



[establishing] that a suburb is undervalued. There's also a bit of risk in placing your money on theory."

Analysts agree the ripple effect is a reasonably reliable trend, but the fundamentals of demand in the property market should not be forgotten. They advise looking for suburbs with good transport options, preferably transport hubs or rail lines; good amenity and social infrastructure, such as cafe strips and shopping centres; and employment centres.

Timing is also crucial. It is certainly possible to jump into a market too early. There was general agreement by those who spoke to BRW that the inner ring in most capital cities still had reasonable growth ahead of it in the short to medium term.

The head of research for Macquarie's real estate group, Rod Cornish, says: "This isn't a boom. I still think the inner [ring] will see more solid growth in the next few years. Beyond that you'll see it spread out. I think it's going to be some time before it gets to the outer area."

Lawless says using the ripple effect to buy in the middle ring of suburbs in most capitals should be a medium-term play. "By medium term I mean one-and-a-half to two-and-a-half years before you'd

Terry Ryder's 'ugly duckling' picks

While hotspotting.com.au founder Terry Ryder acknowledges the real estate "ripple effect" as a fact, he maintains that the outlying areas of the capital cities are where the real bargains lie.

He says many people invest in the inner or near-city "blue-chip" suburbs in the belief they will deliver strong growth. It's a factor he calls the "myth of price outperformance".

Ryder maintains that targeting a city's "ugly ducklings" will deliver much better prospects for long-term capital growth.

"The mantra that the better inner-city suburbs always deliver greater growth than the outlying areas is one of the great myths of real estate investment," Ryder says. "Most data shows that the best value growth in our capital cities is found in the outer ugly duckling suburbs rather than top-end locations. While it is true that the prime inner-city suburbs of most capital cities are performing particularly strongly at the moment, in the longer term it's the more affordable areas that offer the best capital growth."

An ugly duckling suburb must be more than cheap in order to evolve into a beautiful swan, however, Ryder says. "It must also have driving factors that will transform its future standing and appeal and, ultimately, its capital growth."

These factors include a supportive local

council, job generators, transport and social infrastructure, the development of master planned communities, and business investment.

Ryder says property investors should ditch emotion from the purchasing decision when looking at ugly duckling opportunities, many of which may be in areas that have attracted negative attitudes over time for a number of reasons, such as high crime rates or low socio-economic demographics.

"Affordability helps investors get over the stigma problem," Ryder says. "The ugly duckling of the fairytale was considered unappealing because those around it didn't understand it. There are suburbs with similar qualities. These areas are considered unattractive by those looking through uneducated eyes, but have the potential to evolve into real estate swans."

"The significance of ugly duckling locations will only continue to grow, due to the affordability crisis dominating Australia's real estate market. The research shows that such suburbs not only have the affordable prices but they also outperform the elite areas on capital growth, which is a powerful combination. However, the key is changing old attitudes and perceptions of these locations."

"There's lots of money to be made if you can

overcome [the] negative perceptions these places have about them, often unfairly. As an investor, you need to put all that aside and just look at the numbers, look at the research that shows these areas outperform the ritzy areas, over time."

Ryder's top 12 "ugly duckling" picks around Australia are:

- Beenleigh, Queensland (typical house price \$200,000 - \$260,000)
- Christies Beach, South Australia (typical house price \$250,000)
- Dandenong, Victoria (typical house price \$250,000)
- Deception Bay, Queensland (typical house price \$260,000)
- Elizabeth, South Australia (typical house price \$180,000)
- Epping, Victoria (typical house price \$260,000)
- Ethelton, South Australia (typical house price \$250,000)
- Frankston, Victoria (typical house price \$250,000)
- Ipswich region (including Redbank), Queensland (typical house price \$250,000)
- Melton, Victoria (typical house price \$180,000)
- Rosebud, Victoria (typical house price \$245,000)
- St Mary's/St Clair, New South Wales (typical house price \$280,000).

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 3
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