

Melbourne Property Market Weekly Update week ending 1st September 2013.

Heated activity and bidding wars pushing Melbourne's established property market.

After a revised clearance rate last week – dropping from 82 per cent to 79 per cent once all results had been collected - this week's 75 per cent was back in line with the year-to-date trend which currently sits at 71 per cent.

Initial data shows year-to-date 'total transactions' are tracking higher than they were in 2011/2012 – currently 49,074 compared to 43,837 and 44,762 respectfully. However, we are still behind the 2010 figure which had seen prices 'peak' in October of that year, before they started a slow rewind as we entered a different phase of the oft quoted 'property cycle.'

In contrast to any assumed effect Federal elections typically have on investor confidence, low interest rates and a weaker economic environment in which it is harder to achieve a return on the dollar, balanced against rising yields, limited established stock, with various policies such as negative gearing and the trend to borrow and invest in property as part of a self managed super fund – continues to buoy the investment sector with the 'investor' rate of growth for the purchase of second hand dwellings, outpacing that of the owner occupied sector.

RP-data have released their August home price index the results of which should be couched against information I've revealed previously – in as much as they are not seasonally adjusted and subsequent revisions are required after any media release to allow time for the the official 'settled' sales data to filter in from the various state governments (which is typically some three months 'plus' later) – before we can achieve a reliable result - hence why it's important not to read too much into the commentary.

According to the figures, Melbourne dwelling values have increased a more modest 0.2 per cent over the month of August – 4.8 per cent for the quarter. The data covers the entire metropolitan area, therefore it's important to draw a distinction across the fragmented localities which divide the inner and middle ring 'Auction' terrains, from the broader outer suburban regions in which 'for sale by private treaty' is the preferred method.

There's no denying that Melbourne is the 'auction capital' of Australia - year to date there have been over 19,000 auction sales, which according to REIV figures, is an increase of at least 13 per cent on this time last year.

As a proportion, auctions only account for around 20 per cent of total sales; the vast majority of transactions take place behind closed doors via private treaty negotiation. However, whilst auction transactions only capture a relatively small sample of sales, they can be a good indicator to the current 'heat' of consumer sentiment toward the purchase of residential real estate (particularly in the investment sector.) And in a country which has effectively hamstrung development 'outwards' with inelastic supply side levers, ensuring we're all squashed in a doughnut like shape around the affluent capital city established localities – the concentration given over to the clearance rate each weekend is somewhat understandable - even if it does irk the larger proportion of agencies that work in outer suburban agencies.

For an inexperienced buyer in a 'hot' speculative fuelled market, auctions can present a pit fall of dangers. The typical four week campaign – three weekends of 'opens' with the auction taking place

on the fourth – is designed to act as a stimulant, effectively putting a ‘end by’ date on the period of time they have to conduct any needed due diligence.

And as clearance rates rise (the curve of which prices typically follow) the chance of a listing attracting enough attention to sell ‘prior’ also increases – shortening the marketing period further still.

Added to this is the general confusion over auction price quotes. It seems silly to point out the obvious, but no buyer likes to play guessing games when it comes to putting a price on an advertised listing.

Everyone understands real estate is a negotiated asset, however, the verbal game playing that now surrounds a proportion of the sales industry is laughable.

Responses to a ‘price enquiry’ range from a paraphrase of *“we won’t know until buyers have ‘told’ us”* to a general comment such as *“properties in the area are selling in the \$400,000s and \$500,000s”* – effectively giving any said purchaser \$200K bracket in which to ‘work it out.’

It’s part of the market insanity that surrounds our residential real estate sector. If we were operating in an ideal world, buyers would ignore price quotes altogether and do their own research to establish market value prior to spending hundreds on a pest and building inspections or solicitor fees chasing an unobtainable dream.

However, closely comparable sales data is not always readily available - computer-generated “estimates”, are, more often than not, hopelessly inaccurate. Suburb reports are equally unhelpful, and while median data will give an indication of the dollars the majority market is spending, it’s no help when evaluating individual property prices.

In Victoria published auction sales often result in “undisclosed” blank figures and private sales are just that – private. The street name will be listed, but the other relevant and essential data is missing.

