How to spot a growth area

Property investors have been known to obsess about the next hotspots, and for good reason. Hotspots, if you time your entry well, can see property values grow strongly within a short period of time. This enables you to amass equity quickly and use that to build your portfolio.

Sceptics have dismissed hotspot lists because they think that, by the time you hear about them, hotspots have already gone up in value and you're buying at the peak. However, it can also be argued that people are not always that quick to make investment decisions. When they hear about a hotspot, they may look into it but do nothing until they see evidence that others are already buying in the area.

Identifying the next boom areas has become an ultra-competitive sport in the property arena. Everyone has their methods of finding which areas are going to see housing price growth.

Here are a few tips on how to find areas that are set to grow in value.

Look for areas experiencing gentrification

These areas tend to have a bad reputation but are now seeing homeowners moving in and changing the landscape of the suburb. Top tips on finding areas about to gentrify

- Look at the affordable areas in a region you're interested in.
- Check out how the property prices have moved over the past two to three years.
- If prices have grown steadily, look at the demographics. An increasing number of young residents with good income is a solid indication that the suburb is about to gentrify.
- Look for signs of new houses or renovated homes springing up in the area.
- Look for new cafes or retailers opening shops in the suburb.

Look for the ripple effect

If you are desperate to get into a hotspot but have left it too late, you could still get into the area by checking the surrounding suburbs. This requires timing, so you need to know which phase of the cycle the local property market is in to maximise your chances of riding the wave of growth.
Top tips for finding areas before the ripple of growth hits

- Measure property values by comparing the median prices of adjoining suburbs.
- If there is more than a 5% variation, chances are the suburb next door will be playing catch-up.
- Closely monitor median price trends on a quarterly basis. Once you are certain the cycle has kicked off, look for properties within your budget that are as close to the growth as possible. Subscribe to alerts from realestate.com.au for properties coming onto the market.
- A good rule of thumb when buying in the capital-city suburban markets is to buy within 10 km of the CBD; growth is virtually assured to ripple this far out during a cycle.

Look at the state of supply and demand

Ultimately, the supply and demand situation will determine if prices will grow in an area. If there is no more capacity to build in the suburb and demand keeps on growing, you'll be assured that prices will rise. Top tips for finding high-demand, low-supply areas:

- Look for areas where the rental yield is rising. This indicates that an area is popular among renters. When renters become homeowners, they also tend to buy in the same area they're renting in.
- Look at the demographics of people moving into the area. Without meaning to sound ageist, suburbs where the median age is around 35 or so tend to gentrify faster as these demographics tend to have better income and are therefore able to afford to buy or rent more expensive properties.
- Look for areas with rising population. Population in itself is not enough to push prices up, but when combined with other indicators such as rising income and low supply, this is a good indication that property prices will grow in the area.

Look for large infrastructure projects underway

This is a good indicator that the area is likely to see a spike in housing demand as workers flock in for jobs. So is there a perfect investment market? The short answer is no. The perfect investment market does not exist. But good deals can be found in any market.