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EDITION 89

DISTORTIONS IN THE DATA

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IS THIS THE ONE FOR ME?

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DISTORTIONS IN THE DATA

When tracking the performance of the housing market, it is common for commentators, economists and consumers to use averages and/or Median Prices as a gauge.

Whilst averages/medians can offer a general overview of the property market, relying on their accuracy can have mixed results.

Averages tend to overlook capital invested in renovations by the respective owners in their homes.

As a basic example, a home sells for \$2.5 million in 2020 and resells for a similar price in 2024.

Without any further knowledge, the most likely conclusion one could draw is that the market has traded sideways in that time. But what if the property had \$300,000 in improvements and renovations done to it between 2020 and 2024?

You often see similar reporting about celebrities who buy a property for \$5 million and sell for \$7 million, 'earning a \$2 million bonanza!!'. The \$250,000 in stamp duty and \$1.2 million in renovations are simply overlooked.

The real question in such circumstances is — has the value of the property increased above and beyond the cost of the renovations?

Has the underlying value of the property risen, or have the renovations caused the price to rise?

With the additional burden of transaction costs on top, the net result appears remarkably different to the gross profit on the re-sale.

Surprisingly, there were many examples of properties that sold in 2021 that re-sold in late 2022/23 for a price within 5% or 6% of what the owners had originally paid.

Real estate data tends to miss distortions and

anomalies.

If 2 or 3 landmark residences sell well above the suburb average in a 12-month period, unless similar sales take place in the following 12 months, the data can be easily distorted.

This is common in locations such as Balmain East where the annual number of transactions is low and much more likely to be distorted — albeit unintentionally.

In suburbs such as Leichhardt where there is substantial sales volume on an annual basis, the data is less likely to be distorted.

One of the best ways to gauge market movements is to note what a particular property sells for and then subsequently re-sells for, excluding any renovations or improvements made to the dwelling.

Unfortunately, it takes time for this type of data to emerge making it a largely ineffective form of tracking the market.

It is not entirely uncommon for a property to sell and then sell within 12 to 18 months, providing isolated examples of market performance.

It is not that average or median house prices often quoted are irrelevant, it's that they are open to inaccuracies and misreads on the upside, and the downside.

The most common by far is prestige markets with low annual turnover, where a few sales here or there can wildly distort the reality on the ground.

When it comes to the housing market, there are trends, statistics, untruths, lies and distortions.

Careful research will ensure you identify what's what amongst the noise and chatter!



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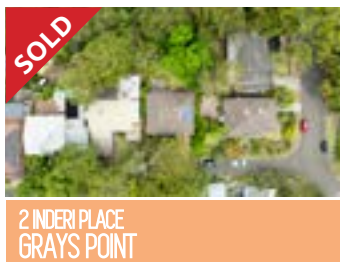
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IS THIS THE ONE FOR ME?

KNOWING WHEN TO MOVE ON THE RIGHT PROPERTY

Based on an article by Peter O'Malley of Harris Partners Real Estate

Buying a home is one of the most important and significant financial decisions you will make. Getting it right can provide years of security and happiness, while the wrong purchase can lead to emotional and financial stress. Given the costs involved in buying, selling, and buying again, it's essential to make the right choice from the outset.

Many homebuyers unknowingly fall into one of two common traps: they either hesitate too long and miss out on the right property or they buy the wrong property out of frustration.

Finding the perfect home early in your search can sometimes lead to complacency. It's easy to assume that another similar property will come onto the market soon. However, if your ideal home has unique features or meets specific criteria, finding another one may take much longer than expected. On the other hand, more generic properties—such as apartments in high-rise buildings—tend to be more readily available.

The term “unique” is often overused in real estate marketing, but when a truly special property comes along, it's worth being decisive. If a home meets your needs and is priced fairly, delaying your decision could mean missing out. There's

no guarantee that the perfect home will appear precisely when you're 100% ready to buy.

Conversely, buyers who have missed out on multiple properties can become frustrated and impatient, leading them to settle for a home that isn't right for them. After investing so much time in searching, there is often a strong urge to finalise a purchase, even if the property has flaws that don't align with your needs. If you find yourself wanting to buy a property just to stop searching every weekend, it may be better to take a break rather than make a regrettable decision.

This situation is especially common for those who have already sold their previous home and need to secure a new place within a set timeframe. In such cases, a short-term lease may be a wiser option than rushing into an unsuitable purchase. While renting temporarily may seem inconvenient, it is often far less costly than buying the wrong home and having to sell again.

If a property has been heavily discounted, it's crucial to investigate the reason behind the price reduction. A significantly lower price often indicates a flaw—sometimes obvious, sometimes not. Conducting thorough research and

seeking independent advice can help uncover potential issues. If you choose to proceed with the purchase, it should be with full awareness of any drawbacks.

The key to making the right property purchase is to be well-informed, patient,

and decisive. While patience and decisiveness may seem contradictory, they are, in fact, complementary when it comes to buying real estate. By balancing both, you increase your chances of securing a home that truly suits your needs and lifestyle.





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