Your Property Success Podcast Transcript

Episode 03: How to Uncover Up-and-Coming Suburbs with John Edwards

Narrator: Did you know with just two investment properties and one single renovation that you could put over a million dollars in the bank? It's true. And why stop there? Welcome to Your Property Success Podcast, the show that explores the practical steps to making your property investment dreams a reality. And now here's your host, a lady who's more at home in steel-capped boots than high heels, Jane Slack-Smith.

Jane: That is so true. I can tell you after 18 years wearing steel-capped boots, and boots around the farm prior to that.

John: In one or two renovations...

Jane: In one or two renovations with the steel-capped boots, safety first as always. I much prefer flat shoes and steel-capped boots than high heels any day of the week.

John: Fair enough.

Jane: John, here we are for episode 3 of Your Property Success Podcast and who do we have lined up today?

John: Well, a man who's been around the Australian property market for a long, long time and someone who is the holder of some very valuable information that we as investors would love to get our hands on.

Jane: Yes, John Edward's the founder of Residex. John, I think we could say the unrivaled king of Australian suburb predictions.

John: Yeah. I can't think of anybody who's been doing it as long as he has and putting his reputation on the line month in, month out. I think for over 25 years he's been making the big calls on the next up-and-coming suburbs. He's well and truly around when you started.

Jane: Yeah. I bought reports in 2001 when we were purchasing our very first property. In actual fact, the property report that I purchased at that time, the CMA report, I used that as a bargaining tool. So once the auctioneer said, "We're passing it in the highest bidder. Come on inside." I went in armed with my Residex report, and I went in armed with a pest and building report. I showed them the comparables and said, "This is what our highest bid is based on and look at all the work we have to do according to the pest and building report." I've used it as a bargaining tool. So absolutely, I've been using them for years and purchasing them for years myself.

John: They've produced some amazing tools and analysis for investors over the years.

Jane: And the great thing is that John always shares such practical tips that we can all use. So you're in for a real treat today. Have your pen and paper ready for today's guest on Your Property Success Podcast, John Edwards.

To start off with, for those who don't know you and haven't had the benefit of seeing you speak over the last 10 years as I have, can you tell us about where you've come from and how Residex came about and why you did that?

John E.: Where did it all start? I'm basically interested in mathematics and economics, and things like that. A long time ago I was in-charge of the National Australia Bank’s design of financial products for large multimillion-dollar projects. I didn't really get involved in a project and designing, it's financing, unless it was worth probably somewhere in excess of 80 to 300, 400, 500 million.

And in my day I actually did design and put down financing for large scale transactions, for railways and others, in the 600 million-dollar mark. In all of that process, I got involved in actually working out how to go about financing a very large portfolio of public housing for the New South Wales government. Nobody had actually in any way got an institution to invest on a capital risk basis in public housing, and so I designed an insurance policy which allowed us to do that and we put down quite a few hundred million dollars’ worth of public housing finance.

In that process, I realised that nobody really knew anything about housing. Back in these days, there were no indices of any great note. The real estate institutes pulled out growth numbers but they were based on median numbers and nobody really believed them.

So we then set about. I went to the bank and asked the bank whether they'd be prepared to help me design an index. They didn't have a lot of interest in it. I also had designed a new method of mortgage which I wanted to get implemented. The worry with that was that it would impact negatively on their existing lending products.

Jane: So you kind of had to know more about the housing market and there were no tools to do it if you were going to develop a mortgage product, I guess.

John E.: That's right. And you were going to get institutional investors to invest in it. So out of that came some frustration that the bank wouldn't help me to actually do something about it, so I left and established Residex. And the rest his history.

Jane: What year was that?

John E.: That was in the beginning of 1990.

Jane: And that was with, I guess, a bit of a hope and a dream of being able to pull all this information together and gather it. Did you have some plans on where the information is going to come and what you're going to provide?

John E.: Yeah. The real aim, which I never achieved, was to actually implement a mortgage product which is badly needed even today to make sure that housing was affordable for people, and in particular children, our children and the future generations.

That product is still possible to be implemented. It was just, number one, I didn't have the resources to do it. I'd certainly developed all the techniques and the technology. I think the other thing was that I ultimately concluded that it was very hard to convince a population to change the way of doing things. I just basically didn't have the resources to do that. It was a major, major exercise in both advertising and teaching. In any case I had developed the tools, and by this stage everybody else wanted the tools for other things, and so got involved in providing the tools instead of doing what I originally set out to do.

Jane: I know that even when I started looking at properties and trying to understand, for me being an engineer, the research and the numbers were so important. And if you think about property investing, this is probably the Holy Grail kind of question most people ponder on. But the reality is you've had your fingers on the numbers for this for many, many years. We all know it's kind of a difficult thing to do, but I'd love to hear I guess some of the success that Residex has had for predicting what's going up in the future.

John E.: I think probably the best answer to that is to look at the people who have actually used our predictions and made investments. We're often getting emails from people who are very happy and have made many millions of dollars. When I started all of this investing in real estate—and you got to remember this was 25-30 years ago—investing in real estate was really just starting.

Jane: I remember, it would've been about 10 years ago, you were talking about some of the successes and I think you had just put out the Best Rent Report or the predictions report and you're saying that there was one lady in particular who waited for that report and pretty much went and bought somewhere within a couple of weeks of the top two or three places that you predicted, and she was constantly sending you emails saying thank you very much.

John E.: Yeah. In a way, let's be really sort of up and down and sort of transparent about it all. In those early days, it really wasn't so hard because the market was doing so well and it was hard for people to make a mistake. Today it's much easier for people to make a mistake, and research is much more necessary.

Jane: Absolutely. If you could, summarise what you've seen, I guess, over the last 25 years, the characteristics that those suburbs have had.

John E.: There are many people who make predictions about what are going to happen in the market. I think what you'll find even today, and it was definitely the case when we originally started, is that those predictions are really made on subjective analysis they just made on people guessing what they think will actually happen.

