Real Estate News

Information to Help You When Buying or Selling

Issue 063

Stock Surge

How will the market perform with higher stock levels?

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

Now the 2022/23 Financial Year has closed out, it is fair to say it has been a rollercoaster ride for buyers and sellers. And there is still a lot more to go on this joyride. In late 2022, in some areas prices were down 15% from their October 2021 peak. However, in the past 3-4 months, the market has staged a recovery in the order of 5 to 6%.

This is a recovery very few pundits saw coming and many feel is unsustainable. A low unemployment rate combined with historically low listing numbers are the primary cause of the rebound. The low stock levels meant active buyers were competing for fewer listings.

As we head toward spring though, we can expect listing numbers to begin increasing back toward long term norms. There are a multitude of reasons for the expected jump in listing numbers:

Higher prices tempting vendors – the bounce in market prices is a highly unexpected yet welcome surprise for many. Depending on one's outlook, the current recovery may be short lived as mortgage pressure takes a greater toll on the economy. We have already seen many vendors who failed to sell in 2022 return to the market in the first half of 2023 and achieve a sale. Many landlords who have equity in their investment property are opting to sell the asset and place the equity against their home loan.

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Negotiating in real estate sales

Negotiating skills are essential for success in real estate sales.

Incredibly, almost unbelievably - most real estate salespeople have never studied negotiation. Research indicates that less than five percent of real estate salespeople have read a book on negotiation. This is disgraceful.

Throughout the world, home sellers are losing millions of dollars due to their agents' lack of skill in the crucial role of negotiation.

Only incompetent agents say a property is "worth what a buyer pays". The good agents, the true negotiators, know:

A property is worth what they can persuade the buyer to pay.

These agents are in control. Whatever the buyer *can* pay is what the good negotiator gets for the owner, not what the buyer *wants* to pay.

Buyers want to pay below their maximum. With most agents, this is *exactly* what buyers do. Ask any homeowner what price they paid for their home. And then ask what price they *would have paid*. Most will admit they would have paid more. When asked why they didn't, most will say the owner agreed to their offer and the agent did not *ask* for more. This applies whether property is sold by auction or private treaty. Most real estate is sold for less than it could have been sold for.

Agents who are not skilled negotiators are underselling owners.

The reason is simple: the focus is on the *seller's minimum*. The focus should be on the *buyer's maximum*. The difference can mean thousands to a seller.

The Early Offer

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

The only thing more nerve-wracking than an early offer is not receiving one.

As media reports continue to highlight falling property prices, vendors cannot afford to make the wrong decision with the right buyer who makes the right offer.

In a rising market, a vendor can decline a good offer knowing that another decent offer is likely to emerge down the track. The market conditions can still compensate the vendor even if they make a mistake and decline a good offer.

In the current environment, a home seller may only see one, possibly two decent offers during the campaign. After that, bargain hunters looking to drive the price down will outnumber fair-minded buyers.

While there are still many good buyers in the market, the market depth is a lot shallower than in recent times.

A vendor's understandable concern about accepting an early offer is underselling their property. The balance to this concern is that the best buyers tend to come early.

Low stock levels due to the winter season, plus the dynamic response created by internet/database marketing and buyers waiting for new listings, conspire to make early offers a welcomed challenge for vendors. Stock levels are likely to markedly increase between mid-September and late November.

The best buyers immediately respond to new listings in the market. The best buyers have often been searching for 60-90 days. A buyer that makes an offer on a new listing to the market is at the end of their property search - while the seller is at the start of their buyer search. Vendors and their agents need to be pragmatic and unemotional in how they respond to such offers.

An early offer can inadvertently build complacency in a seller. Agents know that genuine buyers who are willing and able to make an unconditional, finance approved offer are worthy of respect and consideration.

If you receive a fair market priced offer early in the campaign, you need a good reason to decline the offer. Sure, negotiate the buyer up in price to their maximum, but declining an early offer simply because it's an early offer can be a regrettable and expensive mistake in a falling market.

