you want to know about population data, business activity, the local tourism industry and major industrial projects happening in the area (because these provide employment and a source of tenants for investment properties). Often the website of the local council has good information of this kind, as does the web source profile.id.com.au.

The sqmresearch.com.au website has useful information on locations around Australia, including vacancy rates and demographic information, provided free of charge. Another good free source of information on demographics, as well as price data, is the domain.com.au website.

Another information source that's primarily free is provided by the various state Real Estate Institutes. Some of these have useful information about prices and other data relevant to real estate. But you should treat some of the market commentary from the real estate institutes with caution, as they have a vested interest in talking up the market. Some of them publish bullish (sometimes misleading) information about auction clearance rates and price growth to create the image of a strong market.

If I'm looking for examples of properties for sale in an area, it's hard to go past domain.com.au and realestate.com.au.

There's a lot more an investor can do to be informed. But those are some of the research possibilities.

Conclusion

That, then, is the Hotspotting process.

Once you understand how Hotspots are created, you can look for towns, suburbs or regions that have some of the qualities described by the Core Categories.

Then you can use the vast information resources available on the Internet to inform yourself about a targeted area.

After that, it's just a matter of finding the right individual property. But that's another story.