The Real Estate Wrap
With Leanne Pilkington

President of the REINSW
Managing Director, Laing+Simmons Corporation

Published 11 December 2018

The bright side of the downturn

Now it's the OECD's turn to provide a warning to the Australian Government about the flow-on impacts from the house price "crash".

"*If house prices collapse consumer spending could suffer, via negative impact on wealth including from exposures to bank shares, which would encourage deleveraging*," the think-tank said in a statement.

The risk of continued price declines, it says, is that Australia's run of growth could meet an abrupt end.

From their most recent peak, house prices in Sydney have fallen nearly 10%. It's the longest period of month on month price declines the market has seen since the recession of the early 1990s.

But there's a strong argument that the downward trajectory has nearly run its course. The weight of pent-up demand for homes, which is growing, speaks to a market with a solution in waiting. It may take some time to get there, but lots of people need homes and this won't change until they secure them.

The banks have tightened their lending criteria. Making it harder for people to secure a loan to buy property doesn't reduce demand. It just means that demand goes unsatisfied.

People in rental accommodation need to save a larger deposit, a tall ask in times when rental stress is on the increase. But again, this doesn't reduce demand, it just means it goes unsatisfied.

The city's population is ever-increasing. People from overseas still look at Sydney as a great place to start a new life. Demand waiting to be satisfied.

Unsatisfied demand on a broader scale swells until a trigger point is invariably reached. Banks will inevitably begin lending again, which will be a more palatable concept when the likelihood of a bank customer overpaying for a property diminishes.

We think there is much to like about real estate as an asset class heading into 2019. A closer look at the demand fundamentals reveals a bright side to the current downturn.

Continued...

The Real Estate Wrap
With Leanne Pilkington

President of the REINSW
Managing Director, Laing+Simmons Corporation

Published 11th December 2018

Clearance rates steady

CoreLogic numbers put Sydney's preliminary auction clearance rate figure at 48.1% for last week, down on the preliminary estimate of 50.6% from the week before. There were 853 auctions recorded and, when the final results come in, the number will come back as ever.

A similar story to the past few weeks - and months. This weekend pretty much wraps up the auction action for 2018 and we can expect a similar result this time next week too.

Final thought

Warren Buffett knows a thing or two about investing. It would be interesting to understand his take on a property investment in the Sydney market at present.

Counter cyclical investment could be described as Buffett's bread and butter, perhaps best encapsulated by his oft-quoted mantra: "*We attempt to be fearful when others are greedy and to be greedy only when others are fearful.*"

Buy low, sell high. Sounds simple, and of course there's much more to making an astute real estate purchase, irrespective of the market cycle. But the first part is where the market is at right now. And we've previously outlined the strength of pent-up demand waiting to be satisfied.

Predicting the future can be a dangerous business. Who knows what, with the benefit of hindsight, will happen to a property purchase at this point in the cycle. But the principle of counter cyclical investment points to significant opportunities in real estate at present.