It's pretty hard to do that and come up with any concrete answers because there are... no, let's be fair. I think probably at least 6,000 suburbs in Australia which you potentially could invest in. The human mind is not going to get around all of the subjective information to allow you to assist those logically and come up with a conclusion about which group are best and which group aren't best.

What we saw today was to come up with a mathematical process of getting a short list together. Having a shortlist together—and this is where the best rent came from—we then went about a process of actually making sure that subjectively when they were analysed, they aligned with what the statistic said.

If you get the two aligning like that, the chance of you actually making a mistake and investing in the wrong place is very, very remote. You've got a 99% plus probability that you'll actually be investing in doing something sensible.

Jane: John, you know what I want to do? I want to jump in to a lot of detail. I guess to start off, for many first-time investors, they don't get over the initial hurdle of really having that well-performing first property and, I guess, laying the foundations for repeating the success. I was looking at some stats the other day and it was saying that less than 2% of Australian property investors own more than one investment property, which amazes me that that that's the kind of stats. I guess if we kind of turn this around, where do you see most people go wrong when they're starting out?

John E.: There are so many things that people do that aren't right. I can only, in a way, look back at my own experience and the way in which I got started, and that is, I think that what you need to do is that when you first start out, there's no real replacement other than for personal exertion, because that personal exertion can deliver you much more than anything else that you do. And then the other thing is making sure that you've actually bought yourself a bargain in the first place.

I think probably the biggest mistake many investors make is that the concentrate too heavily on tax, and they go out and buy a brand new unit found in a brand new big block of units. Inevitably they're going to get burned, and in getting burned, then they stay away from doing the things that they want to do.

My philosophy has always been don't think about tax, think about tax last. If the investment works without tax, then it's going to always work with tax. What happens is that when people are buying those sorts of properties, they're being influenced by, we call it, the ambiance, the newness, and the all the rest of the new property. They're not really thinking about the area that they're buying into at all. They are thinking about this beautiful new property that they're about to buy and how wonderful it would be to live in.

That's not what we should be thinking about at all. We should be thinking about what the future returns are from that particular property that we're going to invest. We really shouldn't be thinking about whether we like it or whether we don't like it or not. It's “Will somebody who has got not a lot of money and needs to rent like it? Will they really come there and pay me an increasing rent, and will it grow in value?”

Many of these people probably didn't get involved in buying that property other than by seeing an advertisement somewhere, or having somebody call them up and say, "Look, we've got this block of apartments that you can get into, and you can do this and it'll only cost you this per week,” and whatever else. They didn't strategically sit down and say, "I really want to go and invest in property." It sort of came about by mistake. So there wasn't the research and everything else that should've been done so that they know where they wanted to be and what they wanted to do in the future.

Jane: Yeah, really good point. John, you've obviously had an amazing career. The company you founded, I think, is regarded as the premier source of property market research in Australia and you've gone on to consult, what we just talked about, some of the work you've been doing with the federal and state governments off there earlier on housing policies, etc. For you, does John Edwards invest in property?

John E.: I don't really talk so much about my assets, but let's be transparent enough to say that I do have a large portfolio and it's worth an awful lot of money.

Jane: It's funny you should say that because we've had chats in the past and I know that you're a bit of a hands-on DIY renovator yourself. You're not scared to picking up a tool and getting on the tools when it's needed. But I was just chatting to Jan Somers earlier and I was saying, my gosh, she's been an icon in the property industry for so long. And I was saying that I was about to have a chat to you and she said, "I think John and I have probably been there for as long as anyone that's been talking and educating about property," but she's off on the tools doing her own renovations these days as well. So it shows that the people who have been doing it for so long are still hands-on.

John E.: Yeah. At the end of it all, the greatest investment that you'll make in property is actually the one which you buy that nobody else is prepared to buy. But you can see beyond where it is at the point that you're buying it, and you've done enough research to know that when you do X, Y, Z to it, you'll make an awful lot of money out of it.

Jane: You started Residex, as you said, back in 1990 when you saw a need in the market for property information. I'm really interested about what you first worked on when you did this and what you were trying to achieve. How hard was it in the early days to pull that information together?

John E.: It's exceptionally difficult because you can't do anything statistical without a very large database, and these databases cost an awful lot of money. They cost millions of dollars and we were a very small organisation, so it was a process of getting the data.

One of the reasons why most people, and even today, and even the major competitor of Residex doesn't really do this and can't do it, is because you've got to have databases that cover very long periods of time so that you can gather enough statistical incidences of things happening to allow you to do sensible predictions to reduce that 6,000 to 10,000 suburbs down to a few hundred. To do that, you've got to have data that goes back, in essence, a hundred odd years. So Residex collected data that went back to 1865. It didn't get every sale that's been done but it picked up enough sales going back that far to make sure that in fact we could see how the market behave when certain events had occurred. It was tough going to pick up the data and then work out mathematical algorithms that actually took account of what the population does.

Jane: When did you first get the feeling that, "Gosh, I'm predicting something here and it's happened"? When did you have that first kind of "Jeez, it worked"?

John E.: It wasn't really. Well, we knew what level of probability we were going to be correct in any case, because we can statistically run historical data against what we were doing and all the rest of it. So we only released when we were confident that in fact what we were doing is improving the position for people. We had to make sure that it was better than throwing a data at the wall, and once we knew that it was better than throwing a data at the wall, well then we became happy.

Then you had to think about what else have you got to do, having done the statistical analysis. And so that's when you get into the production of, say, the best rent return and the things that everybody who uses those statistical predictions ought to be doing. That is actually then taking that list because it's been now shortlisted (you got a list that you can actually cope with) and now doing the things that ordinary people will do, and that is subjective analysis and research and finding out whether in fact there is something there that the statistical model is saying that will actually drive this particular area to do well.