The hardest offer to accept is not the one just below your aspirational price point, the hardest offer to accept is the one which is lower than what you previously rejected.

Stock Surge

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Winter is traditionally a time of tight listing supply. Whilst stock levels and unemployment both remain low, the market will continue to favour vendors. This scenario sets up a window of opportunity for prospective vendors who do want to sell.

Higher mortgage rates are forcing vendors onto the market – it is an unfortunate reality that many household budgets were not predicated on mortgage rates heading toward 7%. Core Logic's Economist Eliza Owen was recently quoted '"There may be some motivated selling reflected in the next few quarters, where property owners willingly sell at a loss to avoid rising mortgage interest rates".

"There's an unusually high proportion of people selling within a short period of time despite incurring a loss" according to Owen.

In Core Logic's Pain and Gain Report, they report the number of buyers who bought in the past 2 years and re-sold at a loss, has tripled in the past 3 months, when compared with the same period last year. Many of the boom time buyers in 2021 are taking a loss in 2023 to escape the Mortgage Cliff.

In fairness, this is a National perspective and not necessarily directly relatable to the most affluent and desirable parts of Sydney or Melbourne.

The Mortgage Cliff will take some time to have a full effect on household budgets, but it will have an impact. The graph highlighting when the COVID era Fixed Home Loans expire shows the majority of loans re-setting over winter 2023. It is clear households are doing what they can to offset rising mortgage costs. Consumer confidence is down, yet the property market is holding. This speaks to the sanctity of one's primary residence.

If the RBA were to drive mortgage rates and therefore the economy to breaking point, no amount of countermeasures will be able to offset the increase in monthly repayments for many households. It is a dire scenario and one we all hope does not occur because there won't be any winners. In this scenario though, seller supply would rapidly increase at a time buyer demand is being subdued by the higher rates.

The RBA seem to be winning the battle on inflation, which increases the chances of a soft landing. The latest inflation number of 5.6% down from 6.8% the previous month is very encouraging.

Seasonally stock increases from August onwards, in readiness for the spring campaign – this trend occurs every year and 2023 won't be any different. The market's performance for the first two months of 2023 was a continuation of 2022, with vendor's pricing under subtle pressure. Stock levels were elevated during this period, before stock levels shrivelled over autumn and winter. How the market performs as stock increases heading into spring will be illuminating. Is the underbelly of the market soft or the robust recovery of the past 3 months for real?

The impact of rising stock levels will vary from market segment to market segment. The performance of high rise apartments in suburbia may be different to that of low rise apartments in the inner-city. Renovated homes may perform better than unrenovated homes, given buyers' preferences for avoiding costs after purchase. For this reason, apartments with low strata rates will do infinitely better than apartments with high strata rates and/or Special Levies in place.

The continuing demand for housing due to surging population growth in some areas adds another layer of complexity when forecasting the next phase of the housing market?

The key to success for buyer and sellers over the next 12 months is to be well researched and pragmatic. Panic and/or denial are at opposite ends of the spectrum, but they are the twin evils in an environment like the one we are in.

Renovate or Relocate?

As the colder months set in this is a common question that many home owners will ponder.

What are the risks? What time frames should we expect? What if we over capitalise? What if we bought something else? How do we buy and sell at the same time?

Again, all very important and common questions to ask.

So where do the answers lie?

A great first step is finding and understanding your property's current market position, the market factors that may or may not contribute to changes in the value of your home, and what to expect in return for any changes you make. Whilst no one can ever guarantee what the future will hold, **an agent who is knowledgeable about the market should be able to provide sound advice and recommendations to best prepare you for your future real estate plans,** to help you best prepare for your future real estate plans.

If you would like an obligation and cost free current market appraisal, get in touch with Edwards Windsor today to organise a private and confidential discussion. During which our experienced consultants will be able to offer advice and guidance about how to prepare for your next property journey, whether that be staying where you are and transforming your home, or searching for and obtaining your next perfect property.

Edwards Windsor

6234 5500
ewre.com.au
89 Brisbane Street, Hobart