

BEFORE **BUYING AT AUCTION...**

A little quoted element of the current housing boom is the number of homes that sell prior to auction. When auction clearance rates are quoted as being at 80% and even 90% some weekends, one can understandably conclude that these sales are under the hammer.

However, a review of the weekly auction results will show that each week around 40% of the successful auction results actually sold prior to the auction. Once the unsuccessful campaigns and the properties sold prior to auction are tallied up, it becomes obvious the minority of auction campaigns actually sell under the hammer.

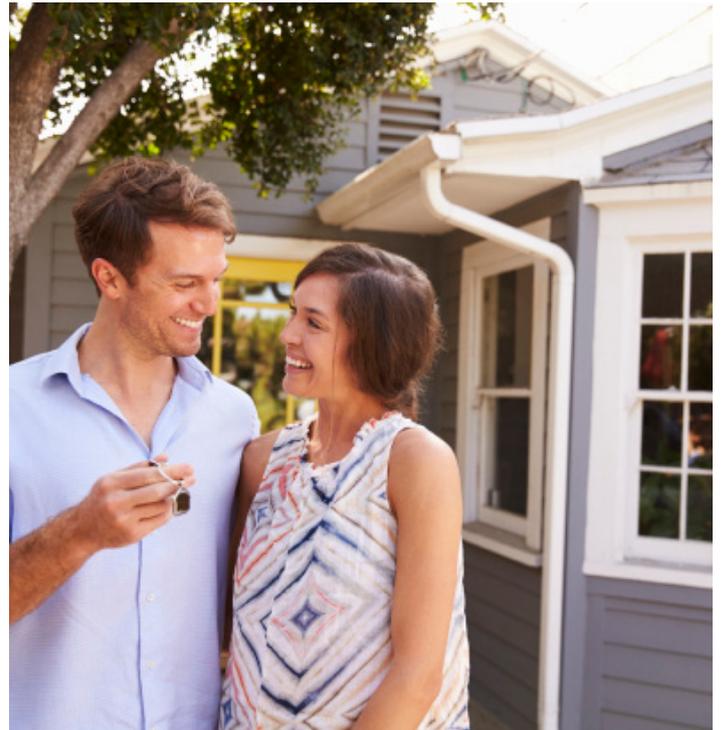
As a buyer, this can become confusing, having to decide whether to make a bid before the auction or wait for the promised public auction. In fairness, sellers need to make the same judgement call – are they better off selling early or seeing the auction process right through?

There are four key points to consider if you plan on buying pre-auction:

There are no rules – the agent is duty bound by the vendor's instructions, not the best interests of the buyer. The agent may promise you they will play a pre-auction offer a certain way, but their client may have other ideas. For example, if you make an offer before auction, the agent may be instructed to shop your offer to other buyers to see if anyone else is prepared to top your bid.

Accept that buying a desirable home before auction in this market will involve fending off competition. There is no right or wrong answer as to whether one should attempt to bid/buy before or at the actual auction.

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Each campaign is completely different to the last, hence there are no rules in this game – other than the law of the jungle. The topsy turvy nature of the current market is why there are so many buyer's agents prevalent. Many buyers have thrown their arms in the air at trying to play a game where the rules are merely loose guidelines.

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WHY IS THE HOUSING MARKET SO STRONG?

Dear Readers,

Welcome to the April edition of the Real Estate Report. The first quarter of 2021 was one of the most remarkable on record, with house price growth running at all time highs.

As real estate agents, we are often asked, 'How's the market?'. That question has morphed into 'Why is the market so strong?'. No one expected a crash in Q1 2021 but few expected the explosive growth that occurred.

The primary reason for the house price growth was and will continue to be 'cheap and available' credit. Mortgage rates have been declining for 10 years. The few interest rate rises in the last decade were quickly reversed by the RBA with rate cuts. The retail banks Standard Variable Rate 10 years ago in April 2011 was 7.79%. In March 2021, ANZ were offering a 3 year fixed rate at 2.04% on some owner occupier home loans. What a difference 10 years makes.

“ The retail banks' Standard Variable Rate in April 2011 was 7.79%, in April 2021, it's 4.39%.”

Whilst mortgage rates have been in an overwhelming downward trend, available credit and consumer confidence in applying for that credit ebbs and flows. The market downturn that saw property prices plunge in 2018 was caused by tight credit conditions. The retail banks were under siege from the Banking Royal Commission and scrambled to introduce prudent lending standards. Many of those prudent measures have now been removed or eased to allow 'credit flow'.

Given the biggest market corrections and price rises over the past decade have been as a result of credit conditions and availability, it's evident that credit is the Number 1 determinant of market conditions.

Without doubt, there are some unique secondary issues

in 2021 that amplified the impact of the generous credit conditions.

COVID-19 has been the catalyst for many baby boomers to rearrange their affairs. Some are moving from large homes to luxury apartments, others are leaving Sydney for the regions. Baby boomers, born between 1946 and 1964 are the wealthiest generation to have lived. By virtue of their numerical dominance in demographics, if you follow the trends of baby boomers, you follow the boom. Given the role demographics play in the market, the movement of baby boomers in the past 12 months cannot be underestimated.

Pursuit of yield – remarkably there is abundant cash swirling around the economy after COVID-19. For the first time in our lifetimes, you cannot get any sort of credible return by leaving cash in the bank. Therefore, many buyers are chasing yield/capital growth in the property market (and stock market) rather than having inflation eat the value of their cash away. Only time will tell whether buying property is the right investment strategy.

What is apparent though, is people feel confident enough to venture into markets and splash the cash that is swooshing around the economy. This sort of confidence was definitely absent during the beginning of COVID-19 back in March 2020.

