

## Renovation Teleconference

Answers by Dean Parker

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### Do you study the property markets and property cycles?

**Barry:** Did you study the property cycle and if you did, what research did you do to or where do you get the data from? The property cycle and in Steve McKnight's books, he made the comment that there are, I think, four aspects to the property cycle. The upward, static, then downward static and then upward again. As I recall. Just was it...Did you keep an eye on that and sort of had you track it and where you get the data from?

**Dean Parker:** No, we don't and it's mainly because with the projects that we do especially with renovations, we're aiming to be in and out within six months, so there really...I mean, you can see there are major things that are happening obviously like the first home owners grant when that was introduced, we actively went out and purchased a lot of things that were in the entry level to renovate. And we did that because we thought that obviously with the first time as grant coming in that would have an impact.

But specifically about studying cycles, I don't think that we're in the market long enough to worry about it too much. Well, in my opinion, it would be extremely unlikely for us to buy a property, renovate it and have it sold or have it ready for it to have gone down at least 12% in that period of time. But not to say it can't happen and with some properties it probably has. But I think with the properties that have gone down, I think a lot of it...well, with what I was saying in Ballarat, some of the properties that have gone down, people possibly purchased them in a peak of the good time and then obviously as the market has slowed a little bit they've probably come back to where they should be rather than there being a massive decrease.

So from that point of view, I'm probably less inclined to worry too much about the market or the papers or anything like that and more just keep it relative to major things that are happening in the cycle at the moment. So with interest rates tipping to go up, I guess that's one thing to think about that because it's so low, I don't think it will have a major effect on people entering the market.

I would also say that with the first home buyers grant now starting to phase back in...how many days? You've got less than seven days but that's likely to have a negative impact on the market but probably only the lower end of the market. I don't think it would affect the mid to the high range. And when I say that, obviously I'm not talking just price. I'm talking

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segments of the market because every, I guess, segment or let's call it a suburb or group of suburbs will have its own sort of entry level point and midpoint and highpoint. So from that regard, in Ballarat for example, anything in between sort of \$160,000 to \$220,000 you just...it's on the market here at the moment, well, up until the last sort of two or three weeks, it's been on the market for less than a week and it's sold just because the first home buyers have been snapping everything up.

Now, that hasn't dropped back too much but it has slowed down even in the last couple of weeks. So from that regard, those are the things that I look at rather than the whole property cycle, I guess.

**Barry:** Yeah, okay. And your ultimate thinking is rent the property if it doesn't sell in any event, I noticed from your writings.

**Dean Parker:** And I guess the other thing that we do that definitely does help us is getting valuations before we buy. It's something that we've only really been doing for probably 15 months now. We were doing valuations for all of our development properties 'cause you have to before you can get finance. So we started... asking our banker whether they would accept the end valuation before we purchased on our renovations. And that obviously gives the bank and ourselves a level of comfort.

Because the value is obviously factored in what...in their opinion of what the market will do over a set period of time. So from that point of view, it takes a little bit of the fear away knowing that all right, we've got a bank valuation for \$250,000. Even if the market does come back \$10,000 or whatever and you can't sell it and you do want to rent it out, you've at least got your end valuation there at \$250,000 and you can draw your equity out based on that valuation, if that makes sense.

**Barry:** Yes, it does. So yeah, okay. So your end valuation's based on the renovation plans and checklists that you've done?