Smart move
REAL ESTATE REPORT

3 Issues Present In The Market

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The Rental Market

As new high-rise developments reach completion across Sydney, the rental pool is experiencing a huge increase in dwellings, causing rental prices to drop. Given rental prices are dropping and property prices are near historical highs, incoming investors are sitting on the sidelines and tenants are finding affordable dwellings close to the CBD for the first time in years.

This affordable living was one of the objectives of the State Government, creating so much residential construction across the city. Sydney is now well past the under-supply issues of recent years. It would be wrong to say that Sydney is now oversupplied but there has been a definite re-balancing.

Foreign Buyers Becoming Foreign Sellers

Foreign buyers pushed the demand for residential construction in Sydney and Melbourne. They also played a pivotal role in driving prices up. Many foreign buyers of recent years are struggling to settle their property purchase and are looking to exit their investment. Finance challenges, lack of confidence in the investment and poor rental returns have suddenly seen the much feared foreign buyer of recent times becoming the foreign seller. An excess of foreign investors looking to exit the market could cause a major price correction particularly in off the plan re-sales.

Underquoting

Sellers are now falling victim to underquoting. During the boom, many buyers were caught out by underquoting. A typical example is where the agent suggests a price guide of $900,000 to the buyers - when the vendor's reserve price is $1,000,000.

An excessive number of buyers are attracted to the auction in the hope of buying a $1,000,000 property for around $900,000. Buoyant market conditions push the price well past the seller's reserve giving the agent the perfect excuse as to why the price guide was exceeded by such a significant amount.

Now as the market cools, many auctions are failing to attract multiple bidders. Agents who continue to promote properties below the vendor's reserve price, assuring their client that competition will push the price up on auction day, risk a calamity. When the desired buyer competition fails to materialise, the seller is left stranded on auction day as they publicly pass in for a previously unimagined low price.

The under-quote tactic to attract buyers has backfired to the seller's detriment.

Solution – Vendors are well advised to avoid using a low price as bait to attract buyers. Only allow the agent to promote a price you are willing to accept.

1/1020 Victoria Road, West Ryde NSW 2114
(02) 8006 2114 | westryde@harcourts.com.au
Harcourts West Ryde
ABN 22 611 529 689 | ACN 611 529 689 | Agent 47 Pty Ltd | Trading As Harcourts West Ryde

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Changeover Price

Whether house prices in the market are rising or falling, it is crucial to ascertain your total transaction costs for Buying and Selling before you actively start searching for a new home. The difference between your likely selling price and proposed purchase price, in addition to Stamp Duty, Selling Costs and necessary home improvements on both your existing and/or new home, is your ***Changeover Price***. This is the amount you will need to put into the transaction, whether in cash or borrowings.

Many people mistakenly focus exclusively on their selling price when in fact, it's the changeover price that will ultimately determine the success of trading in the market. The most beneficial way of Buying and Selling at present is to trade intelligently as opposed to setting a record sales price as pride can be a seller's greatest enemy in a falling market.

Very simply, it doesn't matter if you sell high in a good market because you will also buy high in that same market and vice versa. As property prices in Sydney moderate, many are finding it an easier market to trade in. Whilst their selling price is not quite at boom-time levels, on the buying side, there is an increase in stock levels and prices are showing a bit more value.

Up-Graders

Up-graders are winners when the market is falling. However, if they focus too intently on how much their existing property has fallen in value, they may miss the opportunity to upgrade in a flat market. The reason up-graders are the ultimate winners in a falling market is that the property they are purchasing has also dropped in value more than the property they are selling.

If you are selling a $1 million home to buy a $1.5 million home, a 10% drop in the market means your existing $1 million home drops by $100,000. However, the home you are purchasing has also dropped by 10% or $150,000. Therefore, you are $50,000 better off.

It is also important to note that most real estate transaction costs are based on a percentage formula, that is, sales commissions, stamp duty, and mortgage insurance. A 10% drop in the market can also result in a 10% drop in transaction costs which means you save when purchasing the more expensive home. In a strong market, there are fewer sellers than buyers. When the market drops, it does so because there are more sellers than buyers. People who have sold first in a falling market also find more stock on the market than they expected.

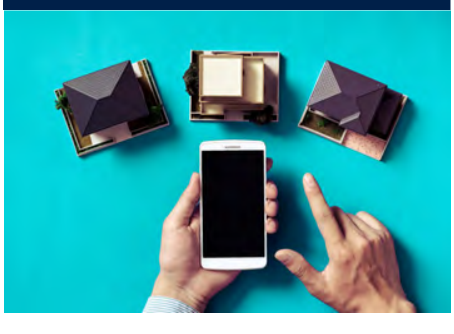
Down-Graders

Baby boomers are the most likely segment of the market to want to downgrade over the next decade. The question now facing those people hoping to realise their investment in their home is whether they should sell now or wait for a rebound in prices. Many boomers primary residence doubles as their superannuation. A sharp drop in house prices would be an extremely painful blow for many retirement plans. It is confronting point, but one that should be considered.

People looking to unlock the equity in their home can come out of a falling market worse off for the same reasons up-graders benefit. If you are down-grading to capitalise on the value of your home, the stronger the market the better off you will be.

Sydney property prices rose by about 70% between 2012 and 2017. From 2017 to 2018, prices have come off somewhere between 5 and 8% meaning, the majority of the market is still enjoying phenomenal gains on their property over the past 6 years.

