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Opinion News

The seven-year itch put to the test
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THE belief that house prices double every seven to 10 years is being tested, with present market conditions a sharp reminder of the long-term nature of property investment.

Sydney buyers' agent Chris Curtis notes it is seven years on from the sharp downturn in Sydney housing prices, an inevitable aftermath of a price boom that peaked in 2003.

Curtis has taken a range of recent sales of more than $1 million in the Sydney market to see what capital gains or losses were made by the vendors of those properties.

Before their sale in September, the houses last changed hands between 2001 to 2009.

Curtis excludes all transfer costs such as stamp duty and holding costs, and properties that derive capital gains partly as a result of rebuilding or substantial renovation.

The results show that of a total 37 owners, 92 per cent made a capital gain, and despite 10 years' worth of stockmarket gyrations, including the global financial crisis, and interest and exchange rate fluctuations, only three vendors lost money.

Two of the three properties where values fell were in the eastern suburbs.

One in Kensington was a four-bedroom house bought in 2009 for $2.24m and sold this year for $1.93m.

The other in Queens Park was bought in 2007 for $1.085m and sold this year for $1.05m.

To no one's surprise, those who bought at the top of the cycle, in the pre-GFC credit excesses of 2007, made the lowest profits on resale, with a 2 per cent average annual capital gain.

Counter-cyclical buyers got the highest annual capital gains across all suburbs on resale.

Curtis says proof of that is the 6.4 per cent average annual capital gain by those who bought during the global financial crisis in 2008 and, in one case, a 14 per cent average annual capital gain by one owner who bought a two-bedroom unit at Curl Curl in the depressed 2004 Sydney property market for $811,119 and sold it this year for $1.59m.

The 11 property owners who made average annual capital gains above 6 per cent were spread across Sydney, with three on the lower north shore, two in the inner west, two in Canterbury-Bankstown, two on the northern beaches and one in each of the Sutherland Shire and eastern suburbs.

Of those 11 properties, 10 were houses and only one was a unit.

Contrary to another belief that Australians sell their houses on average every seven years, Curtis says 59 per cent of vendors sold within seven years of buying their property.

He says the future will tell whether that trend is an aberration influenced by profit takers who bought during the financial crisis.

Just as the exercise demonstrates the importance of timing, it also shows the length of time a property is held is crucial.

"It is difficult to ignore the generally wide divergence between the 8.25 per cent average annual capital gain derived by those who sold their properties after 10 years and the average annual capital gain derived by all other vendors," Curtis says.

The idea that properties double every seven to 10 years is probably right, but in the $1m-plus market it probably is closer to 10 years than seven.

The sample is small, but it does seem to show what often gets forgotten: the long-term nature of making a profit from property.

It also raises the question whether the present buyers market will prove to be one of those counter-cyclical periods that, when this exercise is done in seven to 10 years, shows better than average capital gains.

majellacorrigan@optusnet.com.au

- *Majella Corrigan*

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