



UNDERSTAND THE PROPERTY ESCALATOR

A renewed warning to homesellers.

UPDATE - March 16: Some homesellers are selling their homes for lower prices than they were offered a few weeks ago. If you are considering an offer on your property, please consider the comments in this article.

The property market is like an escalator. Sometimes it goes up - as it has recently. And sometimes it goes down. In different areas, it may move at different speeds, even in different directions. One area may be falling while others are still rising. Sometimes the escalator stops.

In some areas, right now, the escalator is moving down. Other areas are sure to follow.

In September, a couple in the Melbourne suburb of Essendon auctioned their home. The highest bid was \$360,000. Not good enough. Last week they received an offer of \$340,000. Uh-oh.

In the Sydney suburb of Denistone a home was passed in at auction on September 25. It was later advertised for \$700,000. Today, it is down to \$680,000. If it doesn't sell, tomorrow it could be advertised for \$660,000.

These are just two of many cases being reported now - mostly it's the middle to upper priced suburbs in Sydney and Melbourne (at the moment).

In these areas, homesellers are starting to find it tough to get the prices they expected to get. Some are getting edgy. The offers they rejected a few weeks ago are now looking like good offers. Unfortunately those offers are gone. The buyers have bought something else. "If only we'd taken that early offer," they moan. It's the old cliché about the wisdom of hindsight.

Although the frenzy is fading and homes are taking longer to sell, many sellers are still confident - at least outwardly. One echoed a typical comment, "We are prepared to wait to get our price."

Okay, but for those who decide to wait, there's a question they should ask - How long will we have to wait?

Well, instead of hindsight, let's use foresight.

Westpac has now joined the chorus of experts who believe property prices are 20 per cent overvalued. Although no one likes to say it, it's fairly obvious what this means. Prices may be going down. It has happened before - many times. The last time it happened - or started to happen - a lot of sellers ignored the signals and paid a terrible price. They said the same thing, "If we can't get the price we want, we'll wait." And wait they did.

If you owned a home in Melbourne in 1991 and you decided to wait for that great price your neighbours had sold for, you'd have waited seven years. That's if you didn't crack under the strain. Back then, a seller in the Melbourne suburb of Greenvale wanted \$350,000. He rejected an offer of \$320,000. Six months - and several agents later, when he was desperate, he sold for \$260,000.

It happens at the end of every boom. Go back to the eighties in Sydney. If you rejected a great offer in 1981, you'd also have waited seven years to get a similar offer.

The trickiest time to be selling property is when the property escalator starts going down. This is the time when the offer you get today is often higher than the one you'll get tomorrow. However, based on the prices you may have seen other homes selling for, today's offer may seem low. But tomorrow the offer may be lower still. Weeks may pass - and nothing happens. You live in hope. But it's a false hope, because the escalator is on the way down. The longer you wait, the lower your price. You may wait years.

So, how do you know if you should sell? And for what price? Or, should you wait? It depends on your personal circumstances. What you want to do with your life is the most important factor you should consider.



“(If you have to sell, be careful you don't make the mistake of following the escalator down in price.)”

Typically, here's what many sellers do when the property escalator starts going down. They reject an early offer. And then, if they don't get another offer, they start to become a tad anxious. Although they are not desperate - not yet, anyway - they realise they may have to lower their asking price. Not too much, just a little. They may lower the asking price by say \$10,000. Often, however, the market prices have dropped by more than \$10,000.

And so they start to follow the escalator down in price - always one step behind. The market price may fall by \$20,000. They lower their price by \$10,000. The market price falls again. And then they lower their price again. Too late. They are following the escalator down. It's a costly mistake.

While their new asking price may seem low to them - they are still above the level to which the market has fallen. And on it goes, down, down, down.

Finally, the sellers are desperate. They have to sell immediately. But their home, having been on the market for several weeks, even months - and often with several agents - is stale. Everyone wonders what's wrong with it. Stale properties and desperate sellers. It's a recipe for financial disaster.

One of the worst examples of ignoring the property escalator was a home which came for sale at the end of the last boom. The sellers wanted \$690,000. It was a hugely optimistic price. Way too much. The home was worth closer to \$500,000. The sellers expected the property escalator to keep going up. But it was going down. They rejected several early offers. Months passed. Then they began to lower their asking price. But never enough to catch the best price. They kept rejecting offers and then, a few weeks later, they would lower their asking price again - always below the offers they had received earlier. Finally, in desperation, they were forced to accept the ridiculous price of \$360,000. Their stubbornness cost them about \$150,000.

The property escalator is tricky. When it's moving down, it's hard to accept that your gorgeous home is worth less than the shocker up the road that sold for a whopping price a few months ago.

But that shocker sold at yesterday's prices. Today's prices are not the same as yesterday's prices.

When the escalator is moving down, it means tomorrow's prices will not be as high as today's prices. If you get an offer today, it may be the best you'll get for many a day. If that offer enables you to sell - and get on with your life, seriously consider it. Perhaps, if you are buying again, you'll be paying less - so it will all work out okay.

In Sydney's Balmain a home has just sold for \$965,000. A few weeks ago, the owners rejected an offer of \$989,000. When they realised that the property escalator was moving down, they quickly grabbed the \$965,000. That was today's price. Tomorrow it may be lower.

If you hold out for yesterday's price, you could be waiting for a lot of tomorrows.

You could be waiting years.