It’s one reason I advocate a requirement for vendors to take responsibility for their own (typically) ‘vendor paid’ advertising campaigns, and ensure reserves – or ranges in which they’re prepared to negotiate – are published at the outset.

Whilst you can argue one way or another at the lunacy that often surrounds Australia’s addiction to all things real estate, we’re not talking about an ‘item’ on e-bay – we’re talking about the biggest financial transaction most make in a lifetime.

Hence why we need transparency in the real estate sector – information should be openly available to enable buyers to make informed decisions without the need to play ‘guessing games’ and risk poor financial decisions that can have a broader impact on the economic landscape.

According to RPData, Australia’s property market is worth an estimated \$4.86 trillion, which is three and a half times the value of Australia’s stock market and combined superannuation funds.

Assessment by ‘Moody’s,’ shows Australian banks are ‘way ahead’ of global counterparts in their exposure to property – with two-thirds of their lending tied to the residential sector.

And as we start to tick into what most assess to be a relative ‘boom’ of activity in various states – with auction rates in certain states once again approaching record highs, and analysts carefully assessing sharp price rises in the [established sector](#) - yet sitting a long way from a point at which the RBA can pull the traditional ‘rate rising’ lever to offset a dangerously overheated market – we remain in a precarious position.

As I said last week, whilst the current rally seems set to last into 2014, the prospect of higher rates coupled with higher unemployment will in my opinion, pull up any lengthy capital city market 'boom' – however in the meantime, we're in 'overdrive' and the sales industry is predictably doing everything in its nature to add fuel to the fire – in some cases, deriving campaigns with a shortened 2 or 3 week period.

And whilst in a downward market, I would fully agree with advocates such as Neil Jenman who campaign against auctions as a method of sale claiming "better results" can be achieved via 'private negotiation' - the opposite is the case when the market turns and we start to see mini rallies within certain pockets of the city.

When buyers see properties openly selling above their pre-conceived perception of 'market value' (something that generally doesn't happen when the sale is conducted via negotiation) it provides very visible reality that the market's 'moving' and the effects on the mindset act like a kind of contagion.

There's no doubt a winning bidder will only ever be 'one step' above the under bidder – and in that sense, it could be argued the 'highest' price is never achieved - however having spent years working with buyers, I can confirm - without shadow of a doubt - that during an rapid moving auction, buyers spend far less time thinking about exceeding budget constraints than they do when, in a rational, 'pre auction' moment, they take time to discuss – usually with their partner – where to draw a sensible limit for the property in question.

And it's rare to find an agent with the sharp negotiation skills to achieve similar results in private sale scenario.

There have been plenty of academic papers outlining why auctions can achieve significantly higher prices in competitive markets compared to other methods of sale. The effects broadly fall under the title of a 'pseudo-endowment effect.'

Without going into too much intricate detail, as buyers bid for a property, there is a 'feeling' of partial possession in those who take part.

If the bidding starts low – as it tends to at most auctions – the multiple bids and length of time needed to get the price to its 'reserve' creates momentum and in addition, fuels the emotional attachment and sense of ownership the participants gain towards the property.

The results of the many scientific experiments conducted on auction sales show a strong propensity for buyers to re-assess their pre-estimate of value 'upwards' which stimulates a 'win or lose' mind set, in which the main focus is to beat the competition, above and beyond simply purchasing a home.

To put it another way – when buyers bid at auction, they bid to 'win' and in the process, lose connection to the initial goal of achieving a purchase within a predetermined budgetary limit.

