Drummond
REAL ESTATE

Real Estate News

INFORMATION TO HELP YOU WHEN BUYING OR SELLING | Issue 63 |

2020 Property Market Previewed

The factors likely to determine the market

Written by Peter O'Malley – author of Inside Real Estate

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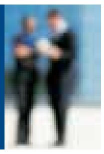

The property market is expected to enjoy a good year in 2020 after a robust recovery in the second half of 2019. An extreme set of factors hovers over the market as we commence 2020. The extremities, which are both positive and negative forces, could conceivably fuel the 'recovery turned boom further' or cause another correction.

Being aware of the critical factors that will inevitably influence and/or move the market is essential to anticipating the markets' direction in 2020.

These critical factors can create changes to the direction of the market. The secondary yet influential issues then consolidate that direction.

For example, in 2017, APRA tightened the credit conditions to stop an overheated housing market in its tracks (a critical factor). This coincided with the Banking Royal Commission that fed fear and horror stories about the behaviour of the financial services industry. The irony being the Banking Royal Commission achieved little on a practical level. Yet, buyer confidence crashed and then clearance rates followed, creating a severe downturn through 2018 - 2019.

The market lesson being the secondary issue (buyer confidence) magnified the primary cause of the downturn, being the credit tightening.

In 2019, APRA again played a role in turning around the market's direction by easing credit

conditions. This coincided with the RBA aggressively cutting rates. Buyer confidence, higher clearance rates, investors and speculators all returned to the market, creating a momentum of its own. The critical factors to the recovery were credit flow and lower interest rates.

Since 2008, the property market has tended to operate in extreme modes. Markets have either been too hot or too cold over the past 10 years. This is the ultimate clue that regulators have struggled to 'right the ship' since the GFC. They seem unable to get their settings right when it comes to a stable market. The property market is beginning to resemble a casino.

When the market is viewed through this prism, one can then ask themselves - will 2020 finally be a year of rational behaviour, over exuberance or a severe sell off?

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LETTER EDITOR

Dear Reader,

As this is our first issue for 2020 may I take the opportunity, on behalf of all of us at Drummond Real Estate, to wish you and your family a happy, healthy and prosperous New Year.

It's been a difficult start to the year with not only an extensive drought impacting the nation but devastating fires in south eastern Australia. The loss of life (people and wildlife), the extensive damage to forests and infrastructure and the obliteration of some towns and businesses due to the fires is difficult to fully comprehend. I am however confident that as this year progresses Australians across the nation will pull together to support one another.

Thank you for taking the time to read this issue. It covers two interesting topics – a comment about the current state of the economy and its likely impact on the real estate market and an extremely interesting comment on the fragmentation of the real estate advertising market. We live in a world of change.

Just remember our local (Albury-Wodonga) real estate market differs somewhat from the capital city markets although rightly or wrongly local market sentiment seems to be influenced by those bigger city markets. It's hard at times to ignore the media and overlook the big city comments when you want to buy and sell in our area. Come and see us if you have any doubts and we are happy to talk to you about how it really is locally.

Best wishes for 2020

Peter Drummond and the Team at Drummond Real Estate.

Credit conditions – markets globally seem to be risk on again. Further easing by the RBA in 2020 is predicted, which will fuel property markets. At this stage APRA doesn't seem to have any desire to slow the property market down either. If and when interest rates are reduced, this increases buyers ability to pay more in the property market.

Flammable cladding – the NSW Government is sitting on a report that states 440 building complexes across NSW contain flammable cladding. The cost of who replaces this cladding will come to a head at some stage in 2020. If this is not handled properly and the replacement cost is dumped onto the respective unit owners in the form of a special levy, the apartment market could be hit with selling pressure. This issue could cause market shock if not handled correctly.

Population pressure – population continues to grow annually. This population growth creates economic activity and benefits the property market. Population growth benefits the property market in both rental demand and buyer demand. Those that claim population pressure also impacts on the quality of lifestyle are correct. But whilst ever population growth continues to underpin the Government's economic performance, expect more people to move into town, literally.

Population pressure has been one of the most overlooked factors in the stellar market performance of Sydney and Melbourne over the past 20 years.

Stock levels – if stock in the housing sector is tight relative to demand, prices will rise. We anticipate this to be the case in the first half of 2020. This is unlikely in the apartment sector which is suffering from oversupply.

Rents/yields – landlords have experienced flat to falling returns over the past few years. As prices rise and rents fall, yields get compressed, acting as a deterrent to pragmatic investors.

Buyer confidence – the longer the recovery persists at these price levels, the more confidence buyers will have in the stability of the overall market. Paying a high price to buy a home is less scary if you are confident others would want to buy it from you, if and when you decided to sell it. Hence the importance of buyer confidence in a property market that has record low yields.

Speculators – as yields across all asset classes fall, the hunt for a decent return is on. If the signs are that housing will continue to rise, those speculating on gains will pile in, creating further upward momentum on property prices.

