Sound value judgment

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With spring just a little more than a week away, some sectors of the real estate market are showing real signs of sunny days just around the corner, while in others, there's still a distinct chill in the air.

Suburbs, regions and demographic segments are so varied, it has rarely been so hard to work out prices for spring listings.

"It is very hard to pick prices this spring," says Australian Property Monitors economist Matthew Bell.

"Some areas are going up, while others are coming down, with the prestige market on the north shore coming back finally after a terrible year and the first-home buyer market dropping off."

With increases to the first-home buyer grant being phased out, uncertainty over the direction of interest rates and patchy recoveries, no one can predict quite what will happen with prices across the board.

That can create real problems for agents faced with pricing properties for spring auctions.

"We price a property on historical values rather than futuristic values and the market goes up and down at any point in time," says the sales director for McGrath Estate Agents, James Dack.

"There are so many factors at play at the moment, like first-home buyers, the state of the market and the sentiment out of the US about recovery ... it's difficult, particularly in a rising market."

And there's the added worry of not getting it quite right and being accused of underquoting. "It's a real catch-22," explains agent Geoff Smith of LJ Hooker Mosman.

"If you estimate too high a price and the property sells for less, buyers can turn around and say they would have been interested if they'd expected it to go for that. But then, if you're too much on the conservative side, you could end up on the front page of the newspaper!"

Uncertainty rules

Underquoting is defined by laws regulated by the NSW Office of Fair Trading as when "an agent or employee is considered to falsely understate the estimated selling price of residential property ... less than his or her true estimate of that selling price".

The basic rule is that agents must act fairly and reasonably in their dealings with buyers and sellers and the price guide should be consistent with the estimated price in the agreement signed by the agent and vendor.

Under NSW rules, the maximum penalty for deliberately misleading buyers is $22,000.

Under new laws the Federal Government is considering putting into effect from January 1, the maximum fine would be $1.1 million for agents and $220,000 for vendors.

The problem is, it can be almost impossible to accurately predict prices from day to day when parts of the market are so heated.

“Sydney is still experiencing population growth, registering an almost-zero vacancy rate and massive demand,” says the managing director of Colliers International Residential, Grant Dearlove.

“These are three very tasty ingredients in the residential pie.”

With other ingredients including low interest rates, first-home buyer grants, stock shortages, high rents and a return to the market by investors, auctions can really catch fire – and often quite unexpectedly.

Oxford Real Estate's Dominic D'Ettorre sold an unrenovated property recently for as much as a beautifully renovated home nearby.

The unrenovated Paddington terrace on Napier Street had a price guide of about $650,000 and a reserve of $660,000-$670,000 but because of a lot of interest and fierce bidding at auction, it sold for $785,000.

“Home buyers often pay a premium because they become emotionally involved in a purchase,” D'Ettorre says.

“But now investors are also becoming emotionally involved. They want to invest in bricks and mortar instead of the stockmarket and see good returns and capital growth as their nest egg.

"It's hard, in these circumstances, to accurately estimate a price. Prices go over what you expected but that's not underquoting.

It's all about market forces.

That's why we should take a leaf out of the West Australian system, where the vendor supplies a valuation for the property. That would take the pressure off agents.”

Surprising results

Sydney's market has offered up many other surprises recently, including a warehouse in Darlington with a price guide of $800,000 that sold for $1.28 million and an apartment in Elizabeth Bay that sold for $1.16 million, rather than the estimated $800,000.

In all cases, the guides were close to the reserve price, so they were simply good results. The issue could become even hotter, however, with prices recovering lost ground.

According to APM figures for the quarter to June, house prices on the upper north shore rose 8.9 per cent; on the lower north shore, 8.3 per cent; on the northern beaches, 4.5 per cent; in Canterbury-Bankstown, 4.2 per cent; and in the west, 3.1 per cent.

Under these circumstances, the risk of unintentionally underquoting with a more than 10 per cent variance from the estimated price recorded in the agency agreement is leading some agents to suggest they shouldn't offer price guides in the first place.

However, most believe that would be a step too far. Real Estate Institute of NSW chief executive Tim McKibbin is of that opinion.

"Agents could start saying: 'It's too dangerous to give a price,' so they'd make no comment,” he says.

“That would be dangerous for consumers, too. They need a price guide to know whether they should spend time on pursuing the house and spend money on reports.

"It would be a tragedy if they couldn't get one. There just needs to be an appreciation of the fact that prices do move, particularly as the market heats up.”

Geoff Smith says if agents refused to give price guides, it might drive away potential buyers, which wouldn't be in vendors' interests either.

“I don't think that's necessarily in the best interests of the owners,” he says.

“If a buyer asks you and you say you don't know what the price might be, who's to say they won't turn around and say it's all too hard, so they won't bother?”

Any benefit an unscrupulous agent wins from deliberately underquoting, perhaps suggesting a lower price to attract more people to an auction in the hope they would bid, would only be a short-term gain in any case, says Spencer & Servi's David Servi.

"People wouldn't trust you the next time around,” he says. “Your credibility would be completely shot in the long term.”

Research is the key

So, you're thinking of putting your house on the market – if the price is right. But how can you tell what kind of figure your home should go for?

Naturally, the agents you call to appraise your home – getting in at least three is a good idea – will have an opinion but make sure they can justify their advice.

You should also do your own research.

The devil, however, is all in the detail, believes Chris Curtis, the principal of buyer's agent Curtis Associates.

“Information is power and if you're thinking of selling, you need to do as much research as you can,” he says.

Curtis recommends checking recent sales in your street, neighbourhood and suburb.

For a fee, research companies such as the Fairfax-owned Australian Property Monitors or RP Data will send you results for a given period.

You should also look for similar properties in your area in Domain – in both these pages and on the website.

Attend open homes, compare them with your property and go to the auction to note the level of interest and if the result matches the agent's price guide.

Much can also be done on the internet, comparing houses and checking how long similar properties were on the market before selling and exactly how comparable they might be with your home.

It's important to note how different a house is in size, number of bedrooms, aspect, position and condition when comparing it with yours.

Curtis also recommends taking a long, hard look at your own property and working out if it has any features that are unique or would make it particularly attractive to certain buyers.

If it has an artist's studio, for example, then why not drop a few flyers into a local arts school to generate interest?

Keep an eye on the wider area, too, on what local sales conditions are like, if there are any new developments going up, how interest rates are going – and even the exchange rate for overseas buyers.

These could all help influence the price of your home. If you don't have the time or energy for that, then you should consider commissioning a professional valuation.

“The trouble with just getting quotes from different sales agents is that one might tell you an unrealistic price just to get your business,” says National Property Valuers managing director Max Nevermann.

“Then your house might be on the market for a few weeks before he comes to tell you to drop the price. By then, it's starting to look stale.”

An independent valuation gives you a stronger starting – and end – point, Nevermann argues.

“Then if you get an offer, you'll have a better idea of how close it is to your true value, or you can tell the agent to go back and push the buyer for more.”