

Insider Secrets to Finding Undervalued Properties Before They Hit the Public Eye

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INTRODUCTION:

3 Reasons Why Interest Rates Didn't Sink Property Prices

It's what every investor wants: **an undervalued property.**

But to find one, you need a deep understanding of how the property market moves, how to manage risks, and how to finance your investments. And that's what this concise but meaty guide is going to give you.

First, we need to understand the state of the market. So let's take a quick history lesson...

On the 3rd of May 2022, when the Reserve Bank of Australia announced that they were making their first rate increase since November 2010, investors became nervous.

Yet since then, the RBA has announced 12 more rate rises causing the interest rates to jump by 3% in 2022 and an additional 1.25% in 2023.

Everyone thought it would impact property prices negatively, yet they've continued to thrive. This has been fuelled by 3 factors, which have caused demand to outstrip supply:

1. Robust population growth
2. Significant migration trends
3. A challenging slowdown in new property developments.

Compounded with stringent building approvals and a shortage of trades, the reason for the continued growth becomes obvious:

The Availability of New Homes Simply Cannot Keep Up With Demand.

In fact, the National Housing and Affordability Council predicts a shortfall of 257,000 homes by 2029.

Make no mistake, the odds are stacked in favour of property investors.

Now that we've established some foundations, let's dive into the crux of this report: sourcing undervalued properties before they become public.

You're About to Discover How to See What Others Don't.

For instance, most people overlook properties that need renovation or which are presented poorly.

Sometimes that's the right move. They may be fundamentally flawed. However they may be undervalued due to superficial reasons. This report will show you how to spot the difference. But before we get to that, let's take a moment to understand the market dynamics.

CHAPTER 1:

Four 'Market Dynamics' You Should Consider Before Buying a Property

There are four dynamics to consider when looking for high-value properties. They include:

1. Interest rates
2. Inflation
3. Employment rates
4. Infrastructure developments

Let's dissect them one at a time:

1. Interest rates

Rising interest rates often slow down buyers in their tracks, as it makes financing a property more expensive.

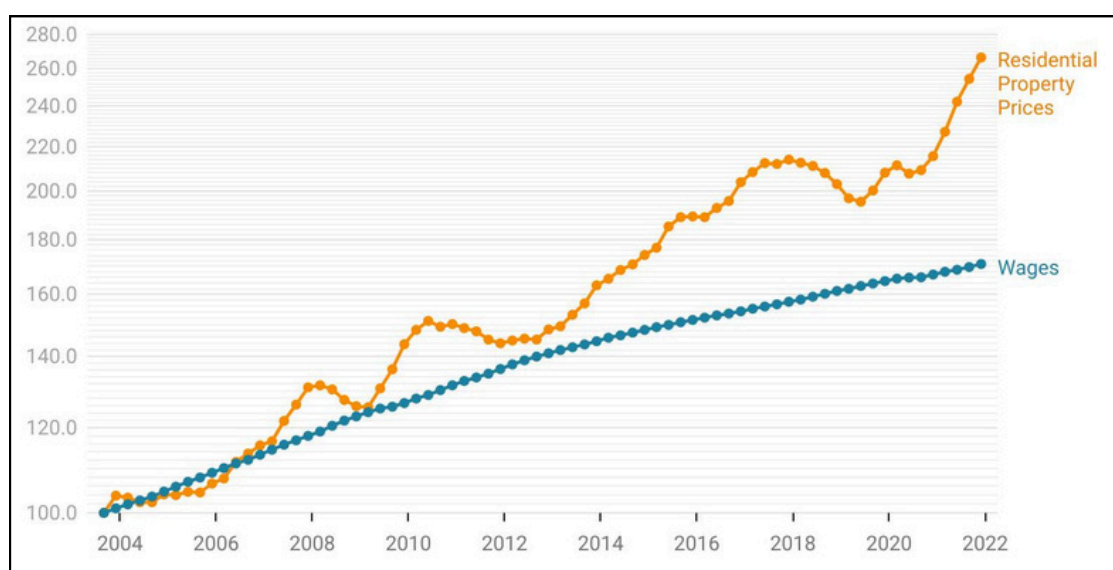
This cooling effect can dampen property values in the short term but also opens a window for those who are prepared to buy when others are sitting on the fence.

