The best, and worst, downturn property deals

Tuesday 12 May 2009 00:00

Michael Laurence

This is a highly-treacherous residential property market for unwary buyers. Yet the same market holds some of the best knock-out bargains in years for cashed-up and highly informed buyers.

The biggest traps lie at the bottom and the top of the market. Properties going for $500,000 and less may only be artificially propped up by the Federal Government's temporary assistance for new home buyers, which is due to end next month. And high-end properties are still falling in price.

Further, the lowest interest rates in 49 years, and expectations for escalating unemployment, provide additional nasty traps. Once the economy enters its recovery phase, interest rates will inevitably begin their march upwards - leaving many homeowners with properties they cannot really afford.

So here is SmartCompany's seven-strategy guide to the best and worst property deals in the midst of the world economic crisis:

ONE. Stay away from properties up to $500,000

Sydney buyers' agent Patrick Bright, chief executive of EPS Property Search, says this end of the market has been "pumped up by the Government-induced frenzy" and astute buyers should stay right away from it.

Bright is referring to the Federal Government's short-lived grants for first home buyers - $14,000 for buyers of established homes and $21,000 for those building new homes - in addition to existing state government grants.

The federal grants were introduced to run from 14 October last year to 30 June this year. And there seems little likelihood of their extension.

Bright is convinced that these grants have inflated property prices selling for up to $500,000, the cutoff point for eligibility. He says the grants have gone straight into the pockets of vendors and builders who had lifted their prices in response.

Louis Christopher, head of property research for investment researcher Adviser Edge, agrees with Bright that prices of properties selling for up to $500,000 could be hit once the federal grant is removed. And Christopher urges would-be buyers to be really cautious at this end of the market.

TWO. Quickly sell properties priced up to $500,000

If you own a property in this segment of the market and were intending to sell anyway, Bright has some straightforward advice: "Get on with selling it now, before the Federal Government's first home buyer grant runs out."

This tip is based on his believe that prices in this segment are likely to fall in value without the federal assistance (see above.) Keep in mind that you don't have much time before the federal grant is withdrawn.

THREE. Upgrade your home

Bright describes trading-up to a more expensive home in the $1 million-plus market as a "brilliant thing to do" in this market. (In lower-priced states such as South Australia and Queensland, he is referring to trading-up to the $800,000-plus properties.)

Bright says that while you may have to accept a lower price for your existing home than once obtainable, you will be buying into a price segment that has experienced larger price falls. You'll save on price, and your transaction costs such as stamp duty and agent's fees will be lower than a few months ago.

"I have a lot of clients doing this right now," he says. For instance, one of his clients recently sold a property on Sydney's North Shore for $1.38 million - about 10% less than obtainable before prices fell - and is looking for a property for up to $2.2 million. In short, the client is buying into a segment of the market that has taken a much bigger hit.

"This client is now cashed-up and ready to negotiate a real bargain," Bright says.

"If you were intending to upgrade over the next 12 to 18 months, I would do it right now," he suggests. Bright points out that the higher the price, the more prices have fallen.

Christopher agrees that now could be the right time for buyers to trade-up to a more costly home, but suggests that they aim to negotiate prices that allow for further possible downwards revaluations.

He says you might be fortunate to have been in a lower-cost segment of the market that has been flat or has risen in value, yet now trading-up to a segment that has significantly fallen in price.

Cameron Kusher, research analyst with property researcher RP Data, also supports a strategy of upgrading to a more expensive home. But he too warns that such buyers should be prepared for more possible falls.

Kusher says buyers wanting to upgrade to $1 million-plus properties (or $800,000-plus in Adelaide and Brisbane) could be rewarded in the inner-city suburbs, for example, that have access to good transport and are considered desirable places to live.

And the really top-end also offers some tremendous buys but, of course, with the risk of further price falls. As examples Kusher points to the exclusive Sydney suburbs of Palm Beach, Mosman and Vaucluse, where prices have really taken a beating.

FOUR. Buy a bargain beach house

There has probably never been a better time to pick up a quality beach house with magnificent views in sought-after locations.

Kusher points out that the mix is right for bargain buying - sales volumes are right down, prices are slashed and there is an abundance of properties on the market. Many buyers under financial pressure have been dumping their non-core assets, and that includes their beach houses.

Another factor is at work that makes this sector of the market even more wide open for bargain hunters - it seems that fewer baby boomers in or nearing retirement are making their great sea-change during the global economic crisis.

Anyone planning to retire within the next couple of years has not had a better time for years to prepare for a sea-change.

Another group that perhaps should be eyeing up this market are business owners who rely heavily on the internet to make sales and service customers, enabling them to satisfactorily work outside city centres.

Kusher's picks for potential bargain coastal properties include Agnes Waters in central Queensland and Bryon Bay in the far north of New South Wales. Sales in these towns are way down and there's plenty on the market, says Kusher.

However Louis Christopher at Adviser Edge says that while coastal properties have already been slugged by the biggest price falls in the property market, their values could continue to fall. "A bargain today can be an even bigger bargain tomorrow," he says.

While Christopher agrees with Kusher that there may be some excellent buys among coastal properties, he emphasises that buyers should aim to negotiate prices that reflect further potential falls.

FIVE. Make sure you don't overpay

This is a particularly fragile property market that will not treat kindly any buyers who pay too much. Christopher says prices are generally flat to potentially falling, with only the lower-end edging upwards at this time. "Buyers could end up being in negative equity very quickly," he warns.

Christopher says that buyers in rising markets would look for capital gains to make up for any overpayment for a property. But this is certainly not the position in this weak market.

He suggests obtaining an independent valuation of a property as part of your research to ensure the price is a fair market value.

Kusher says buyers can adopt other measures to guard against paying too much. "Try not to get emotionally attached to a property," he suggests. Buyers should painstakingly research the market and set a firm limit on what they are willing to pay.

"Don't get caught up with agents playing you off against other buyers, and be prepared to walk away," he says. "There are always other opportunities out there."

Significantly, given the state of the economy, Kusher suggests that buyers take into account the possibility of employment loss when deciding how much they are willing to borrow. He also says an idea is to decide in advance at what point you will fix interest rates once they begin to move upwards.

SIX. Identify ugly ducklings

In the stampede of first home buyers wanting to take advantage of state and federal grants, some properties might have been overlooked.

For instance, Kusher suspects that there are some "ugly ducklings" in the segment up to $500,000 that may just need a few DIY renovations to really add value. Perhaps the garden is overgrown, the fences falling down and the woodwork in need of a little paint.

Such properties may have been overlooked in the focus on renovated properties.

SEVEN. Don't rush into this market

Apart from the first home buyer segment of the market, analysts generally say that prices are either flat or falling. And all segments of the market are vulnerable, with expectations of reasonably subdued capital gains when they do occur.

Kusher believes that would-be buyers have no need to rush to get into this market. "Do your research, negotiate hard, and take your time," he suggests.