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# 2024/ 25
# Hotspot Report

## HOT SPOT REPORT

Australia’s 2024/ 25 Cash Flow Positive Property Hotspots

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# 2024/ 25 CASH FLOW POSITIVE PROPERTY HOTSPOTS REPORT

Cash flow positive has become a buzz phrase in recent times and is becoming harder to achieve. An investor must really understand the market in order to achieve a cash flow positive asset. Buying anywhere and crossing your fingers just won't do it. But before we look into the different locations, we need to understand the background as to why it has become harder to find cash flow positive property.

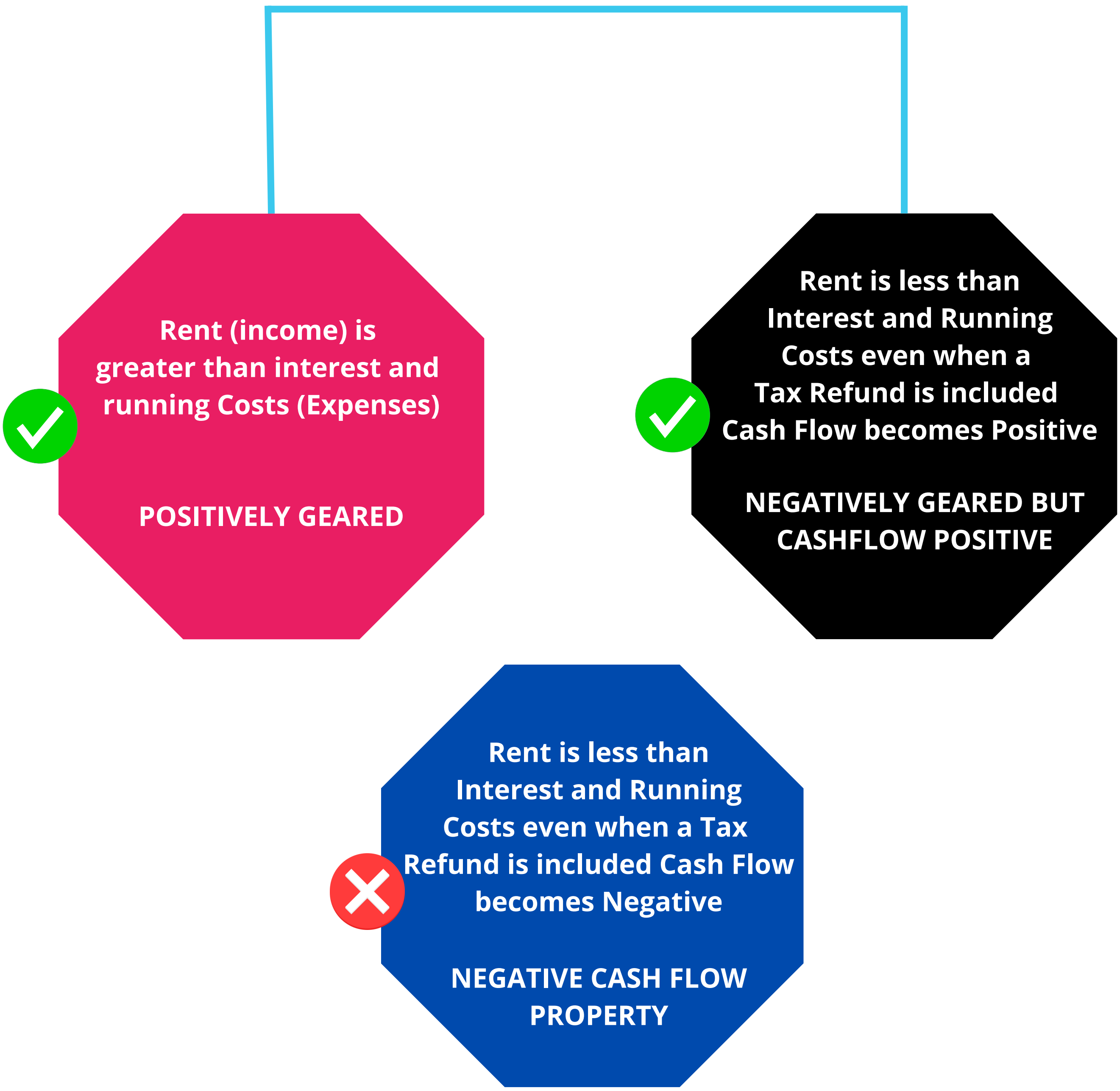
Over the last 2 years, Australia has seen big interest rate increases. In fact, the sharpest interest rate increases on record. But why did they increase so sharply? During the virus period from 2019 in order to stimulate the economy the RBA lowered interest rate to almost zero. Unfortunately, they put their foot on the throttle a little bit too much and overstimulated the market. This caused massive inflation. The RBA then seeing their mistake, scrambled to bring inflation back into check.

Whether rightly or wrongly, the only way they know how to do this is to increase interest rates and cause borrower pain. Hence rates went from 0.1% to 4.35% in the space of 18 months. For many investors, properties went from being very much cash flow positive to moving into the red and becoming a cash flow drain. Now investors really need to understand market conditions, be aware of yields and what increases yields in order to have a cash flow positive asset.

If you have been trying to research and find out where the next Cash Flow Positive Property Hotspot in the Australian property market is but can’t seem to work it out then look no further. We have done all of the research for you and have some strong recommendations for you. But firstly, before we get into the locations, if you are a first-time investor you may not actually understand what Cash Flow Positive Property is and the difference between that, Negatively Geared and Positively Geared property is.

The thing is, a property can be negatively geared and cash flow positive. The best way to look at these is via the small diagram below:

## Cash Flow Positive Property



Let’s focus on the idea of a “**Cash Flow Positive**” Property for a moment.