2. Inflation

Inflation, on the other hand, typically indicates a rise in property prices as the cost of goods and services increases.

In Australia, this has certainly been the case, even when wage growth fails to keep up.

Wages are being left behind by booming house prices.



Sept 2003 = 100, log scale

Chart: Greg Jericho, Centre for Future Work • Source: ABS 6416.0 & 6345.0, derived

For instance, analysis by social research firm McCrindle revealed that wage growth has failed to keep pace with the housing boom across all Australian capital cities*.

In fact, the price of a typical house in Sydney has multiplied by 17 times in the past 40 years, almost three times faster than wages.

3. Employment Rates

Higher employment suggests more potential homebuyers in the market, pushing demand and prices up.

4. Infrastructure Developments & Regional Market Trends

While some investors might shy away from areas awaiting new developments (due to the uncertainty and long timelines involved), these regions can often signal upcoming growth as a result of government and subsequent private investments.

Government spending usually indicates a strong belief in the area's growth potential, which often triggers a domino effect—private investments follow, enhancing the area's appeal and value. This improvement in infrastructure can attract more residents and businesses, which in turn boosts the local real estate market.

Obviously, this must be kept in context with the broader market dynamics and should not be the sole reason for investing in a particular location. However if everything lines up, it can allow investors to purchase properties in areas poised for growth before it becomes apparent to the wider market.

CHAPTER 2:

How to Spot an Undervalued Market

Now that we understand the fundamental market dynamics, it's time to leverage them to pinpoint high-potential locations that promise both capital growth and optimum cash flow.

Research Techniques for Spotting High-Growth Suburbs.

Rule #1 is to always look at historical performance.

And I'm not talking about finding a 'black sheep' suburb, that might suddenly surge in value out of nowhere. Instead, we want to prioritise regions with a proven track record, favoring areas that have demonstrated consistent growth over the past 10, 15, or even 25 years. This reassures us it's likely to appreciate further, driven by continuous demand and limited supply.

For instance, if we were looking to buy in Sydney, a simple search on realestate.com.au would allow us to quickly see the returns over the past 5 years. Here's a snapshot I just pulled up for Darlinghurst in Sydney...

Median price snapshot for houses.



Once you're confident in the long-term returns, consider how you may be able to enhance it via renovations or strategic additions, such as granny flats. This can transform a good investment into a great one while also ensuring a steady income stream.

Using Tools and Resources Effectively.

There's never been more access to real estate data.

Free online tools and resources, such as suburb trends analyses, CoreLogic reports, and historical data from institutions like Aussie Home Loans, provide a wealth of information - enabling you to conduct thorough research on property values, rental yields, and market trends without significant upfront costs.

While this can be empowering, it can also be overwhelming.

That's what sets professional buyers' agents apart, as they know how to interpret the information and have greater context in order to make smart decisions.

The Strategic Advantage of Buying the Worst House on the Best Street.

One of the most timeless strategies in real estate investing is purchasing the "worst house on the best street."

This approach focuses on buying a property that is structurally sound but looks terrible, giving investors the opportunity to increase its value via cosmetic improvements.

But be careful not to fall into the trap of buying a home with unchangeable flaws, such as poor location, proximity to noisy highways, industrial areas or flight paths, or zoning issues that restrict usage and improvements. These can dramatically affect your property's resale value, no matter how much you invest in renovations.

Don't Forget About Flood Zones.

Brisbane suburbs are a case in point, as flood-impacted properties can sell for 30% less than similar properties in safer zones.

While minor flood risks may have minimal impact, severe risks can lead to significant valuation discrepancies and should generally be avoided.