Jane: I guess if we do pick up on that, statistically you're modeling it and it's all about the numbers, but when you look back subjectively somewhat, what are the other things that you're seeing that are driving growth?

John E.: It's about everything that we all know about, basically. It's about its location, the economic performance in the area which a particular suburb is in, what's going on there, the statistics, the prediction. Basically if an area is starting to do well, that starts to show out in the numbers. And you inevitably will find that... how can I give you an example?

Let's go get a brand new suburb. What you find is that when the land area is taken up and the houses have all been developed, it's a brand new suburb, it's nice, everybody wants to live there so there is good growth. The fact that there's good growth picking up and you've suddenly got a fairly big increase in prices. The prices, number one, tell you that we've now got houses there, and the big growth to tell you that in fact all of the land is being used up. So that's flowing into your models, and really your models will be predicting what subjectively you're seeing.

Jane: Okay. When you're putting out the best rent reports or the predictive properties under 500,000, all of that information is already going in there because there's being some indication that there's been a change.

John E.: Implicitly, yes, because the tests that are going on to actually produce the list have got all of the sales and everything else that's there, and so you can see that the growth is there. You can see that it's performing, or it's not performing, or it's beginning to perform, or it's not beginning to perform.

So the factors that we were talking about a minute ago are actually implicit in the numbers already that they're there, and so as a human being what we now need to do is to just go and find out whether in fact those numbers are telling us what's really the position by asking questions and reading. It's when we actually confirm that that we can be very confident that it's going to be there.

So how does a best rent group report gets done? It gets done by running out all of the stats, reducing that down to about 100 suburbs. Having reduced it down to about 100 suburbs then people in the office getting on the telephone and ringing up and marketing rules as to what not to include—because not everybody in the call centre is as astute as somebody else—telling them when they should delete the suburb and when they should keep it. So we might start with 200 suburbs in the list but only 100 of them or 75 of them actually get into the report.

Jane: What kind of questions are the people asking when they're ringing up, I guess someone locally, to find out information?

John E.: Well, we can't read the newspapers everywhere so we have to rely on real estate agents, valuers, bankers, and other people to tell us what's going on. They'll get on the telephone and they'll probably start by ringing the real estate agent and telling them that they saw XYZ property for sale. “What's the rental yield on that property? How long is it going to take to rent? What's going on in the market?” They won't tell them probably straight up that they’re researching to start with, but the real estate agent somewhere along the line is going to ask them, “Are you really interested in this property?” And obviously they're going to tell them, "We're researching it for this report.” “Do you want the name and the report and all the rest of it?” And then they're quite happy to tell us. I mean, you can't do it with just one real estate agent; you've actually got to do it with a number. And from talking to a number of them, you'll actually get a clear picture of what's going on.

The philosophy behind all of this in our stats is that a population's reactions to things doesn't change really from one generation to the next. What you will see the population do today when house prices get to a certain level or don't get to a certain level will be the same as what they did in the past. It might be slightly modified, but not so modified that you can't use it.

Jane: So we have seen what's happening in today's market before, is what you're saying?

John E.: Absolutely, no doubt about that at all. It might have been unaffordable for a different reason, and I think you'll find it was. If we get back into the 1950's, around about 1951, there was an enormous housing boom. It was actually the largest housing boom that in growth terms it's kind of being recorded. As we got into that, we got into it because housing was basically dramatically unaffordable, and it was unaffordable because of the policies of the government that came out of the 1930's depression. And so there was no lending. So it wasn't an income that caused the unaffordability of housing; it was the fact that you couldn't borrow money if you were an ordinary person to actually buy a house. So it was unaffordable in that you couldn't get the dollars together. People can't get the dollars together today more of the reason that they can't afford to make that loan repayments.

So there are different things that bring about inaffordability or a market's reaction, but we see these events in the past.

Jane: Just out of interest, what happened at the end of the 1950's?

John E.: You might remember—this isn't a great thing for me to tell you all—but we moved into the 1960's recession.

Jane: I don't remember that far actually. My history is not that good. [Laughs]

So we went into the recession. So basically what you're saying is the market came off a bit and slowed down, and we went into a recession based on that 10 years of great growth.

John E.: It might have been not only that. There are a whole lot of other things that actually went on at the time too. But the bottom line is that when you get exorbitant amount of growth, ultimately you will get some form of price slowing or some sort of form of price adjustment, and it's necessary. Because every market that you can put your finger on, when it actually booms, it usually overdoes it because the population isn't constantly being well enough educated.

That's a lesson to all of us who are investors, and that is to keep ourselves well-informed. We're coming back to the newspapers again. Keep yourself well-informed enough so that you actually know when a market is getting to the top, and when it's a market where you ought to exercise extreme care.

Jane: Because I think you and I have had this chat before about at the moment Australia, a lot of the capital cities, are having some great growth. And you're saying in the future you see some of the growth coming up, but the rental yield taking over is being more of a factor.

John E.: That's right. That historically happened too, if we go back in the past. I mean, we had periods in the 1920's where rental yields were as high as 20%. We had no growth because people don't get any money to invest in housing or buy a housing, but the only thing they could do is rent. A totally different reason to where we are today, but rents went through the roof.

And if we look at where we are today in house prices, say, in Sydney—which is sort of what everybody is talking about, that Sydney house price growth—the growth rate's not very high. I mean, 17% is what we call a boom. But some analysis that I've done shows you that in fact the dollar increase in housing in real dollar terms, that's looking at the dollars that have been spent today and comparing them to the dollars that were spent yesterday and adjusting them for inflation, what we find is that the boom that we've seen in the last 12 months in Sydney is actually higher than the 1989 boom by about $50,000 in real dollar growth.

So we have to suggest that it's more likely than not, when this little period of booming is over, there will be some slowing in the market, and that ultimately brings about a slowing in the provision of stock. When that stock is no longer being provided, then rent yields take off. And so you get this circle.

