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6 Tips For Timing The Real Estate Market

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How To Time The Real Estate Market?

In the real estate sector, experts suggest that the most important thing to remember is 'location, location, location,' regardless of where you plan to invest. While this is equally significant in property development, timing is more critical. Most projects fail because they were not timed to coincide with the economic cycle. The developers introduced their product when demand had faded, resulting in a price decline and severe financial losses for the creators.

All investment markets are affected by supply and demand and price variations. When real estate market is booming, and prices are growing, developers feel that these conditions will last indefinitely. Unfortunately, this is not the case, and many developers become stuck due to a lack of understanding of the property market cycle.

The Importance Of Understanding The Property Market Cycle

It's difficult to put a temporal limit on this cycle. A popular belief in the past was that the property market cycle lasted seven years, but this is no longer the case; international economies are rapidly shifting, and so are the timeframes.

The cycle arises due to a combination of events and effects. It includes the state of the economy and social and political issues rather than the passage of time. Astute developers who recognise these indicators and market their projects at the cycle's peak have the highest chance of profiting.

In contrast to the volatile performance of the stock market, property investing has far more predictable market tendencies. Forecasting property supply and demand situations are much easier when you have a set of future economic expectations.

On the other hand, property cycles vary by property type and urban region. Different property kinds exhibit distinct cyclic behaviours when observed over time.

Housing market, for example, tends to be more directly linked to the entire economy than the office market. Again, in the retail sector, suburban shopping malls reflect current economic trends, whereas regional shopping malls are intended for the long term.

Differences in the relative places of urban regions along the property cycle are also common. These are the results of a region's specific exposure to economic changes and the rate of new development.

Property market cycles can fluctuate from state to state or city to city, in addition to different property categories. Each region has its unique set of microeconomic patterns. For example, establishing a new automobile plant in a particular area will significantly impact the local economy and real estate market.

Factors Affecting The Timing In The Real Estate Market

Property investors consider the timing of a purchase or sale differently than property developers, who must first determine when to buy a property before building, selling, or renting their product.

The process of buying or selling a property takes less time for a property investor. In contrast, a property developer must prepare ahead of time and then wait for several permissions before marketing his project. As a result, having a thorough understanding of the property market and future trends is critical in the development sector.

While here I cover economic, social, environmental, and political considerations, there may be some exceptional circumstances, such as war, terrorist attacks, or long-running labour strikes, that can impact the exact timing.

Economic Impact

The state of the economy affects the demand for housing and other social necessities. An economy that has been functioning poorly for several years will impact its citizens' general prosperity and spending power, which will impact their general level of life and capacity to buy a variety of essential commodities, including housing.

The construction industry is regarded as a barometer of the economy, which is supported by the fact that when building activity drops, poor economic growth happens, and significant growth occurs when activity increases.

Interest rates are generally low during these periods of expansion, which creates demand; unfortunately, this is frequently followed by an increase in rates to dampen demand and keep the economy in control.

As a result, during periods of expansion, building material and labour costs rise, affecting profit margins and construction times for new development projects.

When examining economic aspects, it's crucial to include macro-economic trends and microeconomic ones. The following are some of the factors that can influence economic trends:

- The employment rate in the area
- Growth rates
- Inflation
- Interest rates
- Local government structure efficiency
- Long-term planning

Low unemployment leads to increased housing demand, while the opposite is true as unemployment rises.

Social Determinants

Population growth is a social aspect that you must consider. Even though this natural population growth is relatively slow by world standards in some states, such as Australia, a regular influx of migrants is seen. Housing and other critical services are in high demand due to the influx of migrants.

Furthermore, the demographic mix can influence urban planning and pressure specific locations. As a property developer, I've seen a shift from smaller rural communities to more prominent urban locations in the last previous years as younger people seek better career possibilities. More recently, more inner-city apartments have been developed, increasing density in such areas.

Another element influencing a city's or area's housing demand is the crime rate. Suppose a specific neighbourhood has a high crime rate (from petty offences like breaking to government bribery and corruption). In that case, investors and businesses will avoid it, and law-abiding local citizens will migrate to less risky areas.

