IDentity Property Buyers

NEWSLETTER #046

Materials Up... Capital Growth Up

Welcome back to the next instalment in the IDentity Property Buyers Newsletter series. Today's chat is a look at why the price hikes in building materials is having an effect on capital growth within some suburbs.

This is an interesting one because its real effects will have both positive outcomes and negative outcomes when it comes to future capital growth.

Let’s look at the newer greenfield estates that have vacant blocks still spread throughout, along with future land releases to come. In this example the ability for a buyer to come in and buy land and build what they want is relatively straight forward. There is vacant land and options are plentiful so prices in the area would typically stay stagnant for a while.

The situation we find ourselves in today is that the newer estates are not following the typical trend which is to stay relatively subdued in price growth until the majority of vacant land is consumed, before beginning a slow upward trend in price growth.

Prices in these areas are on the increase and there are a few reasons why this is the case.

Firstly we have a thriving property market with sentiment extremely high all over the country. There is competition on the majority of properties and a lack of existing housing stock on the market. People are fighting over pretty much everything as buyers continue to well and truly outweigh sellers.

Some people are saying...

"It's all to hard, let's build our own!"

Next the First Home Buyers grants to build new have been very generous and the stamp duty concessions and government coverage of mortgage insurance in some cases are fuelling this new build property market segment.

Combine this with the main angle today, regarding the increase in material costs and you begin to see why this area of the market is also currently thriving. Ok so let's explain the capital growth effect of building material price rises on the housing in these relatively new estates.

So if it costs an extra 25% to build a house today over what it cost 12 months ago, then the existing houses in that same estate are suddenly worth nearly 25% more. Yes they are 12 months or 2 years older but the fact is that if you want to build the same thing now it just costs more money.

But what about the alternative?

So what if building material prices make their way back down to near where they were before? Well for starters the builders are unlikely to pass on the full savings and they certainly won't be rapidly reducing them. But over time it is probable that the cost to build will likely reduce a little and with that reduction, the values of existing houses next to available land will likely reduce also.

So this means that a chunk of the capital growth we have been experiencing in the new estates to date is going to be wiped from owners balance sheets if building material prices settle back down. Even if building prices remain high the blip in capital growth in these areas has already happened and will unlikely continue at the same rate.

So when it comes to analysing the numbers and reviewing capital growth rates in different areas, you have to remember that there are so many factors that play a role in the makeup of those figures.

Let our professionals at IDentity Property Buyers help you avoid all those costly mistakes and provide you with a fantastic experience and an exceptional end result....

Make contact today and schedule in a **Free, No Obligation** chat with one of our Buyers Agents & Property Strategists.

Don't get left behind when the market is moving, take control with your very next steps in a professional way today!

MAKE CONTACT

web: www.identitypropertybuyers.com.au

email: greg@identitypropertybuyers.com.au

Phone: +61 (0) 491 759 126

Written by Greg Egerton Buyers Agent & Property Strategist

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