Investors



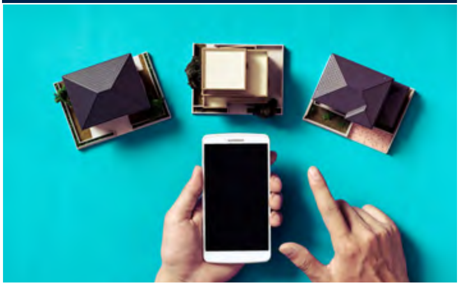
Buy and hold investors work on one of two strategies: Income or Capital Growth. Before purchasing, it is crucial to clearly establish your objective. Are you chasing a certain percentage return? Or are you investing purely for capital growth?

In recent times, capital growth has been the major focus for investors. When the market tightens, the attention often shifts towards rental income. This is the case for both new investors entering the market and existing investors looking to maximise their returns.

Investors are well advised to remember that property is a long-term trade. It was only in the debt-fuelled boom that suddenly property investment became profitable in 12-month trades...

SUCCESSFUL SALE IN TODAYS MARKET

Investors cont...



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Quite often the best value can be found when the market is falling. Every property sells well when the market is rising but unrenovated properties or those with flaws tend to underperform in a weak market.

When auction clearance rates are low, properties requiring work often get overlooked in favour of renovated dwellings. This creates an excellent buying opportunity for renovators and developers who have been squeezed out by emotional home buyers in stronger markets to emerge.

In some segments of the current market – supply is higher than demand – more sellers than buyers. Given the boom lasted for 5 years, there are many agents in the industry that are dealing with this equation for the first time in their real estate careers. In a rising market, the real estate agent does not really need to sell the virtues of a property. The market's collective confidence takes care of that. The agent simply facilitates the bidding process between buyers and negotiates the highest price.

Sydney rarely drops in price during a downturn. It tends to run flat for a sustained period making for a fairly benign correction or realignment back towards fair value however, property prices are dropping in parts of Sydney which many vendors have never expected, experienced or planned for such market conditions. Nonetheless, getting these 3 things right will leave you in the best position to sell successfully.

The Right Agent

The two worst criteria to selecting an agent is by the Sale Price they assess your property at and/or the Selling Fee they quote. Most people inadvertently select their agent based on one or both of these criteria where, in a strong or normal market, the downside to this selection process is less likely to surface.

In the current market, when listings are equal to, if not outnumbering genuine buyers, vendors need an agent they trust, is a competent negotiator and well-experienced in achieving the best possible outcome when there is one house and two or three interested buyers. The right agent is able to deliver their client the Best Possible Outcome with the least stress and risk although they won't always be able to deliver the vendor's aspirational price point, (as it may be above the best offer in the current marketplace) they cannot be criticised for this unless they have over-quoted the likely sale price to win the listing or, they lack the negotiating skills necessary to achieve a better outcome.

Many of Sydney's property markets have continued to decline throughout 2018 leaving many agents having to tell their clients mid-campaign that the price everyone was hoping to achieve is now looking very unlikely if not outright unattainable. It is difficult to have a risk-free and stress-free Sale Proccess if your agent has talked you into needlessly expensive advertising campaigns promising above market price.

Vendors who have selected an agent they trust and known to be competent, will handle unwanted/ unexpected negative news better than those that were lured by a lofty expected selling price.

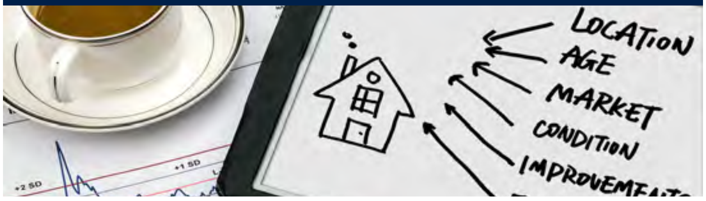
The Right Sales Proccess

Whether you believe in the public auction system or not, the reality is that it is the wrong process for most homes in this market. The withdrawal rate of auctions before the big day is now running at over 20%. The true auction clearance rate has been closer to 40% than 50%, with talk of 60% clearance rates simply being wishful thinking by agents. Of those auctions that do sell, the majority are sold before or after the auction by negotiation but counted as an auction sale.

Statistically speaking, if your vision of auction day is 4 or 5 buyers ferociously bidding for your home, you are likely to be left disappointed. Don't mistake being unable to sell at/by auction as being unable to sell. Many transactions come together on terms more than price. Price is often overstated – not to be mistaken with unimportant.

The right sales process for the market environment will deliver the best possible result. A good agent knows that a negotiation is far more likely to reach a harmonious conclusion if the terms are agreeable where, a weak negotiator solely talks price.

The Right Price

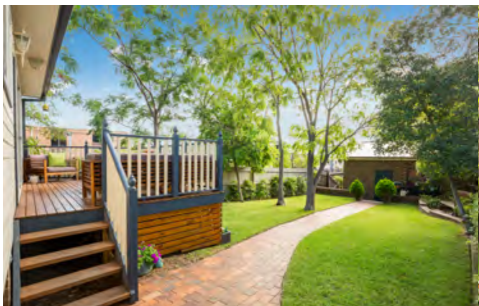


There are some very fortunate vendors that are still selling for boom-time prices. The right buyers and a dash of luck conjure to produce an outstanding result. In order to attract the right buyers, it is absolutely crucial to quote the right market price – not to be mistaken for a low underquoted price.

The right market price is not the price the property could have sold for in 2017.

Unfortunately, 2017 is gone and it is not coming back. The right market price is the price that comparable properties are selling at (not listed for but selling at) today/this week.

The right agent, the right sales process and the right price greatly increase the chances of success in the market. That is, a stress-free sale with the most money net for your property in the shortest possible time. If you get one of these three crucial ingredients wrong, the campaign could and is likely to derail.



46 John Street, Rydalmere - SOLD $1,125,000

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