Real Estate News

Information to Help You When Buying or Selling

Issue 059

The 2022 Spring Market

By Peter O'Malley, author of *Inside Real Estate*

In this issue:

The spring market is usually a season of peak sales volumes in the property market. Buyers are keen to secure a new abode in time for the next calendar year and vendors are keen to settle their affairs prior to Christmas.

In normal market cycles, a buyer's appetite for fresh stock is high as spring approaches, given stock levels are low over the preceding winter period. But this is not a normal cycle and lower sales over winter, sets up an interesting 2022 spring market. Buyers and sellers will need to stay attuned to the market conditions week to week and how each real estate agency plays the market on behalf of their respective vendors.

Promises made, promises kept

In boom markets, agents can over promise to vendors and the market will save the day. In a falling market, if a vendor comes to market overpriced, their property will languish. The gap between the asking price and the market price will widen in time.

One of an agent's preferred tricks is to quote a price the owner is happy with and then commit the owner to a long-term Exclusive Agency Agreement. Over time, as the vendor's motivation goes their price expectations come down.

The owner works out halfway through the campaign the agent

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The Emotional Investment

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The excitement of buying a new home for some can be slightly offset by the angst in letting go of their existing home. A common “solution” is to keep their existing home as an investment rather than selling it.

The merits and downside of doing so, vary from case to case but are worth assessing.

The primary consideration in keeping your former home as an investment property is deciding whether you can emotionally detach from it. The reality of being a landlord is accepting that no one will care for the respective property quite like you do, as the owner. This is not to say that tenants or property managers would wilfully neglect the property, but the upkeep of properties is sometimes a labour of love. Particularly character homes and the management of the gardens.

An owner is much more likely to overlook imperfections of a property than a tenant. Therefore, address the issues in your home that a tenant would not and does not have to accept. If not, the property manager will simply be dealing with the respective issues early on in the lease term.

To keep your existing home as a rental property having purchased a new home can sometimes mean you own an “emotional investment”. An emotional investment being defined as a property that logically you may be better off selling but prefer to keep for largely emotional reasons, for the time being. People who inherit a property often go through the same thing too. Do we keep it in the family or divest? When a property has been in the family for several decades, selling it is difficult even if the business case to do so is apparent.

Those that find themselves taking a work contract out of town and let their primary residence for the period they are away, also find themselves with an emotional investment of sorts. Clearly selling the primary residence for the purposes of a temporary job transfer is impractical. Hence the reluctant need to lease the property for a period.

Before deciding to keep or part with a property that means a lot to you, answer the below questions:

- What is the net dollar income (after running costs) the property will generate for you on an annual basis? Will the mortgage and maintenance costs absorb the income?
- What are the growth prospects in terms of capital growth and rental value?
- The tax implications in regard to Land Tax, Capital Gains Tax and Income Tax?
- Will the rent cover the mortgage on the investment property?
- What are the opportunity costs you will forgo by having the equity tied up in the investment property?
- Does the investment property offer diversity to your overall portfolio or unduly concentrate it in property and/or location?
- Based on the value of the property, what does the rental return represent as an annual % yield on the property?

Over time the pull of an emotional investment subsides and becomes more a logical investment play. By sitting down to answer the above questions, you will be better positioned to understand the basis for keeping or parting with the respective property.

The 2022 Spring Market

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overstated the price but is powerless to hold the agent to account, because they signed a lengthy agency agreement, with a 30 day termination.

The above mentioned point needs to be countered with the market shifting quickly during winter as rates increased and buyer sentiment softened.

Solution – Sign a short agency agreement of 60 days or less, with a minimum or no upfront advertising expenses payable by you as the vendor. If the agent suggests you adjust the price down, you can make a reasonable assessment as to whether the agent is providing real time market intelligence or trying to correct their initial overquote. You are better positioned to make a reasonable assessment because you are not 'locked in'.

Early response is fairly telling

As a vendor, avoid outsourcing the management of the campaign entirely to the agent. Stay attuned to it yourself. The early response to a campaign is telling. If it starts poorly in the first fortnight, it will probably continue that way if left unchecked.

There are ample fair-minded buyers in the marketplace, but there is not an excess of buyer demand. If you burn the best buyers early, it may be a long drawn out campaign.

Solution – Establish a fair and accurate market price for your property as the published price. Avoid overpricing and trying to beat the market. Those sellers that do manage to outperform the market do so through luck or excess buyer competition. In a falling market, you won't attract excess buyer competition by being overpriced.

Heading to fair value, not from it

Understandably, buyers will base their offers on current market conditions, because that suits their agenda. Equally, vendors are acutely aware of how much they could have achieved for their property 12 months ago.

It's worth noting that property prices are returning to fair value, they are not falling from fair value.

Solution – As a vendor, once you have established the current market price, you are best off deciding to either accept the best offer or withdraw from the market. Languishing on the market as prices fall won't do you any good. If you have not received any offers after a month on market, you are likely to have overpriced for the current market.

As a buyer, aim to secure quality real estate at a fair price. If you are fixated on 'a bargain', you are likely to purchase a second grade property. Remember, the best properties are the least negotiable and vice versa.

Renovation resistance

Given the inflationary challenges in the economy, just like everything else, renovations cost more. Add the rain delays, labour shortage and the inconvenience of having to oversee works, one can see why buyers are cautious. There is buyer resistance in the current market to doing wholesale works. Vendors would like to think that costed/quoted works will comfort buyers. However, this is an unwise play by sellers in the current market. Buyers are overstating the cost and effort in doing improvements. This overstatement is being reflected by lower offers at the negotiating table.

Solution – Vendors aim to repair/rectify any issues that buyers may use as leverage at the negotiating table.

Buyers may find better value in properties that require some work as the overall market is hesitant around undercapitalised properties. Inflation is here today, it may be here for a bit longer, but it won't be around forever.

Investors will re-enter the market in the near future

Whilst there has been an excess of buyers in the past few years, the one buyer profile that has gone to the sidelines has been investors. As prices boomed and rents crashed, investors stayed out. Now as the market shows more value buying and rents are rising rapidly, investors will return. Higher interest rates are not the onerous issue for investors that they are for owner occupiers, given the taxation benefits for investors. This is an important point to remember when you read property doomsayers (simplistic) market predictions about higher interest rates leading straight to a market crash.

Lower prices make property more appealing for investors and those looking to make a value purchase.

If the stock market dropped 10% on a Monday, buyers will be ready to trigger a buying spree on the Tuesday morning. In the property market, when the market drops 10%, buyers tend to stand back and wait to see if it drops another 10%.

Solution – The best buying happens in downturns. The worst buying occurs in booming markets. Because investors respond to the yield on quality real estate, they often secure the best value in a downturn, whilst many home buyers are waiting for the announcement that the market has 'officially bottomed out'.

If you find aspects of this newsletter contradictory, then we have achieved our purpose. The property market is not black and white, nor is it binary in the way it operates. The property market is a sea of contradiction.

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