Environmental Determinants

Various nations have created legislation to protect their natural resources and ecosystems due to international concern over critical environmental issues.

Environmental and social organisations are always interested in essential developments. The problems expressed may impact the project's feasibility and timeliness.

A scoping analysis (which identifies public issues and concerns and assesses the nature and extent of environmental issues that need to be addressed) and an environmental impact study should be conducted in any 'green fields' project. It may include a new subdivision of rural land or a major infrastructure project (which assesses the effect on the environment of any introduced factor which could potentially upset the ecological balance).

Even a simple rezoning in a city can take a long to get approved because nearby neighbours may oppose the request.

Political Factors

Political problems, as well as any changes in government policy or regulations, can impact public decision-making. In the run-up to general elections, public members frequently postpone big financial choices, such as buying or building a new home.

The Cycle Of Investment

There is a phenomenon known as 'herd mentality' or 'market sentiment' in most investing markets. The market's direction is influenced when the masses mindlessly follow a few influential investors.

The real estate market is no exception. Following a building boom in which property values skyrocket, market sentiment and, as a result, the market enters a sustained phase of negative growth, with several developers and investors getting burned.

Sooner or later, the extra housing and commercial buildings built at the tail end of the boom are absorbed, and a new need for housing and commercial buildings emerges. However, there is not enough construction activity because the developers and builders have moved on to other projects or changed occupations.

Recommended reading - 13 Golden Rules Of Investing in Commercial Real Estate

Rents begin to rise as demand rises, and people are willing to pay significantly more for a home. A new generation of developers and builders enters the market to meet the need. After hearing about the significant gains being made, more developers and speculators joined in. This leads to another round of overkill.

Once the purchasers are pleased, several developed properties are on the market. Prices begin to fall, developers lose money, and the cycle repeats itself.

You may visualise the cycle by comparing it to a clock. The top of the construction boom is at 12 o'clock, and the bottom of the recession is at 6 o'clock.

Look at what the property clock says for a more detailed description of the market cycle.

5 Major Tips to Time the Real Estate Market

Tip 1 - Attempt To Stay One Step Ahead Of The Cycle

Astute developers are aware of the considerations above and typically act months or years ahead of the cycle. They are most active during the cycle's growth and maturity stages when they buy properties at the bottom of the downturn and sell or rent them for top dollar at the apex of the boom.

The inexperienced developer must keep a close eye on the industry and economic trends to follow in their footsteps.

Tip 2 - Purchase The Property At An Ideal Time

Although it is generally recommended that you acquire near the bottom of the market, there is no one-size-fits-all approach to purchasing a property to develop. This largely depends on the talks and terms you proposed to buy the house.

Suppose you are aware of potential changes in the town planning of a specific area. In that case, you may decide to make an offer to purchase the property conditional on rezoning.

This will allow you to begin planning your future development. Furthermore, if you delay the settlement, you will not be responsible for the holding costs. The optimum moment to buy a particular property depends on the type of construction; for example, a residential building will have different goals than a commercial structure (such as increasing zoning density) (which may rely on a new road layout).

You can buy land to develop later if you have the financial resources, and the best time to acquire is when there are discounts available. High-interest rates contribute to this predicament by causing an overstock and a decline in demand.

Developers should plan for the next recession during the good times, as buying during a downturn provides the finest opportunities to locate a deal. They should be selling and cashing in to be picky and negotiate from a position of strength.

Tip 3 - Recognise Increasing Market Indications

The decline in vacancy rates in rental accommodation in both residential and commercial buildings is one of the first signs of a property price increase. You can obtain these types of statistics from a variety of property sector groups and research firms, including the following:

- The Property Council of your state
- The Real Estate Institute of State
- The Housing Industry Association (HIA)\
- The Master Builders Associations

Several real estate companies, websites, and financial institutions offer free online newsletters that provide the current real estate market and trends.