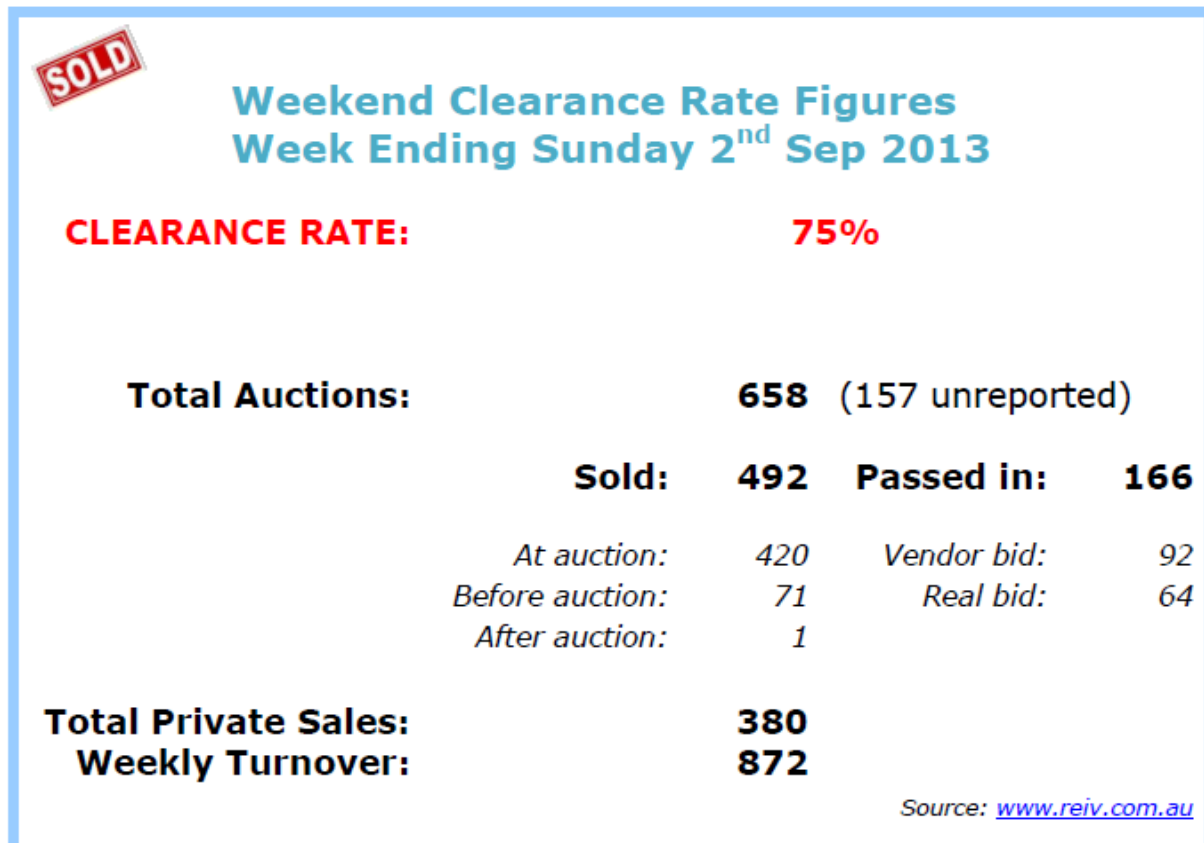
With a talented auctioneer doing all in his power to convince bidders to 'buy their weekends back' with 'just one more shot' – it doesn't take much for an inexperienced buyer to stretch past his comfort level and 'lose it.'

Smaller increments and repeated bidding can magnify these results. Hence why you'll often see buyer advocates attempt to 'nip' the momentum in the bud, with an initial high bid or by using what's known as a 'snip' technique – coming in right at the end and giving the impression to already stretched buyers, that there's 'plenty more in the tank.'