In both cases, it's because the population isn't actually looking hard enough at where the market is in a point in time. So the developers overdevelop, and the public (as we get to the top of the boom), they keep on investing when they should've stopped. So there's some negative vibes in all of that. But in all of that, what one's got to remember is that if you research and you're doing the right thing in a market and your expectations are set properly, and as a result you actually buy sensibly and you renovate sensibly, no matter what the market conditions are, you will actually make money. Because in every housing cycle, no matter where you are in it, there are always areas that are actually doing well.

Jane: Let's bring back the information, on-the-ground kind of results. What everyone's looking for is the next big area that's going to move. Can you take us through the ripple effect and how we can possibly identify that that's occurring?

John E.: I think that there's a misunderstanding of the ripple effects generally in the marketplace. And most people think of that ripple effect that it is sort of branching out from the centre of the capital city, and the sooner you get out to the extremes to the edge of the city, the lower the values and the lower the rates of growth, and the delay in growth. What we're saying is that if you've got really high rates of growth in the centre of the city, then those really high growth rates ultimately will occur on the outskirts of the city.

There's a rational argument for that. The rational argument is that the wealthy live in the inner city areas, the really wealthy do, and then the ordinary person lives a little bit further out, and then the working class people live where they can afford which is out on the outer areas of the capital city. If you're really wealthy, you're probably an executive in the city, so you've probably got a better knowledge of what's going on than the people who are the working class. The working class therefore probably have the tendency to follow, not to actually lead.

That's why you get this sort of ripple down effect. I started off by saying it's probably not terribly understood, and it's probably even misinterpreted to some extent. The reason I say that is that in every capital city there are many, many, many centres for a ripple effect. So if you go to the other suburbs, into my so-called working class areas, the very centre of that area will have people who have spent more money on the house than the people who would've spent money on the outer areas of it. What we've got is a series of ripple effects that occur on a city, and they are around your central nodes of transport, or your central nodes of activity. And the same thing happens in price and growth.

Jane: So there's kind of like a number of ripple effects working. You've got the inner city pushing out to the greater ripple effect, and then we have the smaller nodes. And I know we talk about Sydney, Parramatta being, in effect, a significant transport and employment node as well, and you start looking out from there. So you've got a number of ripple effects going on is what you're saying.

John E.: That's right.

Jane: How much does the gentrification of an area actually play a role in suburbs going up in value then?

John E.: A very large role, and one of the really ideal things to do. A little while ago you asked me about if I could put my finger on an area that we tried to identify that's going to do really well and nobody was saying, "You need to think about it." I can remember a number of years ago telling everybody to invest in Redfern in Sydney, and everybody thought I was crazy. But it's quite clear that I'm probably not as crazy as everybody thought.

Jane: I think I might have been one of those people, John. But I took a bit of advice and bought in Darlington right on the border. For about 4 years I sat there going, "Nothing has happened," and last year I think it went up by 25%. I'm like, "There you go." Because it's time in the market, isn't it?

John E.: And that's about the gentrification that's going on in the area. I've done a similar thing with that block of apartments that we were talking about earlier. I identified the fact that Marrickville had to be an area that had to go through serious gentrification, so I got into Marrickville, and it's quite clear that I'm going to turn out to be very right.

Jane: Can you identify an area? You said you knew that Marrickville needed some gentrification. Are the researchers getting on the phone and ringing the council saying, "Is there any plans for gentrification?" How do we know that?

John E.: No. Human beings gradually do it. What happens is that the aged die out. There are life cycles to any suburbs or any area. Those life cycles are, basically they get built and the land gets developed and the houses get built and the people go in and buy the houses and they live in there. They live in there for a long period of time, the children grow up and they go away, and then the people who originally started it die out.

In the process, from the time that young people went in there and had a family niche, and the period from the time in which the family starts to leave home and the time in which they leave us, they usually don't do terribly much to their properties. Their properties decay. And as we get older, we don't see as well, we don't act as well, and we don't do all sorts of things.

So generally what happens is that the suburb gets run down. Once the suburb gets reborn because young up-and-coming businesspeople with new families come in and buy from the older people, they start to renovate and then start to improve the character of the suburb. And so we go through the cycle of gentrification.

But what happens is that you can get two or three cycles where the people coming in aren't actually doing it dramatically. They're quite happy with the smaller quality home and all the rest of it. That usually lasts for about two to three generations. Then when we get to the end of those two to three generations, then at the point where the aged are leaving and there's a new generation that come in, then it really takes off. By this stage, the suburb is quite rundown.

Jane: Finding that information, trying to track that gentrification prediction, I guess is what we would call it, you could go into the census information and see what the populations are for the different age groups. They already break that down. So you can see that changing of age group to the younger people with families. You can see that change and move, can't you?

John E.: Yeah, you can. And that's one way of doing it. The other way to do it is actually to look at your sales volumes that are going on in the suburb. One of the things that I recommend that people do—nobody's going to get into the heavy stats that Residex gets into—but what you can do is you can actually start looking at all of the suburbs that are available, and look at all the big growth rates and things. What we know is that basically a suburb never in the very long-term produces a lower rate of return than it has historically. You've got to be careful at looking 10-year sets of data. Don't do that. You need to look at 20-year plus sets of data.

Jane: Return is the growth and rate?

John E.: Yes. When you start looking at that, you can be fairly confident that ultimately when you hold your asset, you will get the sort of return that's consistently being provided out of that particular suburb. Remember housing is not an investment that you should be making for a year or two; it's an investment you should be making very long term. Because state government duties is such that you just can't afford to buy and sell it, you must own it for a long period of time.

Jane: And the Residex report itself, I think the annual supplement goes through and puts out the 20-year total rate of return which is the combination of the rent and the growth, doesn't it, so we can see that.

John E.: Thank you. If you're a serious investor, what you ought to be doing is getting that multiple ready spreads. I think I've sent you an Excel Spreadsheet that allows you to actually sort this down and get your list in terms of the line which best suits you as an investor.

