



On the Ground

Market Prime for Recovery



Gavin Hegney
Executive Chairman
Hegney Property Group

The property market is pumped, primed and ready to go. We have the lowest interest rates in over 40 years, a healthy relativity of the cost to rent versus the cost to buy and a whole new load of demand in the market courtesy of the First Home Buyers stimulus package. In fact, there was over \$1 billion worth of property bought by this category last month alone.

The market placement is looking prime for recovery and...

investors should be rubbing their hands together.

But are they? More likely, many investors are sitting on their hands. So what stands in the way?

If all of this was at the end of the recession when we would be seeing falling unemployment rates, rising growth figures and rising exports, perhaps the market would rocket upwards.

One step at a time though. Today's step is that the drop in house prices is abating and in some areas, prices are looking simply

irresistible. Just the fact that prices have stopped falling has brought the sidelined buyers back into the market. Furthermore, yields are returning for the investment buyers and suddenly the downside risk is lessened with even some upside potential.

If a property basically "self-funds" for an investor with the rental income off-setting the mortgage interest costs, then any capital gain becomes profit. With a "break-even" level to off-set the negative gearing of 1% growth or less, the investors risk is indeed lessened considerably. (The break-even is how much capital growth is required in the property to off-set the cash flow or negative gearing loss to form an overall capital neutral position).

All of the above factors suggest that a real and genuine turn in the market is in the short term, and also suggests improvement either late 2009 or early 2010.

We never pick the bottom of the market, as we never pick the top of the market exactly but if you follow the adage of "it's not what you pay, it's what you buy" then it's worth looking around at what's on the market now, especially if, and only if, it's the right type of property in the right location.

Today as a buyer you can be choosy, 12 months out you may not be able to be so selective, but those that step into the market "early" could be rewarded for their risk.

With the First Home Buyers stimulus boost eventually past, by early 2010, this presents a genuine opportunity to assess the market unaffected by a "one-off" stimulus.

Perhaps that is the last piece in the puzzle for investors.

"On the Ground"

Market sentiment has certainly improved and we share with you the optimistic signs that are heralding change within our marketplace.

"Ego vs Bargain"

Snaring a property at a bargain price can be good for the ego but does not necessarily secure a sensible long term investment.

"Divorce - a time for care and the right advice"

One market indicator on the increase is that of couples divorcing. We discuss the issues facing those who must sell the family home.

Inside



Want to know where you should be investing in property?

Call to enquire about our Hegney Property Plan - we'll help you make the right property decisions.



“On the Ground”

Market Update by
Nathan King
Managing Director
Hegney Property Group



It all comes down to confidence.....

On writing our Hegney “On The Ground” update, we observe that market sentiment has certainly improved since our last newsletter. Not just within the property space. We have seen an amazing run on the stock market, we have officially avoided recession and information on the web and print media appears a lot more optimistic during recent weeks.

All these factors have aligned at the same time as clear signs that the residential property market has stabilised giving a confidence boost in this property sector. It is interesting just how quickly the property market reacts to confidence (however we have seen this work both ways). I believe that the reaction time is largely attributed to the availability of information via web, subscribed email feeds or the fact that we can check the latest news and stock market results on our mobiles whenever we have a spare moment! Information is everywhere and readily available and in today’s modern culture many of us crave these updates, and hence react quickly based on our sentiment at that time.

Since our last Hegney Newsletter, the number of properties for sale in the property market have reduced significantly with the latest information indicating stock levels currently sit at approximately 13,000. This shows a drastic reduction when compared to approximately 18,000 in March 2008. Our Property Advisers indicate strong demand and evidence that properties are selling at first ‘home opens’, showing a shortage of listings within certain suburbs which translates to upward pressure on values and a further decline in stock levels.

Our Valuers and Property Advisers, on the ground, often observe different trends, or the real reasons behind the variety of statistics that are provided to us, some of which conflict to what is actually occurring.

In the Western suburbs there has been a sharp correction in values since the second quarter of 2007 however the increase in activity in recent months indicates this market has stabilised albeit at a lower level. Purchasers within this market are still cautious hence pricing needs to reflect this correction in values to enact a sale. This activity is an encouraging sign and if it gains momentum from the revering stock market, it has the ability to rebound strongly, given that it was the hardest hit sector with price drops of up to 30%.

The affordable established suburbs, particularly north of the river, now have a shortage of supply and this take up has been mainly fuelled by the first home buyer stimulus. Importantly, the rental returns from these properties are certainly proving attractive to investors and our Advisers are also actively purchasing properties on behalf of clients within these localities. Investors are slowly re-entering the market motivated by a greater negative gearing option, capital growth prospects and rental returns even though rents are softening. Our Valuers are reporting that the second-tier markets of \$500,000 to \$1,000,000 are certainly active at present with quality property being well sort and selling quickly. Importantly, the

main take up of stock levels is within the sub \$500,000 market which is of no surprise given the first home buyer stimulus package.