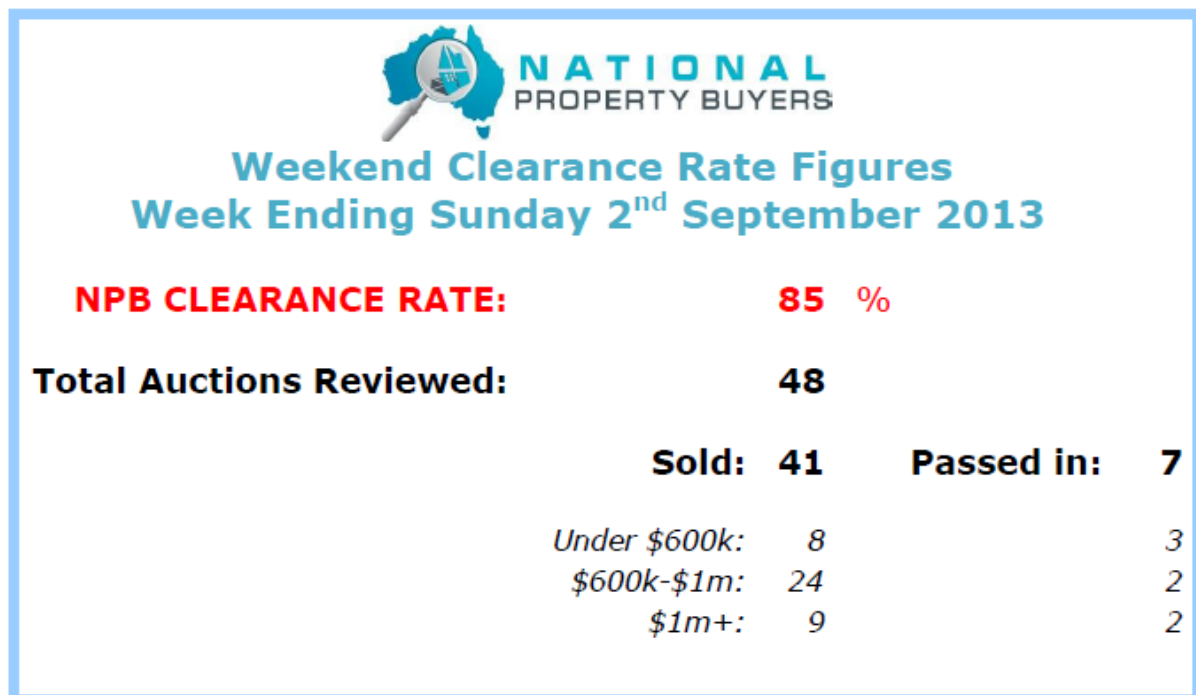
And whilst it can be very successful in gaining the vendor an outstanding result – it has little advantage for a buyer, who can end up with a healthy dose of remorse once the initial fervour has worn off.

There are numerous tips I can offer any would be buyer to heighten their chances at ‘winning’ an auction battle, however no tip more essential than to evaluate a pre-conceived budget prior to the auction – and stick rigidly to it regardless of the atmosphere.

Catherine Cashmore



The **NPB clearance rate** is representative of the results evidenced in the 'quality' end of the marketplace. We take the results from a range of suburbs; however please note we are not 'suburb specific'. NPB Melbourne, negotiate on hundreds of properties for their clients each year throughout **all** areas of Melbourne and the Bellarine Peninsular. The properties we highlight are taken from a selection which we carefully analyse for quality assessment and revise daily.



Why is the NPB Clearance Rate always higher than the REIV Clearance Rate?

The NPB clearance rate is a snapshot of 'investment grade' or 'cream of the crop' properties representing only those we recommend to clients. These are properties that hold the best potential for a long term capital growth and rental demand. Whilst the Real Estate Institute of Victoria include all properties scheduled for auction (as reported by their members) – including those that are poorly located and unlikely to attract demand even in a robust climate; our clearance rate is far more representative of the market that represents our client's best interests. It's an important part of how we assess the best negotiation strategy for your needs.

The full list of the 48 properties reviewed by NPB this weekend:

< \$600k

Suburb	Type	Beds	Quote	Result
Reservoir IN	Townhouse	3	\$370k+	PASSED
Clifton Hill \$420,000	Apartment	2	\$390-430k	SOLD
Carnegie \$420,000	Apartment	2	\$400k+	SOLD
Brunswick West \$432,000	Apartment	2	\$350-380k	SOLD
Elwood \$451,000	Apartment	2	\$370-400k	SOLD
Yarraville \$468,500	Apartment	2	\$420-460k	SOLD
Macleod \$510,000	House	2	\$450-490k	SOLD
Seddon \$540,000	House	2	\$490k+	SOLD
Preston \$555,000	Unit	3	\$480-530k	SOLD
Bentleigh East IN	Unit	3	\$500-550k	PASSED
Collingwood IN	Apartment	2	\$530-580k	PASSED
SOLD	8			
PASSED IN	3			
TOTAL	11			