Jane: I guess we also should mention that the best way to see who's buying in an area is once you hit the ground and actually see who turns up to the open homes, the properties as well. It's probably a really clear cut who's out there and looking as well, isn't it? That's really timely and to the moment.

John E.: Yeah. If you're in a city, you've got to get to know your city and you need to drive around it. Most of us don't. We just live in our own little backyard and we go to our supermarket or wherever every day and we go home. But it's not bad to take a Sunday drive and drive to some areas in the city that you've never been into and have a look at them.

Jane: My in-laws would be happy to hear that. That's their Sunday afternoon. Put the kids in the car, that's what they used to do. We've talked a bit about gentrification and ripple effects. There's always that X factor as well that can actually drive things in the suburb. So here I'm talking about maybe announcement from coals or a hospital or a new toll way or something that can have an important effect on growth. In recent years we've seen that My School's website, which rates the schools, that's being published and available. From my understanding, the best performing high schools generally only take kids from the catchment areas and we've seen some growth from that. What are the suburb X factors to watch out for and how much of an impact could they potentially have?

John E.: I think you've pretty much hit on them. The important things are: Security, so you want be in an area which does have a decent police force. You want to be in an area where there are good health services, so you want a hospital to be in close proximity. You want to have good education for the kids, so good schooling. And the interesting thing is that the closer you are to a school, if you're next door to it, it doesn't give you value very much. But if you're only a block away, it does, and in fact you'll find that properties that are very close to schools do very well. And then of course the very obvious one is the transport, if you can get close to the rail line.

Going back to the gentrification, you'll usually find that our workers cottages are around the rail nodes, particularly in the older suburbs, and so you just need to watch those a little bit and that'll tell you when the gentrification is. It's probably underway. I mean, do what you've said and go to some auctions and things for small properties and renovated streams. Close by these is where I lived. So it’s all of the things we know. It's transport, facilities, infrastructure, and schooling.

Jane: Is there anything that you might read in the paper, you know, Westfield's moving to some area, or between Toowoomba and Brisbane, that you'd go, "Jeez, they've obviously done their stats and their numbers, there's something that I need to be looking at”?

John E.: That's fairly slow to impact, however.

Jane: Okay.

John E.: You're right. But don't expect the impact to happen quickly. It'll take some time to happen. They have done their stats and they've actually identified that the population is probably big enough. In some ways, I sort of feel a little bit that it's passed at one point. That happens.

Jane: The population actually has already justified the move.

John E.: Yeah.

Jane: So what about announcements like Badgerys Creek is coming to Western Sydney?

John E.: Unbelievably important. That whole area of Sydney, if you are investing right now, is where you would be looking every carefully.

Jane: Is that because of the initial construction or taking the long term, because I imagine that would be less.

John E.: No. It's both. It's going to provide very large amounts of work for people in both the long term and the short term.

Jane: Okay.

John E.: And you're going to see developing out of that, I think, new tourism. If you look further up field, I wouldn't be surprised and see the Blue Mountains move forward a little bit following Badgerys Creek, because it's a close tourists-run place in relation to... at the moment you'd be getting to Sydney, it's not really easy to get up into the Blue Mountains. But once you can do Badgerys Creek, it could become much easier.

I think one thing to put our finger on, however, is—we've been looking at the positive things that will generate growth—let's look at one negative thing, and that is development. If you see a large block of units going up somewhere, just remember that you're probably going to get for a little while a bit of an oversupply. But also remember that if it’s premium housing around, it's probably not going to affect the housing values. Because population doesn't seem to want to live in units unless they absolutely can't help but do it.

Jane: Well, I want to touch on some of the amazing tools and data and reports that you've created. In particular, we talked about this many years ago, and thank goodness the renovation report came out about it. That's where my love is and where I really love the fact that people don't have to wait in the market for growth; they can create their own equity through renovation. What are some of the important reports? Obviously, Residex has a number of reports available. What are the arsenal that they could put together? Or how could they use some of these tools?

John E.: I'm going to put them in an order of the reports that I think are best for everybody and what they ought to be focusing on getting from Residex, where I'm confident that in fact I'll get the best outcome. Because some reports I think require people to do work and I'm never sure that people will actually do the work, so I'll be upfront about that and say the report that I like least is our top 100 predictions or whatever. The reason I don't like that is that we're giving you the stats and we're asking you to actually do the subjective analysis. I think too many people don't do the reading and they don't understand that they still need to do the research.

Then let's come to the ones where I'm really comfortable with. They require less amounts of research, and they'll lead you to the right place. I think that everybody needs to get what we call the Residex Report and that's where I've written an economic analysis of what's going on internationally and what's going on in the state, and it gives you all of the stats for every town in the state. Then coming with that is the Resi Spreads or the annual supplement, which means that people can actually do their own statistical analysis and research, and identify places that they can afford and where they want to go. So I think that that's an important report.

Then you get the best rent report, and we've done the analysis for you in that. We've done the statistical analysis and then we've gone and talked to real estate agents and other professionals to identify whether the town is good or bad. Occasionally I see something turning up in that report that I would prefer the people hadn’t put in there. So you still need to do some reading and some thinking about what you're doing, but it certainly cut it down an awful lot and got it to a level that will require a much lower level of getting comfortable.

And then we come to the renovation reports. For me these are the reports that still require you to do some work. But if you've worked out what suburb you want to be in, what the renovation report does is it then tells you what streets you might look at. What you have to remember, however, is that a house in a particular street that is got good renovation potential won't come up for sale every day. So it's a longer term strategy. I mean, how often do you actually see a property that has great renovation potential? So it's a strategy that you've got to sort of be ready for and just constantly on the lookout for.