Bottom line: Identifying undervalued markets requires a blend of research, strategic foresight, and an in-depth understanding of the micro and macroeconomic factors that influence property values. Let's examine the six steps involved.

CHAPTER 3:

The 6-Step System for Purchasing Undervalued Properties

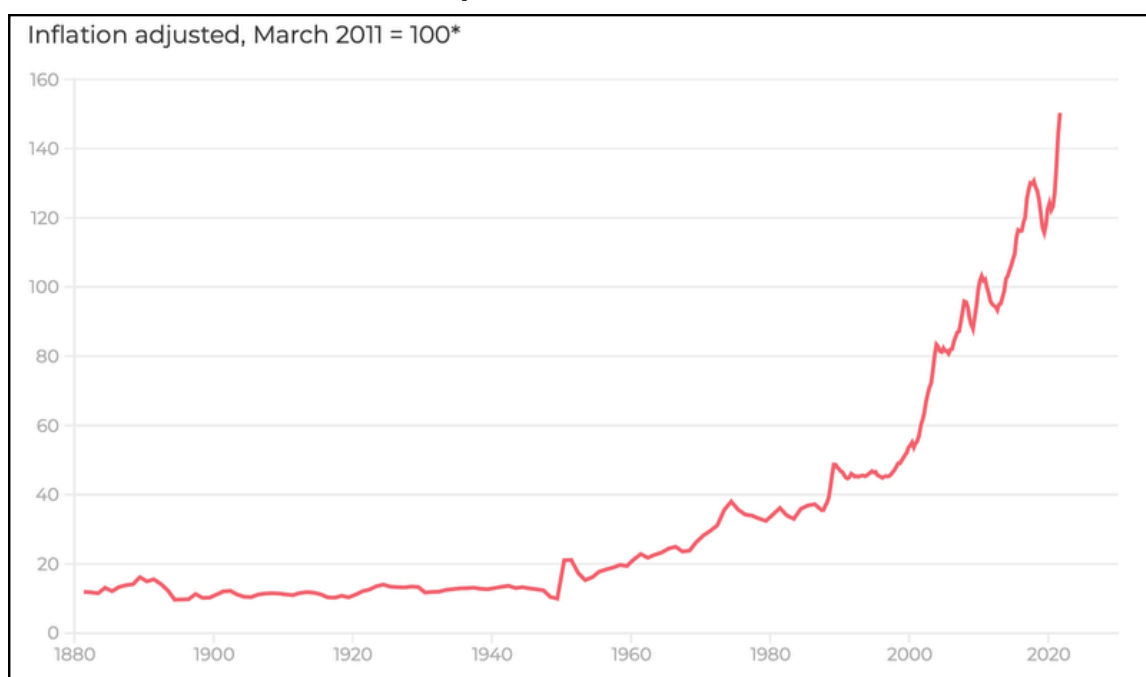
Before we dive into the details of purchasing an undervalued property, let's address a question I've been asked dozens of times.

Is There Ever a Bad Time to Own a Good Property?

While perfect timing—buying at the lowest and selling at the peak—is desirable, it is also virtually impossible to achieve.

That's why you're better off holding quality property over time. Do that, and history shows it's tough to lose as quality assets tend to appreciate over time, underscoring the fact there is seldom a bad time to own good property.

Australian house prices.



Source: ABS, Stapledon 2012, PropTrack

*Prices prior to 1986 use Stapledon (2012) estimates for Sydney and Melbourne, inflation adjusted using consumption deflator.

To successfully purchase undervalued properties, you need a structured approach. Here are the key guidelines to follow:

Step 1: Choose Properties With a Strong Track Record

Start by identifying suburbs with a solid track record of performance and high demand. Pay attention to fully renovated properties compared to those needing work - as this often represents 'the gap' where you can add value.

