M POINT FINANCIAL SOLUTIONS

NOVEMBER 2017 NEWSLETTER

THE PROPERTY CYCLE

WHEN TO BUY? / WHEN TO SELL?

It's probably the most asked question of all time for property investors, and the hardest one to answer with any certainty – when is a good time to buy or sell a property?

You've likely heard property spruikers telling you that it's "not market timing", it's "time in the market" that makes property investing a success. As far as I am concerned, this is classic spruiker speak, designed to ensure that, once you have taken the bait and purchased from their stock on offer (and started to think that maybe you've been stitched up) you wait around for that magical "time in market" to do its job rather than complain to them about the lemon they sold you. Eventually, most properties will grow and if it's been long enough, you are less likely to do the calculations to discover that money in the bank would have been a better option for you than that investment property.

Another gem is that property "doubles every 10 years". I actually heard at a recent expo from a property investor to claim it doubles every 7 years. He based the success of his own formula on this assured doubling. It was easy enough for the audience to swallow that one, given that they all most likely lived in property in Sydney that had just gained about 50% in three years. It was such an exciting time for Sydney property owners that most of the ones who have owned property longer than that have simply forgotten that for the years between 2003 and 2010 they were lucky if they saw a 17% total improvement in the value. A doubling of value in 7 years is going to be a real stretch even for those who got in

P 02 9929 4177 F 02 9929 5479
LEVEL 1, 68 ALFRED STREET
MILSONS POINT, NSW 2061
MPOINT.COM.AU

M POINT FINANCIAL SOLUTIONS PTY LTD
CREDIT REPRESENTATIVE 492756 OF BLSSA PTY LTD ACN 117 651 760
AUSTRALIAN CREDIT LICENCE 391237

just before this recent boom, and I can't imagine how people in Perth and Darwin would be feeling about that claim, given the sad performance of those two markets.

As long as you understand what drives property growth and choose property which possesses all of those characteristics, and then hold it for at least 10 years, you should, at some point in that 10 years, have a period of time where you do see a good spurt of growth - certainly enough to have made the buy worthwhile. One of the most critical skills you need as a property investor is the ability to time your market well – good market timing every time you buy will absolutely improve the overall outcome of your portfolio.

And so, it is understandable that everyone wants to know how to work out just when the market is at the bottom, so that they can get in to ride it to the top just before the tide turns. Or get out when the market appears to be overheating and valuations have stretched.

It's important to note though, that not every falling market will turn into a rising one, and not every market at the bottom will change direction and start to head to the top. If this is what you believe, then you could well find yourself with properties which sit in the doldrums for years, never showing any real growth during your investment period. It's highly possible for a property market to be low, and stay low for a very long time, just as it's also possible for some markets to go up a little, then down again, then up a little, and down again, endlessly.

However, while it is actually not possible to pick when the bell is ringing to signify the turn of a market into an upward or downward trend, there are definitely indicators that a market is trending up rather than down, and vice versa. Knowing what they are might help you pick better properties, avoid bad properties and divest properties which are about to head south, sooner. Here are some tell-tale signs that you can look for before you start to see an increase or decrease in actual prices:

- A shrinking of the number of days on the market (or an increase for a falling market)
- A reduction of the percentage that prices are being discounted by to effect a sale (or a rise for a falling market)
- An increase in the rental yields when values aren't really moving yet (or a

fall in a declining market)

- A decrease to the vacancy rate (or increase in a falling market)
- A short- term boost to population numbers which cannot be explained by other factors (such as large infrastructure builds bringing in new labour)
- A reduction in housing starts in the area (or an increasing number of new builds in a falling or stagnant market)
- A lack of new land supply (or an abundance of new land releases in a declining or stable market).

While the above factors are not a guarantee of a market swing either way, being able to establish them will go a long way toward improving your property investing success. Identifying these factors requires you to carefully monitor the market and map the trends you see happening from month to month. This is why investing in 'hotspots' carries so much danger – someone else has monitored the market and the upswing is already well under way by the time you hear about it.

Patience is the key as well as ensuring you do plenty of research into your proposed market. There are a number of factors that you need to consider when investing in property. Not least of those is the ability to get finance from a lender. This has definitely become harder in recent months as the banks change their lending requirements. If you are thinking of investing or even reviewing your existing portfolio M Point Finance is here to assist you reach those investment goals.