But what the renovation report does is it looks at what our predictions are. It's like taking the best rent and then looking for suburbs that are in the best rent, and saying, "What suburbs in those that this rent report have the best probable, the best number, the highest number of streets in them that actually offer renovation potential for the houses that are in them?” And from there you can actually then get into the various internet real estate search engines and get yourself email notifications of when a property in this particular street or location comes up for sale.

Jane: And that's what I love about these reports is that I talk a lot about pricing disparity and this work is done for you because it looks at a street and it divides the number of properties of that like houses or units by modules of 10. And it says if you can't get from a below median to above median and make some money based on the formulas you have in the front, then there's no point in going forward. Although there might be the one-off exceptions, it really gives you an indication of rather than... You probably have a higher criteria of the return you want in your renovation properties but this report really gives you the opportunity to say, "Where will I start?"

John E.: That's right. You can spend hours and hours on the internet going nowhere. So the best thing to do is probably to have a report like this. Identify first of all which suburbs you're interested in, and you'll get a shortlist out of the Best Rent Report, or Top 100 Predictions, or...

Jane: You have a renovation report as well, though, per state?

John E.: Yes. So what I'm saying is that there is a leader report, if you like, which is indexing all of the suburbs that fit into the renovation criteria. But the way in which I would use the collective thing is that I would actually start by going to Resi Spread, identifying or going to the other prediction reports, but I think probably Resi Spread. Looking at what I could afford, adjusting all and pulling out of those Resi Spread all of the suburbs that fit the criteria that suit me, and then having done that, then looking at the first renovation report which is the listing of the suburbs that are potentially there and picking the ones out of that, and then buying the renovation report for that suburb. Then that will give me a list of streets in those suburbs that I'm interested in. Then I would go to the internet, and at the internet I would then make sure that I was going to be emailed by the internet company when in fact a property became up for sale in the streets that I was interested in.

Jane: I'm so glad you said that, John, because that's exactly the step-by-step process we teach. But one of the things that the listeners may not know is that Resi Spread, and one of the frustrating things we hear often about particularly in information in the back of the magazines is it's all written there in hard copy. But Resi Spread you can actually buy in Excel, can't you, so you can actually do that analysis yourself.

John E.: That's right. And the information that's in the back of that is actually being designed so that you can actually make up your mind about where you should invest and shouldn't. It's not just, "Here's some data for you." You might think this is fun to look at. It's actually being thought about in terms of “Here's the data. What do you really need to know about to actually make up a good decision?” And so the data that we know that you will need to do that is actually in Resi Spreads.

Jane: Just onto the main Residex primary report, you and I had a chat a few weeks ago. You were sitting there working out how to talk about the Japanese economy. I hadn't realised, having purchased the Residex reports for so many years as I do now, the thought that had gone into that international position. So it's important to know that as well. I read that with a lot of interest because we see interest rates and lots of things being affected by what's happening overseas. So we can't just be parochial in our understanding, can we?

John E.: Not anymore. We were able to a large extent for a fair while to be like that. Certainly when you and I first started investing in residential property, we didn't need to think about the international position so much. But now we do because we are dependent, our resources are so dependent on what the rest of the world is doing, and that's driving our economy until our governments help us all find some other things that structurally change the basis of our economy.

What about getting right, and we keep coming back to that thing, and you remind me all the time. I can remember 5 years ago writing about when the European crisis first happened, writing about all of that and telling everybody that ultimately the people will have their say, and they are.

Jane: So pay attention to John's messages in those Residex reports. John, one of the things that you just picked up on as well is that there is a lot of data. It can be confusing. There's lots of terminology. A lot of people are depending on the information on the back of the magazines to get their statistics. If I can throw at you just some of the names of some of these things that are written at the back of the magazines that people may not really know what they are and why they're important, something like what is a medium house price?

John E.: Well, just think of taking all of the house prices for a city, sorting them and putting them in one, great, big, long row, and then picking the one that sits right in the middle in price terms, that's the median.

Jane: So if we have some aberrations, some really high prices or really low, even though it might be one or two of them, it could actually have quite a big effect if you have a low amount of properties in that suburb, for instance.

John E.: If you have very small volumes of properties or activity, the median doesn't work terribly well; equally you'll need an average. Residex overcomes its problem by working out not the median sale price or the median; what it does is calculate out the median value of properties. Whenever Residex publishes a median number, it is a median number. In other words, the median of every house in the area that it's talking about in terms of its current value.

Jane: And we also talked about long-term positioning of being in the market. Often in the back of the magazines, they report the last quarter's growth, 1-year growth, 3-year growth, 5-year growth, 10-year growth. What do you look at? What's the important thing, and why would we or would we not look at quarterly growth or one-year growth?

John E.: For me the most important growth is actually 20-year growth, because I'm interested in the very long trend so I don't get caught up in what's just immediately being happening. Because, for example, it might have been a coal mine that was opened up and house prices went through the roof, and that impacted on the 10-year rate of growth. And so I might think that, "Gee, look what this town's done, I'm going to get this in the future," but the reality is I won't because it was a one-off event.

So I try and overcome that by looking at the very long-term, if you like, average rate and annual rate. Then when we get to look at the short-term things, I'm actually interested in the monthly growth numbers if I can get them. Because what I'm trying to do is depict the trend that's going on in the market. Is the market falling? Is it rising? Is it at the bottom or is it at the top of its cycle?

What you're really looking for so that you maximise your position is actually trying to find the bottom of the cycle. Everybody will stop and say, "You're going to be buying when everybody else is selling." Well, isn't that great? If you know that you're at the bottom of the cycle and you're buying when everybody else is selling, you're going to get yourself a bargain and that's what you want. I have never bought a property in all of my life where I haven't bought at the bottom of the cycle.

Jane: I guess from the back of the magazine we've got the quarterly growth. That gives us quarter-on-quarter idea of what's happening right now. But you're saying the turnover of stock is also a really important measure.