Step 2: Select "In-Demand" Assets

Focus on the types of properties that are most in demand in your chosen area. For instance, if you're investing in a family-oriented suburb, look for homes with multiple bedrooms and spacious yards. Conversely, in urban areas where young professionals dominate the market, apartments with amenities like gyms, secure parking, and proximity to public transport will be more appealing.

This not only ensures a quicker turnover if needed but also enhances the property's appeal to a broader market.

Step 3: Be a "Smart" Renovator

Ensure the cost of any renovations or improvements is justified by the potential increase in the property's value. This calculation should include not only the immediate cost but also the long-term yield potential if additions like granny flats or secondary dwellings are possible.

Step 4: Access Off-Market Listings

Build strong relationships with agents and other real estate professionals to access off-market listings. These properties, which make up about 30% of the market, can offer unique opportunities that aren't available to the general public. This can potentially reduce competition and broaden access to potential investments, increasing the chances of finding a gem.

Step 5: Negotiate Like a Pro

Master the art of negotiation to secure properties at the best possible price without jeopardising the deal over minor details. This involves understanding the seller's motivations and making attractive offers that still provide value to the investor.

Step 6: Buy in “Owner Occupier” Areas

When selecting a property type, whether it’s a single-family home, duplex, or unit, the focus should be on what the local owner-occupier demographic desires.

Owner occupiers are a better target market because they typically invest in their properties for the long term, fostering neighbourhood stability and increasing property values over time.

They are more likely to take pride in their homes, which contributes to better maintenance and overall curb appeal, enhancing the area's attractiveness.

Moreover, properties that appeal to owner-occupiers can be easier to sell in the future, as they often meet the desires and expectations of a broader range of potential buyers. Focusing on what the local owner-occupier demographic desires (such as proximity to schools or lifestyle amenities) ensures the property remains desirable and maintains value over time.

CHAPTER 4:

Do Your Due Diligence - or that “Bargain” Could End Up Being a Costly Mistake

The allure of undervalued properties can sometimes lead investors astray.

For instance, many fail to discern between properties that are undervalued due to unrecognised potential and those that are cheap for a reason - often a reason that could turn a bargain into a costly mistake.

There are 3 things you must consider when conducting due diligence:

1. Planning and Zoning Checks

Confirm the property’s compliance with local planning and zoning regulations. An attractive price might be a result of adverse zoning changes or future developments that could negatively impact the property’s ambiance and value, such as the construction of a new industrial complex nearby, a freeway expansion that brings increased traffic and noise, or even a new commercial development that could change the neighborhood's residential character.

These factors can lead to a decline in quality of life for residents and depress property values. Always thoroughly investigate any planned developments in the area to ensure your investment remains sound in the long term.

2. Environmental and Structural Assessments

Investigate potential environmental hazards like soil contamination, asbestos in older buildings, heritage listings, or proximity to flight paths, which could affect the property’s desirability and safety.

Additionally, assessing the structural integrity of the property is vital, particularly if you’re planning to renovate. Focus on investments where the majority of the budget improves the property's aesthetics rather than its structure, as visible improvements generally yield higher returns.

3. Legal Checks

Ensure there are no legal encumbrances, disputed titles, or unresolved claims against the property that could complicate ownership or future sales.

Conducting thorough legal checks helps secure your investment and avoid any unforeseen legal complications that might impact the property’s value or your ability to sell it later.

If you're going to renovate, be careful of overestimating the after-repair value or underestimating the costs for improvement too. This can quickly erode expected profits, turning what initially appears to be a good deal into a financial burden.

What's more, be prepared to pay handsomely for expert advice. Skimping on professional fees for building inspectors, structural engineers, and legal advisors might save costs upfront but can lead to much higher expenses if problems arise later as they can identify issues that may not be apparent at first glance.

Plan for Things to Go Wrong.

Strategic risk management means accepting the fact that things don't always go according to plan. So be sure to have contingency funds for unforeseen expenses and maintain a diversified portfolio to spread risk across various properties and markets.