## What is Cash flow positive property?

The definition of a positive cash flow property is an investment property where the income – usually rent – is greater than all of the expenses. This means that the property costs you nothing to hold and is “looking after itself” as people put it. This definition is one of a property that is not only Cash Flow Positive, but also ‘**Positively Geared**’. **(see example below)**

| | | |
|---|---|---|
| + Rent | $800 pw | $41,600 pa |
| - Interest Repayments | $500 pw | $26,000 pa |
| - Running expenses of the property | | |
| (Mgt fees, Insurances, Maintenance etc | $120 pw | $6,240 pa |
| **= Net effect + $180 pw or $9,360 pa** | | |

**The net is that the property has Positive Cash Flow of $180 pw or $9,360 pa. The property is also Positively Geared.**

However, that is not the only definition of a Cash Flow Positive Property. The majority of the time the investment property income – usually rent – is less than all of the expenses. Now the property is creating a loss. The property is ‘**Negatively Geared**’. However, we can inflate that loss considerably by including tax deductions that we don’t have to pay for. “**Non Cash Deductions**” in the form of Depreciation.

When we include the amount of tax that you get back (a good portion of that which has come from depreciation) the property will now be Cash Flow Positive. Once again, this means that the property costs you nothing to hold and is “looking after itself”. This definition is one of a property that is not only Cash Flow Positive, but Negatively Geared. **(see example on next page)**

| | | |
|---|---|---|
| + Rent | $800pw | $41,600pa |
| - Interest Repayments | $700pw | $36,400pa |
| - Running expenses of the property | | |
| (Mgt fees, Insurances, Maintenance etc | $120pw | $6,240pa |

**= Cash Loss -$1,040 pa**

- Depreciation $10,000 (remember this expense hasn't been paid for

**= Total Pre Tax Loss -$11,040**

Loss x Tax Rate of 40%  11,040 x 40% = $4,416
Cash loss -$1,040 + Tax refund $4,416

**= $3,376**

**Therefore the property has a Positive Cash Flow or $3,376 pa but is also negatively geared.**

It is always the final net, after tax figure that is the most important one to investors. Because that really tells you how much you are paying to get the capital growth from the property. If you are not paying anything to hold the property valued at $600,000 and it is growing in value by 10% pa then you are gaining $60,000 per year in wealth at no cost. That is the equivalent to making $1,153 per week. That you don't have to pay tax on.

That is why the higher taxable income you are on the more lucrative it is to have negatively geared property. I hope that has helped you to understand the difference between '**Positively Geared**' and '**Cash Flow Positive**' property.

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# Cash Flow Positive Hotspots

Now – you downloaded this report to find out where the cash Flow Positive hotspots are around Australia at the moment. After extensive research and assess where the different capital cities are on their property cycles we have come up with 3 clear winners:

- Brisbane
- Perth
- Adelaide

These 3 capitals without doubt are the best cash Flow Positive property markets in Australia right now. Sydney and Melbourne have been great markets in the past but as of 2024, they don't represent good buying if it is a cash flow positive property that you are after. This will change at some stage but we are unsure as to when that will be.

So why Brisbane, Perth and Adelaide?

There are a number of key indicators to show Brisbane, Perth and Adelaide are the number one hotspots in Australia at the moment.

(Please note – I would never recommend any regional markets outside of the capital cities to buy. They carry too much risk and yields on property in those locations can drop dramatically)

The drivers that push up cash flow are typically going to be the same that are driving property prices. It is pretty simple economics in supply vs demand.

An increase in demand + a restriction in supply = Price increase.


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**So why Brisbane, Perth & Adelaide now?**

There are a number of key indicators to show Brisbane, Perth & Adelaide are the number one hotspot in Australia at the moment. The key indicators include the following:

## Rental Yields

In order for yields to increase we need strong demand and a shortage of properties. Demand needs to be driven by population growth rather than investment demand because in that way vacancy rates will drop. If there is not enough to go around, people will inevitably pay more for rent. The rental yield in Brisbane, Perth and Adelaide is around 5% on most new properties whereas Sydney and Melbourne are getting yields of around 2.5% - 3%. Therefore, to hold an investment property in Sydney or Melbourne will cost you double of what the same property would cost you in the Brisbane, Perth and Adelaide markets. As prices rise in these markets, yields will eventually drop bringing the cycle to a close and starting a new one.

## Property Prices

As mentioned previously price has a direct impact on yields. The higher the price, the higher the rent needs to be to be able to keep the yield consistent. Brisbane, Perth and Adelaide are still relatively affordable markets when compared to Sydney and Melbourne at the moment.

## Net Interstate Migration

As outlined, population growth is the main driver behind property demand.

Queensland and WA have the highest net migration of all the capitals, growing at around 4% p.a. This is in stark contrast the VIC and NSW that have faced a negative population growth rate on the last few years. When you have a negative population growth, it makes it very difficult to have a market increase in both rents and capital growth.

## Supply

All three are all significantly undersupplied. Perth and Adelaide are especially feeling the pinch with supply of available stock at all time lows. Perth has not been able to bring enough new property to market due to the lack of trades and the habit of Perth developers to drip feed the market in order to continually increase prices. While Adelaide has faced infrastructure issues due the lack of sewerage and water facilities needed to bring new housing to market.

## Other Alternatives

Now if you would like to increase cash flow further then you may have to look outside of the box of a standard four bedroom home. There are other property investment strategies that will dramatically increase rents. These include:

- Dual Occupancies
- Duplex
- Rooming accommodation
- NDIS

I am not going to go into those strategies today, however, if you would like to know more, please get in touch with the office.