John E.: What I'm also saying, I'm really not interested in the quarterly number at all. I'm only interested in a series of numbers. I want to know what the series is telling me. If the series is telling me that we're in a downward trend or an upward trend, that's what I'm interested in. So if somebody comes out and says, "The growth for the quarter was this," I'll shrug my shoulder and say, "So what?" What was the growth of the quarter before and the quarter before that? That's what I'm interested in.

If I get an annual number, or a quarterly number, or a monthly number, a monthly is better than the others. But what I must have is a trend. And that's why the supplement that comes with Resi Spreads is important, because it's giving you the last five years' rates of growth. You can start to see in big picture terms whether in fact the market is trending down or trending up. Now, you can get better than that, but it becomes more expensive, by getting actually an index which is the monthly series, and that gives you the rates on a monthly series basis and the growth rates on a monthly series basis. And so that's really telling. If I'm buying a property, I'd go through all of the other things that we've talked about, but the very last thing that I will do is that I'll actually pull out an index and look at the series and see exactly where it is at and whether I'm right or wrong about what I'm kind of planning to do.

Jane: For us mortals here who don't have access to a lot of data, is the tracking the series of the turnover of stock as well would help?

John E.: It does. It's all there. You've got your monthly trend and your stock, and you've got what the sales were every month. You've got what the growth was every month, what the rent rate was every month. It's all there. You can buy that from the Residex site, but not very many people do.

Jane: What about days on the market? Does days on the market tells us anything and what should we be looking for?

John E.: These sorts of things, I'm not overly keen about. They may do tell us something, but there's so much manipulation that goes on, the sales level by real estate agents. It's like option clearance rates. In very big picture terms I'm interested, but in sort of micro terms I'm not really interested because it can be so far wrong.

And the reporting of it... I mean, if a real estate agent advertises a property on the market today, takes it off tomorrow, puts it on again tomorrow, takes it off in two weeks' time, puts it on and takes it off, and then puts it on and it's all two weeks, sell two days after he put it on, [56:19] two days.

Jane: Exactly. And you see properties often that are changing real estate agents because their campaign hasn't worked. Okay, good. So it's looking at the overall information.

John E.: It's interesting but I don't think it's really valuable.

Jane: Let's get into what do you think, just before we wrap up, the things that investors should be aware of and what they should be watching out for the next few years. What's on the road ahead?

John E.: I think everybody's got to be aware that potentially the unit market is going to become increasingly overstocked. I personally wouldn't be buying brand new units. I come back to where I think you and I have both made our wealth, if I can put it that way, and that is by personal exertion and renovation, identifying places where we can actually contribute to making the capital grow more quickly than it would if we just passively sat around and waited for it to grow, so that we can either leverage up or borrow more and improve our situation.

So the first thing I would say is be careful with brand new units even though they've got deductions. The other thing I think is actually being careful of the economic drive of an area. We've got to make sure that we're not investing in places where the economic driver is about to disappear. Hence, you'd want to be careful about towns in a county doing really well on the back of the gas or shale oil or whatever industry for a little bit. You're going to be careful with that. I don't even call the resource towns. You just want to be making sure that those resource towns are...

Jane: Got some longevity?

John E.: Yeah. And they've got other things that are driving them. However, having said that, I don't think that you should shy away from trying to find bargains and looking forward. I mean, if you are into taking risk, it might be worth thinking about, "Can I find a really good bargain currently?" You'd want to be knowing what you are doing and knowing that you are getting something at a good price. Because the coal and gas industry, and then equally it probably goes for Gladstone, they're not going to be as bad as they are. If we look at what the price adjustment's been in the last 12 months, I think in Gladstone it's a 100,000 bucks in the high and $90,000 for the median. There are properties there that are massively less now in value than what they were 12-18 months ago. So this is for the really savvy, smart investor, for people who really know what they're doing and are going to do really thorough research and are into taking higher level risk.

Jane: A few warning signs there and what to look for ahead are the stock unit market but there's still some opportunity if you're willing to do the research and do the work.

John E.: That's right.

Jane: Let's summarise. You've given us... oh my gosh, I've written down so many tips here: Get your local newspaper. Trends always repeating. Make your strategic decision to invest and make sure the property fits into it. The Residex reports that can be used in the order of what you can use them in. You've shared so much information. I guess if you were going to summarise your investment wisdom that you've gained through the many years and you put down a couple of tips just for someone starting out, what would it be, John?

John E.: I think probably back to where I've been throughout this interview, and that is massive, solid, personal research, make sure that the research that others have done for you makes you comfortable. Be a ruler of your own destiny, never overleverage. Buy well based on the research; in other words, look for really well-priced properties. And finally, look for your special type of renovated stream so you can add to it and improve its value.

Jane: Perfect. It has just been wonderful, as it always is. I fried as many notes here and learn something all the time whenever I speak to you. So thank you so much for sharing so generously with me today and with everyone. And if people want to find out more about you and your reports and services, where can they go? What's the best place?

John E.: They could go to onthehouse.com.au, and that will lead you through the Residex.com.au where all of our reports are.

Jane: Perfect. Thank you so much, John, for your time today. I know you're very busy and you're working on lots of different things, so thank you once again and I look forward to chatting to you in the future.

John E.: My pleasure.

Jane: So much information today. So for those people with your pens and paper and frantically taking notes, let's do a quick recap.

John: It was great, wasn't it? It was interesting that he originally created the algorithm and all the research to create a mortgage product. That's how Residex came about, and that was just through everyone wanting to get their hands on the data. He loves a bargain. He likes to get those properties cheaply and buying under market.

Jane: And it's good that he doesn't concentrate on tax. It's the last thing that he thinks about. If it works without tax, it will work with tax. He also brought up another point which was “What's the market cycle?” There's so many markets; there are some areas doing well and other areas aren't.

John: In every market cycle, there's always an area that's doing well, which is nice to know, a bit of a comforting thought really.

Jane: Absolutely, always a time to buy.

John: That's right. Gentrification, that was a really interesting insight, that it can be two or three generations in some cases before a suburb starts to take off. So that was great.

