

## EXPERT OPINION

# How to benefit from the 'ripple effect'

No matter what causes a suburb to suddenly become hot property, the rising prices force buyers to look at cheaper surrounding neighbourhoods. Subsequent demand for these surrounding suburbs is the 'ripple effect' in action



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Philippe has countless years' experience in property investment. He has helped many first-time and experienced investors achieve their goals

**MOST NOTICEABLY**, we see the ripple effect occurring around our capital cities. Like a wave moving outwards, outer suburbs have steadily grown in value because the price tag on inner city properties is simply too high for many average Australians.

Buying in fringe suburbs in a ripple effect zone means you can invest while the market is affordable, and wait for the wave to push values up.

## Higher yields in the outskirts

New demand will also improve rental yields, which increases your cash flow margin. For example, inner city addresses in Sydney and Melbourne are only earning yields around 3% – not the best return rate for multi-million dollar properties.

In contrast, a property in a fringe suburb may cost around half-a-million dollars and yield 5%-plus rental income.

Fringe suburbs aren't just those that hang on the outskirts of capital cities. Our satellite cities are making noise, too; for example, Newcastle, which lies about 150km north of Sydney, is earning 14.5% annual growth and now has a house price median of nearly \$1m.

Its rapid growth was based on a diversifying economy, improvements in its culture and aesthetic, and of course, the

fact that properties there were much cheaper than Sydney.

Investors who bought in Newcastle 10 or 15 years ago are laughing all the way to the bank today.

## How do you find ripple effect suburbs?

While it's not an infallible science, finding that 'next best' suburb that will catch buyer overflow is worth the time and effort. It can add big numbers

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to your portfolio, in terms of both growth and rental income.

1. First, look for booming suburbs, particularly those with impressive growth over the past 12 months.
2. Investigate the cause of the recent growth. Make sure it's because of long-term improvements such as new infrastructure, not a spike in sales from development releases (this is very important: the more landlocked the suburb, the greater the chances of overflow to neighbouring suburbs).

3. List the immediate neighbours and also the next layer out, and find the recent growth statistics for each.
4. Look for indicators that the ripple effect will occur. Typically, the suburb needs to have the same type of growth drivers as the booming suburb, and also appeal to the same demographic.

Once you've identified potential hot spots, run the suburbs through the stress-test of ripple effect obstructions, too:

- Future unwanted infrastructure, such as a highway slicing through the suburb
- Signs of an uneasy shift in economic circumstances, such as a large local employer shutting down
- Large numbers of developments planned that could quash property values for some time

- The suburb lacking the same infrastructure and lifestyle features that will buoy prices, despite the success of neighbouring suburbs.

Of course, all those factors aren't quite enough to support buying just yet.

As a smart investor, you should also view the suburb through the usual property microscope. It must have the basic fundamentals of strong infrastructure, schools and lifestyle features before you commit one to your portfolio.

## NEED HELP WITH YOUR PORTFOLIO?

Contact Philippe at Multifocus Properties & Finance to get a jump-start on your portfolio with expert advice

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