I believe that although the residential market appears to have stabilised, we have not yet witnessed the impact of the first home buyers retracting from the market or the fact that their buying decision may have been brought forward due to the government incentive. So the question then becomes: Are there enough buyers both owner occupiers and investors to continue this stability in the market?

Only time will tell, yet when we see properties selling on the first day that they are advertised for sale and for a price above the original asking price, it rings an alarm bell that says this is not normal nor sustainable. This market will be tested when the First Home Buyer Boost is re-set to the original Grant of \$7,000, when unemployment levels rise as is widely suggested and when interest rates move from their generational 49 year lows.

Importantly, today people believe that the worst could well be over and we can face the future having beaten the worst of the past.

This recession has not been like any that I have seen before so far for many reasons. In fact, I would term it the ‘Flu Shot’ recession as we seemed to have had a brief taste of the symptoms yet never really contracted the recession.

Let’s hope that it doesn’t mutate.

Hegney Sponsors Property Council of Australia (WA)

Hegney Property Group has been invited by Property Council of Australia (WA) to become a ‘Leading Partner’ Sponsor for 2009/10.

Nathan King, managing director of Hegney Property Group said he welcomed the opportunity for a closer involvement with the Property Council of Australia as they have always been supportive of Hegney Property Group initiatives and he believes that the Council plays an integral role within the property industry.

The Property Council of Australia is the peak industry body representing the commercial, retail, residential and industrial property industry and their membership comprises over 300 companies.

The sponsorship will further strengthen the relationship between both organisations and provides Hegney Property Group with an opportunity to show their support of the Council who give invaluable support to the property industry.

Divorce – a time for care and the right advice

There are some sensitive topics that we have in the past chosen not to cover in our newsletter and one that has topped that list is the issue of divorce and the ramifications for both the individuals involved who then face the subsequent property and financial decisions that follow. It is an area which we as a business find ourselves actively assisting the process in undertaking valuations and giving property advice..

An interesting indicator of what's occurring in some sectors of the market is the marked increase in the level of enquiry from people contacting our Hegney office and seeking assistance with their specific valuation requirements for divorce/separation purposes.

On a daily basis, our office is receiving an increasing number of enquiries from husband and wife parties who have decided to separate/divorce and are faced with the sad and often daunting task of selling the family home. Property is usually the couple's largest asset and holds their wealth, which must then be divided. This unfortunate reality has now become a growing aspect of our business and is an emotionally volatile area that requires sensitivity and caring.

In the majority of cases, trends show that there has predominantly been one party within the marriage that has handled the couples' financial situation and therefore has an advantage in understanding the process and requirements that need to occur as well as the financial consequence. This same party also then has the confidence to financially re-build by making future decisions that will move them ahead.

In many situations however, for the party who lacks confidence and expertise with money decisions now face fear of the future, fear of where they will end up living and fear of their longer term financial security. Interestingly, these fears are actually the same concerns that are shared by the many people who have or are facing redundancy due to our economic climate and similarly have a need for guidance with their decisions.

One factor that becomes apparent is that by the time fear sets in, it becomes too late for rational thinking and in some cases important financial decisions can be made based on the wrong reasoning or mis-information. We are seeing this on a daily basis.

If you find yourself in the situation of a marriage breakdown and the inevitable result will lead to separation/divorce here are some helpful points to be aware of:

Whether you decide to sell the family home or opt for one party to buy the other party out, the first step is to have your property

- **Marked increase in enquiries for divorce/separation valuations.**
- **A couple's largest wealth asset is usually held in their property.**
- **Many people fear the future and where they will end up living post-divorce.**
- **The first step is always to have property independently valued.**
- **Cost of valuation can be borne equally if "Single Expert Witness" is appointed.**
- **Seek guidance from an independent adviser before making financial/property decisions.**
- **A smart decision on your next property transaction will be the difference in achieving better long term financial security.**

independently valued by an accredited valuation firm. Should you engage your local real estate agent to provide you with an appraisal, you need to be aware that this document will not be suitable to later be used in the Family Law Court should the matter proceed to court.

The valuation undertaken must be thorough and completely accurate and the valuer's report needs to be a detailed and well researched document that can, if required, be relied on in a court of law.

If you intend to use the services of a Family Court lawyer you can instruct the lawyers for both parties to engage just one valuation

firm to act as a "Single Expert Witness" in valuing your property. This can provide the opportunity for the cost of the valuation to be borne equally by both parties and therefore more cost effective than two parties obtaining a valuation from two separate valuation companies and paying for this service twice. (This could also mean one less issue to cause argument).