NPB CLEARANCE RATE 72%

\$600k - \$1m

Suburb	Type	Beds	Quote	Result
Carnegie \$600,000	Unit	2	\$500k+	SOLD
Kew \$603,000	Apartment	2	\$500-550k	SOLD
Cheltenham \$605,000	House	3	\$460-490k	SOLD
Coburg \$612,000	House	3	\$500-550k	SOLD
Coburg \$617,500	House	3	\$450-490k	SOLD
Hawthorn East \$625,000	Unit	2	\$500-550k	SOLD
Fitzroy North Townhouse		2	\$500-550k	SOLD \$633,000

Surrey Hills \$635,000	Unit	2	\$500-550k	SOLD
Ascot Vale \$643,500	House	2	\$495-540k	SOLD
Reservoir \$652,000	House	3	\$550k+	SOLD
Blackburn North \$678,000	House	3	\$540k+	SOLD
Seddon \$681,000	House	3	\$580-640k	SOLD
Mitcham \$693,000	House	5	\$500-550k	SOLD
Thornbury \$720,000	House	3	\$595-655k	SOLD
Windsor \$726,750	Apartment	2	\$550k+	SOLD
Blackburn South \$751,500	House	3	\$550-600k	SOLD
Richmond \$765,000	Townhouse	2	\$600-650k	SOLD
Newport \$730,000	Townhouse	3	\$680-720k	SOLD
Malvern East \$740,000	Unit	3	\$580-630k	SOLD
Kensington \$752,000	Townhouse	3	\$650k+	SOLD
Yarraville \$796,000	House	3	\$600-660k	SOLD
Ascot Vale \$825,000	House	3	\$700-750k	SOLD
Moorabbin \$832,000	House	4	\$670-720k	SOLD
Port Melbourne IN	Townhouse	2	\$790-850k	PASSED
Moonee Ponds \$915,000	House	2	\$870-950k	SOLD
Preston IN	House	3	\$900-990k	PASSED

SOLD 24
PASSED IN 2
TOTAL 26

NPB CLEARANCE RATE 92%

\$1m+

Suburb	Type	Beds	Quote	Result
Northcote \$1,040,000	House	3	\$850-900k	SOLD
Richmond \$1,147,500	House	3	\$1m+	SOLD
Clifton Hill \$1,150,000	House	4	\$820-890k	SOLD

Albert Park \$1,150,000	House	2	\$980-1075k	SOLD
Kew \$1,220,000	House	3	\$1m+	SOLD
Prahran \$1,220,000	House	3	\$1.1m+	SOLD
Moonee Ponds \$1,275,000	House	4	\$1.15-1.25m	SOLD
Hawthorn East IN	House	3	\$2-2.2m	PASSED
Elwood \$2,612,500	House	4	\$2.5m+	SOLD
Williamstown IN	House	4	\$2.5m+	PASSED
Hawthorn \$3,230,000	House	4	\$3m+	SOLD

SOLD 9
PASSED IN 2
TOTAL 11

NPB CLEARANCE RATE 81%

OVERALL

SOLD 41
PASSED IN 7
TOTAL 48

NPB CLEARANCE RATE 85%

Auctions in the Spotlight

69 Ohea Street Coburg



Reported by: **Antony Bucello**
Agent: **Barry Plant**
Quote: **\$500,000-\$550,000**
Crowd: **75 Approx**
Bidders: **5**
On Market: **\$575,000**
Result: **\$612,000**

Comment: Opening on a vendor bid of \$480,000, the property was announced on the market at \$575,000 and with competition from 5 bidders, sold for \$612,000

7/8 Tongue Street Yarraville



Reported by: **Robert Di Vita**
Agent: **Jas Stephens**
Quote: **Mid \$400K+**
Crowd: **25 Approx**
Bidders: **1**
On Market: **N/A**
Result: **\$468,500**

Comment: Opening on a vendor bid of \$430,000 followed by a second of \$440,000 – one bidder placed a bid of \$450,000 prior to the property passing in for negotiation and later selling for \$468,500.

CONTACT US

If you need any assistance with searching, assessing or negotiating your next property purchase or simply wish to discuss your property buying needs, please don't hesitate to [contact us](#). Alternatively, you can complete our online [Help Us Help You](#) form and we will contact you.

Regards

Antony Bucello and Catherine Cashmore



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