

The Real Estate Wrap

With Leanne Pilkington

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Building slows, price grows?

Our theme has been one of optimism in recent weeks and new figures suggest that, despite mixed messages at an economic level, this position is justified.

It's about finding the silver lining. In this case, we can look to the news of the slowdown in residential building activity. The Daily Telegraph quoted Chief Forecaster for the Australian Construction Industry Forum, Kerry Barwise, over the weekend as saying that: "where growth in residential building activity had been slowing, it is now definitely in contraction".

Apparently, the brakes on construction levels have been applied hard. Conditions are now similar to those experienced during the GFC. From that base, we all know what happened in Sydney. Prices boomed on the back of a lack of stock.

Chief Economist for REA Group Nerida Conisbee last week said a repeat is on the cards. She expects prices to pick up in Sydney as soon as the next few months. From there, it's anybody's guess, and a similar boom in Sydney is not out of the question.

Contraction is a worrying concept for those employed in residential construction and its associated industries. Furniture suppliers, whitegoods retailers, carpet layers, the list goes on.

But for property owners, the sharp slump in building activity means the return to price growth can now be expected, not just hoped for. As to whether the next boom is as pronounced as the last, and as quick to follow the GFC-type building levels we're now experiencing, remains to be seen.

What seems increasingly apparent, though, is that for those intending to buy in the near future, whether it's a first, second or third home, or an investment, the clock has started to tick.

Clearance rates: up again

Across the nation, CoreLogic figures show the number of auctions last week mirrored the week before with the preliminary clearance rate showing a mild increase.

In Sydney, the increase was more significant. CoreLogic reported that there were 365 homes auctioned across Sydney last week, returning a preliminary auction clearance rate of 81.2 per cent, a substantial increase on the 72 per cent final clearance rate recorded for the week before.

We'd expect the trend whereby the final rate holds above 70 per cent to continue, which provides a pretty firm indication of where the buyer mindset is at. Could spring bring about a further increase over these already impressive levels?

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Final thought

Returning to the glut in residential construction activity being experienced more broadly, and especially in New South Wales, it's worth considering what this means in a supply versus demand context.

Generally speaking, now would be a cost-efficient time to engage the services of a residential builder. More contractors vying for fewer jobs intensifies competition. The consumer wins out.

Applying this to the typical vendor situation, perhaps it's worth re-crunching the numbers on the renovation you've been weighing up. If you're soon to be in the market to sell, sometimes a renovation is best left alone, with the capital intensive nature of such projects not necessarily guaranteed to achieve a suitably high sale price to cover the cost.

Lower the cost of the renovation and suddenly the balance changes. Perhaps a renovation now in preparation for listing your property in the near future could unlock new value in a market where prices are tipped, by some, to rise sooner rather than later.

Of course, renovations are a major undertaking and it's a decision not to be taken lightly. It's important to do your due diligence, as it is for any significant financial outlay. Part of the process is engaging the opinions of those in the know.

Seek some obligation-free quotes. Talk to architects with experience in the Council approval process about your plans. Investigate your neighbourhood to understand other projects on the go. And, of course, talk to your locally experienced real estate agent. There's no-one better placed to go through the pros and cons of your planned renovation.

