Lights out at top end of town

KARIN DERKLEY
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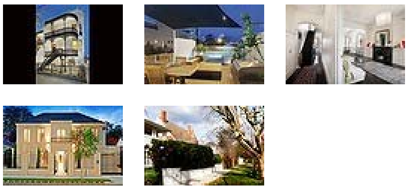
Melbourne's prestige properties
6 Avoca st, South Yarra was passed in



Winter gloom descends on Melbourne's prestige properties, writes Karin Derkley.

How things can change in just three months. In March, Melbourne's top-end property market was roaring. Property prices of more than $1 million had charged up by 25 per cent in little more than 12 months as bidders fell over themselves to push prices well above the reserve. After the doom and gloom of 2009, it seemed the prestige market was playing catch-up.

During the past few weeks, winter has closed in. Clearance rates on high-end properties have collapsed from 70 per cent to as low as 40 per cent in some areas. Prices have dropped by as much as 10 per cent since March.

Buyer's agent David Morrell, of Morrell and Koren, says the slide in the top-end market started just after Easter. "Around April, you started seeing old mansions that weren't selling. People were no longer paying crazy prices, even for good properties. There just wasn't that level of competition any more."

Then, by May, Mr Morell says, "it was as if someone turned the lights off". Properties that weren't ideally located or top quality were passing in and hanging around unloved for weeks, and sometimes months, before selling at bargain prices.

Ian James, of JPP Buyers Advocates, says he realised the market had changed when agents started ringing him during the week to make sure he would be at the Saturday auction. More recently, he's had agents of passed-in properties calling him to revive offers they'd knocked back earlier.

Even agents concede that the frenzied market of the first half of the year has fizzled out.

"We're certainly not seeing the aggressive buying activity of earlier this year," says Gerald Delaney, of Kay & Burton. "Buyers are being a lot more circumspect."

Tim Fletcher, of Fletchers Real Estate, agrees the market is not as strong as it had been. "But it had to slow down," he adds. "It had got to an almost unhealthy level."

So what has pricked the bubble?

The seasonal gloom hasn't helped, of course. But given that clearance rates on the wider Melbourne market are still up at a healthy 70 per cent, clearly something is happening on high that hasn't afflicted the rest of the property market.

Mr Morrell says the re-emergence of global financial problems is at least partly to blame. "There is a general uncertainty out there and a realisation that the world isn't fixed yet. It's affecting their investments and their bonuses, which have suddenly come off the table again."

Mr James agrees that the health of the top-end market is more closely intertwined with the sharemarket and global economics than the sub-$1 million market, which is about people needing a place to live. "If people are feeling uncertain about their business and their investments, they're happy to spend less on a high-end property."

However, Mal James, of James Buyer Advocates, says it's not that demand has fallen off but that supply is at unprecedentedly high levels for winter. For the weekend of June 19, auction numbers across Melbourne were up at almost 1000, according to the REIV, almost double the same time last year.

As to why, it depends on who you are talking to. Agents such as Mr Fletcher and Mr Delaney say the market has been flooded by those selling because the market has been doing so well. Mal James says that six weeks ago, many buyers decided to fast-track their sales plans because of fears the booming market could not last.

It means there are not enough buyers now to absorb the increased stock. Mal James says his company's demand indicator shows the number of bidders for each auction fell to 1.1 at June 19, compared with three for each auction in March.

"We've got the same number of buyers; they're just spread more thinly across more auctions."

That average of 1.1 belies the fact that, while some auctions have seen three or four bidders, many have not had one. On June 19, no bidders put up their hand for houses in Eldene Court, Toorak; Avoca Street, South Yarra; and Mayfield Avenue, Malvern. The properties were passed in. A property at Parkhill Road, Kew, was passed in at $3.2 million with just one bidder.

"The market is always thinner at the upper level," Mal James says. An auction in Yarra might see as many as five or six bidders in a booming market, halving to two or three when the market gets tougher. "But in Bayside or Port Phillip you end up with not much more than one bidder per auction," Mr James says.

The fact that half the properties going to auction aren't selling on the day also means that, unless vendors are prepared to take their property back off the market, those properties are hanging around, creating competition with new listings. Does that make this an ideal market for buyers?

It has put buyers in a stronger position than a couple of months ago, Mr Morrell says. "Back in March, you'd get auctioneers with that cheeky grin, boosting up the prices of the auction. You're certainly not seeing that these days.

"Instead, there's a lot of frowning when they see that you're the only real bidder at an auction."

Agents are frequently launching auctions with a vendor bid, with no further activity forthcoming, Mr Morrell says. At one such stalled auction, Mr Morrell offered the agent a couple of hundred thousand dollars below the vendor bid. "I said to the auctioneer: 'If you don't accept that, we may as well all go home now."' The offer was accepted.

But negotiating when you're the only bidder can be disconcerting, Mr Morrell says. "You don't want to be the only buyer at an auction because it's hard to determine what is the real market. You might be paying $100,000 more than you need to."

Ian James says a passed-in property is not necessarily a great result for buyers. "Buyers get very confused when they are confronted with a passed-in property. They think that if it has been passed in it means it's not worth buying." Going into one-to-one negotiation raises a new set of ground rules, he says.

And, frustratingly for agents, vendors are not always willing to negotiate. "Some sellers aren't prepared to take less than they thought they'd get when they first put the property on the market," Mr Delaney says.

"Unless they have to sell, because they've bought elsewhere for instance, they'd rather take the property back off the market and wait till conditions improve."

Which they may do before long. As long as financial conditions stay stable in Australia, there is little likelihood of forced sales ahead, Mal James says. If sellers don't put their homes on the market, supply will dry up, "and as long as demand remains constant, who knows what will happen to prices then?" The whole thing could take off again.

Comments

1 comments so far

» «
»I love it how spruikers always have to say it is only a temporary slow down etc etc.«
»The simple answers why the top end has collapsed:
- the bottom rung in this ponzi scheme, AKA first home owners, have bailed out due to unaffordability and cessation of FHOG boost. Without the 'greater fool' there is no upward push.
- high prices require higher levels of debt, generally. Higher levels of debt make you more sensitive to interest rate changes. In an increasing rate world, people finally may have maxxed out their house borrowing credit card, and are thinking 'can I actually afford to pay this back'? Probably too late though.
- Slight tightening of FIRB rules. Comes as no shock that foreign speculators were propping this market up. It's all a bit clearer now how much like a casino this property market is.«
»Next question is - with investment yields on property being so, so poor, making the only reason to dive headlong into property being price appreciation, what happens when price appreciation stops? Can the market just 'tread water' forever? Ask an investor if they want to generate negative income on rental streams while holding the capital value of the property still or even falling and I bet they will say 'no thanks - it doesn't make economic sense'. «
»Could be an interesting year after all, with the Chinese property bubble bursting so spectacularly currently, is Australia next?«
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