Employment & economy – job security is a continued concern across the economy, particularly those connected to the construction sector. Anticipating the performance of the market in 2020 is difficult to predict because the price trajectory is strong, yet the economic signals are weak. This equation is clouded further due to the damage caused by the bushfires and what the recovery effort will look like. The Government has announced a $2 billion rescue effort for the fires, which will be prioritised over a surplus.

X-factors – aside from the bushfires, 2020 commenced with Iran and the US firing rockets at each other. This is a reminder to one and all that an X-factor event can come from seemingly nowhere at any time to become the dominant issue in the market.

Real Estate ADVERTISING Market Fractures

Written by Peter O'Malley – author of Inside Real Estate

The real estate advertising market is and will continue to become more fractured. Gone are the days of real estate agent's placing all of their listings on realestate.com.au and/or domain.com.au.

In 2020 both buyers & sellers were well advised to become aware of the subtle change in how the market is transacting. The catalyst for the fragmentation in the advertising market is the onerous costs of media websites on the back of skyrocketing price increases. Both agents and property sellers have gone looking for cheaper platforms in which to transact with buyers. Just as night follows day, buyers follow property listings, to which ever platform the listings are promoted on.

In the dying days of print, as the internet's superiority and dominance emerged, many business people, web based start-ups and large corporates saw an opportunity to break into the lucrative real estate advertising market. The holy trinity of advertising to old media companies was cars, real estate and employment. The advent of the internet put all of these sectors up for grabs.

In terms of cracking the real estate market, James Packer's My Home failed, Telstra's Just Listed failed, the respective State based Real Estate Institute's failed with their versions of real estate websites. Google even had a half-hearted attempt at the Australian real estate market.

Essentially a Duopoly

In the last 10 years, realestate.com.au and domain.com.au have enjoyed what is essentially a duopoly over the Australian real estate market. There are still a few competitors attempting to break into the space, as a bona fide third competitor in the market, but the reality is it just ain't happening.

The third wheel in this equation is coming from agents who are increasingly selling their listings off market and social media sites. Social media sites provide phenomenal reach for agents to share their listings but at a fraction of the cost of media websites.

Many in the market are missing this shift in the advertising market. You may have seen commentary highlighting the lack of listings throughout 2019. The on market listing count is usually conducted by adding up and/or cross referencing properties on realestate.com.au and domain.com.au

Record Low Listings

Given the amount of transactions agents have conducted exclusively using their websites and databases in the past 12 months, the commentary surrounding record low listings was likely incorrect. Genuine buyers quickly came to realise agents were beginning to control the listing flow through their websites.

Late last year, both realestate.com.au and domain released their earnings results to the markets. For the first time since inception, both sites handed in poor results for the same period. The astronomical revenue, profit and share price growth both sites have enjoyed for the past two decades was gone. In explaining away their disappointing results, both sites blamed the property downturns in Sydney and Melbourne.

The leaders of these organisations may have also missed the shift occurring in the market as agents across the land pursue cheaper platforms, on behalf of their vendors. Some sites cost as much as $2500 for one property ad. Either the agent or the home seller needs to pay upfront.

Vendor Paid Advertising

In Australia, agents tend to follow and prefer the VPA model – Vendor Paid Advertising. The minimum cost of running a full on market campaign for a vendor is now above $5000 or $6000, payable upfront regardless of the result. In the 2018-2019 housing market that had a clearance rate of 30 to 40%, neither vendors nor agents were prepared to spend or risk that sort of money chasing a result. Many agents adapted accordingly with their 'off market' strategy, using social media, their company website and databases.

In the darkest days of the property downturn, agents profits and ability to survive were compromised by the skyrocketing advertising website costs.

In 2020, clearance rates look set to be in the 65 to 80% bracket, meaning vendors and agents maybe more inclined to take another look at the major website portals. In saying that, if the 'off market' strategy was able to function effectively without vendors and agents risking excessive amounts of hard earned dollars, why would they turn back? Only time will tell how the market plays out on this point.

Marketing your home...

What's hot

- Facebook
- Instagram
- Agents websites backed by quality data
- Email alerts
- SMS alerts
- Quality buyer databases
- Signboards
- Agents who carry the risk
- Agents with a strong brand & website

What's not

- Websites with high costs
- Real estate agents magazines
- Twitter
- Newspapers
- Buyer's calls and emails ignored by agents
- Websites with low or no traffic
- Vendor saddled with financial risk

"

We bought our house from Drummond agent Rion Kirwin. Very professional. Kept us informed at all times. Went out of his way to make sure we had everything we needed. Very smooth easy transaction.

Purchasers

"

We recently sold our house with Andy, he was absolutely fabulous, friendly, good to deal with and really worked hard for us. Sold our house within a couple of days, the photos were great, would highly recommend him to anyone looking for an awesome real estate agent! A massive thank you to you and your team Andy!

Sellers

Why Are So Many SOLD On Drummond Real Estate?

If you've ever thought about making a move, Put us on your shortlist and find out!

Let's Talk

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