Finally, buyers are chasing space. That suggests that housing is enjoying strong buyer demand as opposed to apartments. The city is clearly oversupplied in apartments and undersupplied for housing – hence the explosion in house prices when the primary and secondary market indicators converge.

If you know what will happen to the property market in the next quarter, send us an email, because we are keen to know.

Best wishes

Peter O'Malley & the team at Harris Partners



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Buying a property is further complicated when the guidelines and processes differ from week to week and/or agent to agent. Developing a relationship with the agent handling the listing and seeking clarity & updates will ensure you are well positioned when the sale is consummated – whether that is before, at or after the auction.

You may be asked to overpay – the agent may respond to pre-auction interest by insisting the property must go to auction, unless an absolute premium price is paid beforehand. In this equation, you are in a classic game of poker with the agent. A good agent won't disclose their hand (other buyer's offers) and you have to make a bid without knowing whether the offer will be beaten, shopped around or accepted.

Buyers are understandably worried if they go too hard with a pre-auction bid, they may be simply bidding against themselves. Conversely, in a market that seems to be rising by the week, leaving your potential dream home on the market until auction day could prove to be costly, as more buyers enter the fray.

Your early offer/interest may be discouraged – buyers are often bewildered when the agent claims and/or insist 'the owners want it to go to auction'.

Surely the owner just wants to 'sell their property' the buyers think to themselves. In some instances, the owner would genuinely like to see the property proceed to public auction. In most cases though, a pre-auction bid highlights the agent's 'price guide' is too low for the subject property in the current market conditions. The underquoting guidelines agents must adhere to ensure a pre-auction bid above the price guide compels the agent to 'update' the pricing strategy. This can stymie

the momentum of the auction campaign as buyers watch the initial low price guide being steadily increased.

If you feel your offer has not been communicated to the vendor, send a copy of your offer directly to the vendor's lawyer. This will help ensure your voice is being heard amongst the noise.

In fairness to agents, not every instance where a price guide is increased is a case of blatant underquoting. The market has opened up so strongly in 2021 that fresh highs are being experienced on a weekly basis. Agents have a duty to their vendor to maximise the sale price, something buyers must never forget during negotiations.

Define current market value – once you have done so, then decide what you are prepared and willing to pay. If you love the property, you 'may be' prepared to pay over for it, knowing the many years of happiness you will have there. If the property is nearly right but not perfect, you may be only prepared to offer current market value whilst remaining indifferent about the outcome. If you are looking for cheap, value or even a fairly priced house, you may struggle in the current property market.

In the 2008 Rugby League World Cup tournament, the champion Australian coach Wayne Bennett crossed the aisle to assist the New Zealand team. As fate would have it, the two teams met in the final of the tournament. The unassailable and formidable Australian team against a Kiwi team that lacked their rivals ability in every key area.

Bennett's mantra to the Kiwi team throughout the campaign was '**no regrets**'. Go and give it everything - win, lose or draw, come back in with '**no regrets**' about your effort or performance.

Perfect advice for home buyers in the 2021 Sydney property market.



Roger sold his property 52 Manning Road, Hunters Hill for \$2,035,000 after a very successful campaign. 344 enquiries and 10 offers were submitted on his property.

DUE DILIGENCE REPORTS

When you are selling a home, if a potential buyer requests a pest and building inspection and the result of that inspection is poor, it can derail the sales campaign. The same applies for vendors selling an apartment or townhouse that receive an unexpected or negative strata report.

Genuine issues that arise mid sales campaign which neither the seller, buyer or agent expected can be damaging. The buyer can think crucial information has been withheld and the seller can feel as though the buyer is using a tactic to lower the price.

Before selling your home, it's best to get due diligence reports done prior to listing on the open market. This will ensure that buyers cannot bluff you with a bogus issue mid-campaign. Conversely, if there is an issue that requires attention, you can rectify it prior to going on the market.

Buyers are understandably hyper-cautious prior to making a purchase. They are committing a large percentage of their wealth to one transaction. Plus they have no doubt heard one too many real estate horror stories. Unconsciously, some buyers will often double the bad news and halve the good news.

A poor pest and building inspection can cause the buyer to reduce their offer or even crash the sale entirely.

Depending on what the exact issues are will depend on whether it's commercially best to address the issue or simply disclose them to buyers. This point is one of the major benefits in the property seller doing due diligence in advance of the campaign.

Even if you choose not to rectify the issues, at least you are aware of them. The best way to handle defects is full disclosure to the buyer. If you allow buyers to discover negatives of their own accord, caution and distrust in the buyer can build.

The law may state 'Caveat emptor, buyer beware' but decency suggests these are the issues you should consider... it's a savvier approach.

Full disclosure builds trust between the seller, buyer and agent. It also avoids messy re-negotiations as the buyer will ultimately discover the negatives if you attempt to hide them.

Most buyers can accept negative issues about a property and factor it into their offer accordingly. If there is the slightest suggestion that issues have been withheld or smothered, most buyers will simply (rightly) withdraw from negotiations or over play the extent of the issues.



HARRIS PARTNERS RECENT SALES

115 James Street, Lilyfield	\$1,530,000	30/1-3 Coronation Avenue, Petersham	\$ - Confidential
67 Lancelot Street, Five Dock	\$ 2,100,000	43 Frazer Street, Lilyfield	\$ - Confidential
9 Llewellyn Street, Balmain	\$ - Confidential	1/125 Darling Street, Balmain East	\$1,617,000
23/16 Hosking Street, Balmain East	\$955,000	52 Manning Road, Hunters Hill	\$2,035,000
9 Chapel Street, Lilyfield	\$ - Confidential	78 Evans Street, Rozelle	\$2,800,000