CHAPTER 5:

How to Get Financing, Even if Your Banks Says No

While most people initially turn to traditional banks for funding, their stringent serviceability requirements can pose a significant barrier, particularly as your portfolio expands. In response, savvy investors are increasingly turning to:

1. Second-tier and Non-Bank Lenders

These lenders often offer flexible terms, making them an excellent alternative for investors who may not meet traditional banks' strict criteria.

2. Private Lenders

Private lenders are especially useful for short-term, high-return investments. There's typically less bureaucracy, and they can offer quicker access to funds, which is crucial when snapping up undervalued properties quickly.

3. Joint Ventures

Perfect for those who have serviceability but lack capital, or vice versa. Partnering with another investor who complements your financial capabilities can allow both parties to benefit from an investment that would be unattainable individually. For example, one partner may contribute the bulk of the capital, while the other handles management and renovation, splitting the profits according to each party's contribution.

Diversify Your Loans - Don't Put All Your Eggs in one Basket.

You never want to be at the mercy of a lender's policy change, so it's important to diversify your loan portfolio and structure your loans intelligently.

You may also want to consider the advantages entities such as companies and trusts can provide in managing debt and taxes, including presenting a cleaner personal financial statement - and potentially improving terms with lenders.

CHAPTER 6:

Be a Property Strategist, Think Like an Entrepreneur

Building a robust and profitable real estate portfolio is similar to starting a business (although in many cases, it is far more profitable and requires way less time).

You need to plan strategically, manage risks, and have a commitment to the long game.

The Importance of a Financial Buffer.

Keeping a significant reserve—whether cash in the bank or easily accessible funds in an offset or investment account—ensures you can weather unforeseen financial storms.

This buffer is crucial not only for covering unexpected expenses or income drops but also for avoiding forced sales during market downturns.

Reduce Your Risk by Spreading Investments Across Various Types of Properties & Markets.

Diversification is another critical element in building a resilient investment portfolio.

For example, combining investments in residential properties and commercial real estate can buffer against fluctuations in any one sector. Additionally, investing in different geographic locations can protect against local economic downturns. This approach reduces potential losses while increasing the overall stability and profitability of your investment portfolio.

The Psychology of Long-Term Investing.

Adopting a long-term investment strategy is about more than patience; it's a mindset that prioritises steady growth over quick gains. This approach mitigates the temptation to "time the market" or chase after fast returns, which can lead to significant mistakes. Instead, a focus on the long game allows investors to ride out the ups and downs of market cycles, benefiting from the natural appreciation of assets over time.

The Importance of Expert Guidance Cannot be Overstressed.

Just as you wouldn't represent yourself in a major legal battle without a lawyer, venturing into the complex world of real estate investment without a buyer's agent could limit your potential.

Buyer's agents not only help you fast-track your portfolio's growth, they provide access to off-market deals and better pricing.

Our founder, Jack Henderson, has demonstrated that rapid portfolio expansion is not only possible but can also be achieved with strategic precision—he built his extensive portfolio from scratch at the age of 18.

Henderson Agency stands out because of its tailored approach. We specialize in high-value properties and offer bespoke strategies that are not widely available in the market.

Learning from the Best.

Choosing Henderson means not just buying properties but also learning the ropes from the best in the business. We believe in empowering our clients, not just during the transaction but throughout your investment journey.

By engaging with us, you get more than a service; you gain a lifelong learning experience. This includes insights into portfolio planning, value addition, and comprehensive management of all related processes—from securing finances to handling legalities.

Partner With Us.

If you are ready to take your real estate portfolio to the next level, then Henderson Agency is your ideal partner.

Don't wait for the perfect moment to seize your real estate opportunities. The perfect moment is now, and the best way to capture it is with Henderson by your side. Book your free consultation today, and let's start building not just a portfolio, but a future you can be proud of.

Citations:

*<https://www.smh.com.au/national/nsw/house-price-growth-three-times-faster-than-wages-over-four-decades-20211102-p595dr.html>