Throughout the process of selling the family home and assessing where you go from here, you will no doubt be offered plenty of advice from family, friends, work colleagues etc. It is important to also consider talking to independent advisers for guidance who are not emotionally connected to either party and have a broader understanding of the complexities of the property and finance markets. It is advisable to take your time and gather as much information as possible by talking to people you respect and trust.

It is important to draw comfort from the fact that following the divorce process there are services available to help you through your decision-making, as this can be an overwhelming time. Even engaging assistance or guidance from just one outside service can mean the difference in you making a well-informed decision on your next property transaction and being financially more secure in the long term.

For most, divorce can prove to be an arduous and stressful process however once all of the

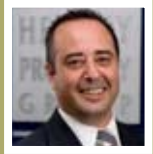
components are dealt with and any fears of "what's next" are allayed, you can start to plan for your new chapter with confidence and optimism.

To assist with getting your life back on track, a smart property decision can be of great assistance.

Hegney's have a team of advisers and valuers to assist you with these decisions – whether it undertaking a valuation on your property, providing a brief consultation to guide you, or for us to locate and negotiate the purchase of a property on your behalf. We are here to help.



Ego vs Bargain



Paul Sparta

Senior Property Adviser
Hegney Property Advisers

As a property adviser and buyer's agent I am in a privileged position to negotiate the buying of properties on behalf of clients and as a real estate agent colleague reminded me the other day 'each property deal is different'. Given the current market that we are experiencing today, these words ring true more than ever.

In essence, everybody wants a 'bargain' or at least the perception that they are 'getting' a bargain. This is not always the correct way to go about securing a good property as a long-term investment.

In the past, I have seen many property deals whereby the purchaser has, in my opinion at the time, bought over the odds, only to be blessed with an outstanding property in the longer term, when its real intrinsic value is realised. Conversely, I have also seen people buy, what at first glance appears to be a bargain, only to then be left 'holding a lemon' where it was even difficult to make lemonade!

I believe that the ego-filled feeling of 'grabbing a property at a bargain price' can cloud a sensible and proper judgment.

In many cases "ego" is a dirty word (with apologies to the 1970's music group "Skyhooks"!) The real challenge in purchasing property is to achieve a mix of both and that is not as easy as it seems.

It's the old adage that it is "not necessarily what you pay and as opposed to what you buy" and there is a fine line in getting the correct

balance in the tough game of purchase price versus property type.

When buying property, we have all heard the experts say, 'Do your research'. I too, cannot stress the importance of this. I urge every property investor or owner-occupier of all property types not to research via the media. Rather, I think the fictitious character of Sherlock Holmes would have been a great property investor as he always dug that little bit deeper.

Make your own enquiries whether it be with the local authority regarding current zoning, any future zoning changes, current and future infrastructure, forecast demographics, transport routes and perhaps any hidden issues on the Certificate of Title. It is also important to assess the condition of the building and improvements etc. Once you have satisfied yourself that the property is worth buying, then the question of price and what to offer becomes a challenging game. The best helping hand in formulating what figure to offer is to analyse the recent sales in the area and to a lesser extent what are comparable properties currently on the market and their asking price.

If you believe that the property has a realistic asking price and your investigations reveal that it is indeed a good property that fits your criteria, then don't offer an unrealistic amount, particularly if the seller has the luxury of time. I say this because chances are someone else will also recognise the value in buying this property and possibly cost you the deal. I have seen this scenario many times with the original purchaser regretful for not having offered the right amount in the first place.

Naturally you don't want to purchase a property in excess of it's current market value however after conducting your research, if the property ticks all the boxes within your criteria, then a realistic offer may result in a sensible and worthwhile purchase.

New staffing trend within the Hegney office

There has been an interesting staffing shift that has developed which has seen an increase in the number of female valuers working at Hegney Property Valuations.

The valuation industry has traditionally been quite a male-oriented vocation and there has always been a weighted imbalance of male valuers outnumbering their female counterparts in most valuation firms in Western Australia.

In-house at Hegney Property Valuations Perth office Julia Cordier, Megan Young, Vikki Politis, and Tanya Thygesen make up the team of licensed female valuers in the company.

Additionally, Caitlin Warren and Brooke White are Hegney trainee valuers with Caitlin specialising in commercial property and Brooke operating in the residential sector. To complement their valuation studies, both Caitlin and Brooke have benefited from working at Hegney's in administrative support roles prior to their traineeship.

The Hegney South-West office located in Bunbury isn't without a strong female presence either with licensed valuers Felicity Graham, Shayela Devlin and Shannon Mitchell specialising in valuing property within the state's south-west region.

Hegney Property Group managing director Nathan King says "They are all talented valuers who demonstrate an admirable work ethic and are committed to succeeding in their profession. It's encouraging to see female valuers making their mark within the valuation industry and providing a great balance within our Hegney valuation team."



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