PROPERTY DEVELOPMENT SYSTEM

Understanding Capital Growth

- **National Level Vs Local Level**
  - National Level
  - Local Level
  - Example
    - New Mining venture - Sudden Growth
    - New Development - changes the appearance and attractiveness of an area & starts attracting a totally new demographic.
- **TOTAL RETURN**
  - Capital Growth + Rental Yield → Total Return
  - Over a period of time, almost all residential areas will produce the same average TOTAL RETURN (Rental Return + Growth) as each other.
    - Because, the natural interplay of Supply & Demand, that causes people to move or dwellings to be built, also reaches a point where the COST OF RENT OR PURCHASE is > other similar nearby areas & people move their instead. (LISTENING FOR SIGNALS > SIDE KICKS)
    - Only exceptions are mining towns.
- **Long term relationship between RENT and CAPITAL GROWTH that allows investors to determine what is going to move next.**
  - Capital Growth Pushes Prices Up
  - Causes Rental Return to fall
    - It is Likely:
      - Rent Increase
      - Rents will Increase in future
      - More than Prices
      - Prices Low
      - Landlords catch up, only when the lease is up or the tenants leave.
  - Investors push up the rent & owner occupiers push up the prices.
- **How do you measure that?**
  - Compare Long Term Capital Growth & Rental Return Vs More Recent Performance (Last Quarter)
  - If relationship between rent and prices is not in harmony. The one lagging behind is likely to catch up.
  - Especially if Annual Avg TOTAL RETURN < LONG TERM ANNUAL Avg TOTAL RETURN
- **Rent Vs Capital Growth**
  - Is the long-term (10 years) annual average TOTAL RETURN > Recent Years?
    - Yes
      - Capital Growth or Rent Increases are LIKELY.
    - No
  - Has the number of sales been falling or rising over the year?
    - Yes
      - Capital Growth is LIKELY.
    - No
      - Increase in Rental Return is LIKELY.
  - Are prices/rents at their upper limits compared with similar areas?
    - If Prices are high, rent increases are likely.
    - If Rents are high, price increases are likely.
    - If both are high, neither are likely to rise.
  - Rental Return
    - If rents are static, but prices fall
      - Rental yield will go up.
    - If both fall, but prices tumble faster than rents
      - Rental yield will rise.
- **Data**
  - http://www.realestate.com.au/invest
  - API Magazine (Australian Property Investor)
    - Property Data Jan 2015.pdf
  - CoreLogic (RP Data)
  - Residex
  - VIC
    - http://www.reiv.com.au/Property-Research/Rental-Data