Jane: He actually shared with us his recommendation on how he does his analysis. He starts at the Resi Spread reports. He looks at what he can afford plus then he wipes out all the things that don't fit his criteria, and then he goes on to the Top 100 Renovator Report, then the Best Rent Report, and then goes to the Renovator Suburb Reports, and then sets up email alerts to be alerted when something comes on the market. So it's really great seeing what he's using, the products too.

John: It's also interesting that he likes the figure of 20-year growth, and not 10-year or 5-year or 1-year, or whatever.

Jane: Absolutely. That's a question that comes up for our students regularly. They say, "Why don't I take three years because there's been so much action in the last three years?" That's why we say to really create that balance across the time frames, the blips and the bumps that go on, you really want to have the longest time frame as possible. We know we can get 10-year data quite easily, but obviously getting 20-year data is even better.

John: Yup, smooths out all the bumps. The other thing that I thought was really great was he talked about total return on a suburb, and for the most part doesn't tend to decline. So if you look at the past growth or the past total return, statistically you're in a pretty good place. It's unlikely to go backwards.

Jane: And if you think about this from an investor point of view, there's high yields, and the investor goes there to get the yields and pushes up the price pressure of the properties and the yields drop down, but the overall return stays the same. So a really good measure.

John: Jane, it struck me that we set out in these first few episodes of the podcast to demystify some things around property investing and show some best practices. And it's amazing, isn't it, just with three episodes down how much overlap we've already seen. Could you just for people maybe list some of that overlap that we've heard and some of those fundamentals that are common to successful investors?

Jane: When you're starting out, it is overwhelming because there's all these competing strategies and there's so much information and noise. It's really great to hear two people who are just absolute standouts in the property investing world to actually share a lot of common fundamentals, things like:

- Buying under market
- Renovating to add equity
- Buying in an area with good capital growth

John: Gee, that sounds a lot like the Trident Strategy to me.

Jane: We'll just call those first three “the Trident Strategy as endorsed by Jan and John”.

- Doing the research yourself
- Understanding what's happening in an area and identifying what are the potential drivers of growth (so the importance of doing that work),
- Just not being too clever and going for the get-rich-quick schemes or tax tricks like buying off the plan to save on stamp duty
- Understanding how the market works and being in it for the long game
- Not trying to win lotto by investing in a one-industry town and hope that it comes off
- Buying in locations that just have good infrastructure and multiple drivers of growth
- Making sure that there is demand, that you have the typical property that suits the demographic

- Finally, it comes down to research and pulling data from various sources to give you the best information to make an intelligent and informed decision.

Guys, this doesn't change. This is working for Jan and John over 30 years ago, and it works just as well today. Amazing stuff in this episode. In actual fact, I'm going to go back and grab some notes and listen to the episode again.

John: Absolutely. Jane, I think it might be that time.

Jane: Yup, John, go ahead. Have your fun.

John: Take it away, Mr. Blackman.

Narrator: Yes. It's that time again where you get the chance to test your suburb knowledge while the entire nation holds its breath. Ladies and gentlemen, it's time to play Suburbs Against the Clock. The rules are simple. To play, all you have to do is answer a question about 10 suburbs in the city of your choice within 20 seconds. The lucky winner of Suburbs Against the Clock will win one year's free access to Your Property Success Club. Your Property Success Club is an in-depth monthly master class which gives you the practical tools needed to grow your portfolio yourself without having to spend a fortune on expensive seminars, or even leaving your own home. So, who do we have standing by to play Suburbs Against the Clock?

John: Hello. Are you there, Maria?

Maria: Hello.

John: There you are. Maria. Which city are you choosing to play for?

Maria: Sydney, please.

Jane: No problem.

John: All right, Jane. I think I've got one. Can I ask?

Jane: Yes, John, please ask.

John: Okay, Maria, you're clear on the rules? You've got to come up with 10 suburbs within 20 seconds, and the question is name 10 Sydney suburbs within 5 kilometres. You've got 20 seconds.

Maria: Darlinghurst, Darlington, Chippendale, Northwood, Elizabeth Bay, Rushcutters Bay, Glebe, Ultimo, Annandale.

John: You've got 10.

Jane: You did it! Well done. Maria, I have to say I was trying to give John a bit of a heads up here and I said maybe starting with S and he read the S as 5. You've got a much easier job than what you're going to get with my question. Congratulations! You are the winner of 12 months' access to Your Property Success Club and we look forward to chatting to you inside the group.

John: And if you would like to be a contestant on Suburbs Against the Clock, or you have a suggestion for our criteria, email support@yourpropertysuccess.com.au. That's support@yourpropertysuccess.com.au.

Jane: John, that's the end of another episode of Your Property Success Podcast. As always, if you'd like access to the transcript of today's show and all the show notes and the links to everything mentioned in the show, simply go to www.yourpropertysuccess.com.au/ep3. That's yourpropertysuccess.com.au/ep3. Great to have you with us today, and as always, here's to Your Property Success.

Narrator: Ladies and gentlemen, it's important for you to understand that you need to take care in applying what you've heard on this podcast to your own personal circumstances. Everyone's situation is different, and while we go to great lengths to ensure that everything we share is accurate, the information in today's podcast was based on personal experiences and opinions, and is not intended to be specific to your circumstances. We are not real estate agents, financial planners, lawyers, or accountants, and are not liable for any loss, damage, or misunderstanding caused by reliance on any information provided or inferred. We highly recommend you seek out the services of a professional or mentor to help chart your own path to property success.

So how was that?

John: Great.

Narrator: Thanks a lot, John. I think that was a real improvement on the last episode.

John: I thought it was really good.

Narrator: Okay.

John: You know you don't have to come in every week and do the disclaimer, right?

Narrator: I know, but I like it in here.

John: Okay. Just so you know.

Narrator: Same time next week?

John: That's fine.