A property developer's ears ring with the sound of higher rental returns and robust demand for new housing. The developer knows that homebuyers and investors will flock to the market with low-interest rates. Investors aim to catch the price rise early to profit, while new homeowners feel a feeling of urgency to buy before prices soar beyond their reach.

The following are further evidence that the property market is improving:

- A steady rise in costs and a rise in building permit approvals
- A decrease in unemployment
- Corporate expansion
- A boost in investor and company confidence
- Media reports regarding the increase of cost of products and services

Tip 4 - Recognise The Signs Of A Market In Decline

One of the first signals that the property market is about to fall is interest rates have been steadily rising. As the rate of inquiry for rental housing begins to diminish, property management agents can recognise the early indicators of deterioration.

Increased unemployment and firms defaulting and taking longer to pay their payments are further symptoms of decline.

To avoid being trapped with unsold properties or vacant accommodation, developers who recognise these indicators should take safeguards and stop developing new plans or commencing new buildings. Furthermore, building materials are in low supply during this time, and subcontractors demand higher charges for their services.

It is not a good idea to design any new developments right now because you may have sold houses at a set price that will cost you more to build later.

Tip 5 - Select The Best Time To Develop

We'd all like a crystal ball to tell us when the best time is to develop our properties. Of course, if that were the case, we'd all be billionaires in real estate!

The best we can do is rely on reliable information and skilled advice. Take a look at the below image, and you will be able to identify the best and worst times to develop the property.

Best And Worst Times To Develop:

Best Time To Develop	Worst Time To Develop
When interest rates are low	When interest rates are high
When building plan approvals are increasing	When there is an oversupply of rental
When rental demands increase	when there is a shortage of labour and building materials
When the cost of building materials and labour are low	When business are defaulting or renegotiating their loans
When business start expanding	When bankruptcies are increasing
When investor confidence is improving	When unemployment figures are rising
When there is an increase in population and migration	When population and migration figures start dropping
When there are new public amenities in the area in which you plan to develop, such as new schools and shopping centres.	When there are unfavourable elements such as the deterioration of a neighbourhood and an increase in crime

Here is a bonus for you - Learn to Develop a property with no money.

Tip 6 - Make Preparations For Your Survival

The key to surviving a property downturn if you haven't timed the cycle well is to be in a position where you don't have to sell, even if selling was initially part of your development strategy.

- Development becomes riskier when the developer loans more than 60% of development costs.
- At the pinnacle of the boom, unsophisticated small to medium investors buy the property and begin developing it.

- Investor developers own unoccupied properties and have inexperienced tenants.

To stay afloat in the property development business, you'll need the financial resources to cover debt and other expenses until the real estate market improves. For your survival, carefully consider the following crucial variables.

Leveraging

As I always say, borrowing money should be done with caution. Significant gearing entails a high level of danger. Financial leverage is a good idea, but it only works if you maintain the gearing ratio during bad times.

Good Tenants

If you intend to keep your development as an investment, search for high-quality tenants with the solid financial backing and the ability to weather a downturn.

Contingent

Having a cash contingency reserve to survive a downturn makes brilliant business sense. This could come in the shape of extra credit or, better yet, personal cash reserves.

Summary

When things are going well, try not to be swayed or influenced by the crowds flocking to buy homes. Similarly, try not to feel like you're missing the boat. Take a seat and consider the forces driving the market and how the market will respond in the following months.

I have seen many people losing money because they believe the market will never go down. When the real estate market reaches a standstill, search for chances and keep an eye on the property market for signs of improvement. Remember that one of the most critical aspects of property development is time.

FAQs

Does timing the market ever work?

According to the research, the cost of waiting for the ideal time to invest often outweighs the advantage of even perfect timing. Because accurate market timing is practically impossible, the best tactic for most of us is to avoid trying to time the market at all. Instead, make a strategy and get started investing as soon as possible.

Why should you time the market?

Market timing is a method in which developers buy and sell property depending on predicted price volatility. If they can forecast when the market will rise and fall, they may place trades to profit from the real estate market movement.