REIQ
REAL ESTATE INSTITUTE QUEENSLAND

TIMING THE MARKET AND UNDERSTANDING THE PROPERTY CYCLE

Understanding where we are in the property cycle – and understanding the phases of the property cycle – is an important part of building your real estate knowledge.

Historically, the accepted wisdom suggests that one revolution of the property cycle can take between seven and 10 years. Most agents operate on the basis that someone who has owned their home for at least seven years is potentially considering a move, whether that sale is to upgrade or downsize their property.

Everybody wants to buy property at that moment when the market is at the bottom and about to recover and we all want to sell at the peak of the boom, when prices are at their greatest.

Of course, the reality is that people buy and sell property when it's right for their personal circumstances. And the downside of selling at the top of the market is that most of us are likely buying our next property at the top of the market.

This is why the prudent advice is to buy property for the long term. Generally speaking, if you wait long enough, property will grow in value.

Depending on your source, the property cycle can have either three or four phases. The REIQ's version of the property clock identifies four parts to the cycle: Midnight to 3 o'clock is falling, 3 – 6 o'clock is stabilising, 6 – 9 o'clock is recovering and 9 – 12 o'clock is rising. We have added two small sections at 3 o'clock and 9 o'clock that class markets as steady. See illustration below.

A market is classified according to the last four quarters of activity:

1. **Falling:** Prices are following a downward trend, days-on-market statistics are lengthening and vendor discounting is increasing. This is the time when properties are taking longer to sell, prices are generally below expectation and the difference between the first-listed sale price and the final sale price is getting bigger. In a rental market, conditions are weak and tend to favour tenants.
2. **Stabilising:** This is the period when the bottom of the market has been met. We see prices become more predictable, vendor discounting and days on market hold steady from one quarter to the next. Tenants are still in good bargaining positions and are able to negotiate terms of their lease.
3. **Recovery:** This is when we start to see some small, steady price growth. Listing volumes generally start to increase and other indicators, such as days on market and vendor discounting start to get smaller. Confidence returns to the market and buyers become more active, while passive sellers move into active-seller phase. This is more often a healthy rental market phase, with vacancies from 2.5% to 3.5%. Landlords and tenants have equilibrium in this market.

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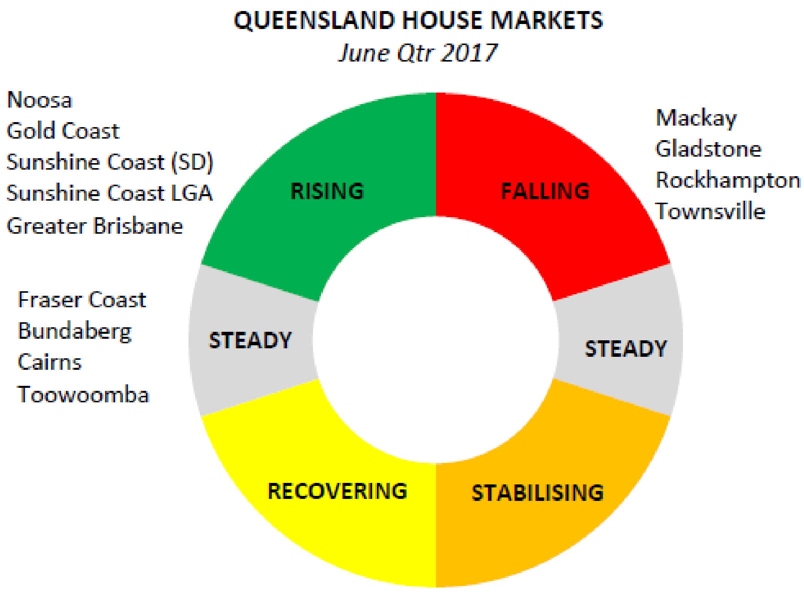
4. **Rising:** A rising market will start to attract strong media attention, with record prices capturing headlines. Auctions become more popular as a method of sale and clearance rates rise. Days on market and vendor discounting are smaller still and there are many buyers attending open homes. Private treaty sales attract multiple offers and buyers must act quickly. Residential vacancies are tight and conditions tend to favour landlords as yields increase.

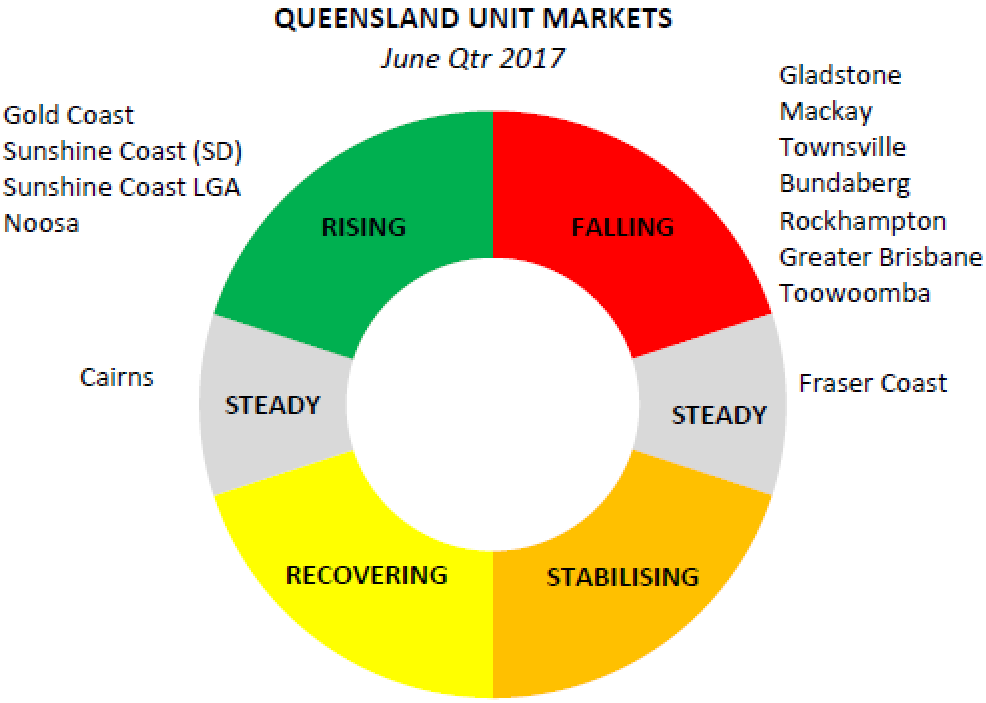
There is no hard and fast rule about how long each phase should last and it is important to understand that all cities do no operate in sync. Even within a city, suburbs can operate as part of their own property cycle.

Things that can distort the property cycle include government intervention, economic disruption (such as the GFC, the mining boom or the end of the mining boom), natural disasters (such as Brisbane's 2011 floods) or banking sector intervention.

Understanding the property cycle better is always a good idea, however, the best time to buy and the best time to sell are when it's right for you. There are many factors that go into the decision to buy or sell and as long as you know why you're buying or selling, and what you hope to achieve then it will make success much more likely.



Source: REIQ
Based on the previous 4 quarters median sale price change and the annual change.



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