

Time to Get Excited!

by Gavin McPherson (Director – Oasis Property Buyers)

It has been a while since I received an email from a client “fearing” the market will fall dramatically in the near future. Stating that he had lived amongst the carnage of the UK property market in 2007/08, he considered putting his property search on “slow burn”.

I spoke to my client and allayed most of their fears with a few words of wisdom from greater investment minds than my own. What also brought a smile to my face was the fact that if this sentiment was misplaced in many other households around Sydney, this was about to bring some excellent buying opportunities.

The world's greatest investor, Warren Buffet and his much revered mentor Benjamin Graham often stated that: “When the market gets greedy, it's time to get nervous. When the market gets nervous, it's time to get greedy!”

This doesn't mean we all rush out to buy property tomorrow

but my company is genuinely purchasing property at 10-15% discount to market price already. However, if buyers think there is another 20% discount market on the horizon in premium Sydney suburbs, they are sadly mistaken.

With continuously increasing rental returns, the sub \$1m bracket is still a very safe bet. Even a bread and butter \$550,000 unit at the moment is delivering \$530 - \$550 per week rent with most pundits predicting 8-12% per annum increases over the next 3 years. Even if these estimates are only half of this, (5%) the compounded growth on this delivers a rental return of \$614 - \$637 per week for a \$550,000 property. As such, I see an automatic floor under First Home Buyer priced property for two reasons:

- a) The ever increasing pressure on yields and the under supply of property supporting this, and
- b) The ever present ‘critical

mass' of buyers within the First Home Buyers bracket.

I see rent as a great proxy for fundamental analysis of the market and the property in the First Home Buyer Bracket. (\$300k - \$1m). On that note, it is interesting to note that even this week I purchased a \$1,040,000 property for First Home Buyers, shunning the Government Incentives.

In discussing the sub premium and premium markets I think the theme is still the same. How long this takes to show up in a higher volume of sales I think is closer than we all might think. I have a list as long as my arm (in size 8 font!) of overseas expatriate and Chinese buyers ready to buy Sydney property just waiting for a return of the SAUD to natural levels. Without speculating exactly when the dollar will drop (one thinks it will have more to do with the performance of one other particular currency) it is simple mathematics to work out that the exercise could cost them

30%+ less for the property with the dollar at say 85c.

Chinese buyers have made the same overtures in their waiting game to buy back into Sydney property, intensively watching premium stock. I am confident that sub premium and premium performances will improve in the short to medium term.

Finishing the way I started, allow me to indulge a small reference to the great economist Benjamin Graham and applying his investor mindset to the property market. The market, as he puts it, behaves like a “voting machine” – with speculation, media and sentiment often distorting real fundamentals. In the end however, Grahams assertion that “in the long term, it [the market] acts like a weighing machine”, where its true value will always be reflected. In applying it to your property search, look for fundamentals and ignore the noise pollution of those pesky guests at your dinner party who inevitably chime in with: “sell


now...buy now”.

Look at the property, consider it...if the price is right – buy it. Prices, in the long term are not going down. That I will guarantee.

Gavin McPherson is a professional property investor and the Managing Director of OasisProperty, one of Sydney's Premier Buyers Agencies and 2009 Winner of the Business Achiever Awards (Real Estate). He is a local Balmoral resident and is available by appointment (02 8705 3252).



Gavin McPherson - Director of Oasis Property Buyers



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