Hotspots
with Todd Polke

Property investors are often searching for the next boomtown or 'hotspot', but sometimes if you've heard about it, you may already be too late

You must remember that finding a hotspot involves the same due diligence as finding a good solid long-term investment – the same fundamental factors apply.

The main difference between a 'hotspot' and a regular long-term investment property is 'when' you purchase. The property cycle will dictate if you're going to make the short-term gains that a hotspot promises.

Unfortunately, most people tend to get in when the boom is beginning to tip over the edge. This usually happens due to a couple of fundamental reasons: outdated information and emotion.

Firstly, consider where you're getting your market information from. If you hear about a hotspot through the mainstream media, you have probably already missed the boat and the real profits. When we hear about a hotspot this way, emotions can take over and a fear of missing out can creep up.

↗ Todd's hint
Attend open for inspections and see how many people are there

Emotions and investing simply don't mix well together and will often end up costing you money and causing heartache.

So how do you know when a hotspot is about to become a 'not-spot'?

You need to understand that property markets are driven by emotion. Investors need to make sure they stick to the numbers and keep an eye on the emotional state of other buyers.

Remember Warren Buffet's famous saying: "When others show fear, I show courage; when others show courage, I show fear". Spotting the peak of a hotspot means assessing the emotional state of the marketplace and being ready to show that fear. Use these three key points to find if you have missed the hotspot or not.

- **Walk the beat:** Attend open for inspections and see how many people are there. Are there 20 people lining up to see one property? Do you have to take a ticket to get in line and get in the door? This lets you know that there is a white heat in the market and you might be about to get burned.
- **How quickly is property being sold?** Look at Blacktown in Sydney as an example. It was a key hotspot a few years back and many say it still is. Investors are now paying a premium to get into that market. Property is coming onto the market and is gone again the next day, selling for $20,000 to $50,000 over and above the asking price, and auction clearance rates are hitting upwards of 80 per cent. This is craziness! Craziness and investing don't go to together.
- **The 20-crane rule:** Once a market starts moving it often attracts developers. Developments tend to go crazy as the market gets hotter and more developers move in to build, build and build. When you start to see this level of development, alarm bells should ring. This development can often lead to an oversupply of property and a subsequent depression in property prices. This is exactly what occurred in Melbourne in 2011 when that market peaked. If there are 20 cranes in the skyline, there is obviously a lot of development occurring and supply levels will start to stack up – so be wary. For regional areas, these signs are going to be different. Always check the level of supply coming onto the market and whether the population growth is strong enough to suck it up.

Keep a look out for these signs in the market and remember that emotions can cost us money. Being able to assess the emotions of others and the markets means you can try and time your purchasing and selling cycles to make the maximum profit.

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