# Understanding Market Motivation
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## "In understanding the current commercial market, some analysts have difficulty in explaining the motives of many purchasers and vendors."

My view is that this can largely be attributed to the first time occurrence in Australian society of an older age, but property/asset rich class of "baby boomers" and their families, now facing retirement and family succession challenges respectively. This means that for some, it is a strategic time to buy and for others, a solution to sell. Accordingly, much of the current market activity is not a reflection of a perceived property value cycle or market "window", but more directly related to a range of personal needs and family planning.

Many purchasers, whether local and from overseas are not yield influenced or guided by traditional return or income analysis, but rather are acquiring for reasons of wealth transfer, asset class reweighting, relocation to lower sovereign risk, or medium term immigration related planning. In some circumstances, it is as a means of seeking less complex property management needs, for example, transitioning to a single property with a long term lease, and exiting a mixed use property with a variety of leases and more demanding management.


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Many vendors are not selling to cash out of a perceived market which has peaked, but rather are realising assets for reasons of family distribution, lack of family management succession, unfortunately, although increasingly, possibly for reasons of deceased estate, divorce or separation, or alternatively, for reweighting to other retirement income stream alternatives. It Is also known, that in many instances the decision either to sell or acquire, is driven by younger family members whose influence is not based so much on property investment fundamentals, but rather entirely personal needs.

For many of the recent notable portfolio realisations by high profile wealthy families, which have been mentioned in the media, the main impetus can be traced to generational change and family succession. Yet, each of these transactions has a counter party / purchaser, taking the opportunity to acquire what in many instances are prime assets. If the media references are followed through in detail, it can be discovered that in most instances, these counter party purchasers, are in contrast to the vendors, of a different generation, usually younger. So, on balance the market activity should not be taken as a value cycle indicator, but rather of generational making and largely a first time event in Australia as a consequence of the now older age "baby boomers" which having enjoyed a seventy year period of enormous capital growth and asset accumulation are either dispersing or planning the future management of their portfolios.

It is also notable that market activity over the last two years, has evidenced a continual firming of yields to historically low levels although this should not be taken as an acceptable investment measure. More usually than not the yield at time of sale has little to do with the purchasers' expectation, as many of the properties that are acquired, have been secured for further development through additional capital expenditure ultimately to arrive at a higher reversionary yield, by unlocking the potential, through refurbishment, additional construction or the development of surplus land.

In the now "global" market place, international investors are significantly motivated by their country of origin domestic fundamentals, particularly preference for diversification both within asset class and regionally, placement of funds and internationally obtainable higher yields. Consequently many local owners become vendors to international purchasers.

Other emerging factors motivating sellers of increasing age, include change of living location upon retirement, perhaps a move interstate and a desire to reconsolidate or exchange their portfolio to their new local situation. Alternatively, funding for requirement can motivate retirees to change their asset base for greater liquidity thus transferring real estate assets to cash and there is also with increasing age the concern about personal mental capability and capacity, resulting in non-liquid assets transferred to cash. In some cases the desire to deal with Capital Gains Tax implications and reduction of family Division 7A trust loan accounts can also be influences weighing on the minds of patriarchs and matriarchs who move towards simplifying their estate. Again this is all to do with personal needs rather than perception of the market cycle. Philanthropic motivation is also increasingly a factor passing cash rather than property management as the benefit to recipient charities. In the business sector realising underutilised assets as a source of funding business expansion is also an increasing balance sheet reallocation.

Another influence can be the proactive maintenance of a prime portfolio. The view held by some to "buy but never sell" can prove a poor strategy. Inevitably many properties fulfil their maximum growth and investment return but begin to need capital expenditure and more time consuming management. When this point is reached some properties are better replaced with "new generation investments" that offer a fresh start, whether that be because they are of new technology and contemporary standards or perhaps in emerging locations of anticipated faster growth. There is an ownership responsibility to maintain a prime and very saleable portfolio.

Often the catalyst for sale can be to unravel an historical and increasingly inappropriate intermingled family ownership matrix. Historically, two brothers in business together may have acquired a significant portfolio, now being managed by grandchildren, cousins and often half and step siblings where there have been intervening marriages. There invariably comes a point in such entanglements where families wish to separate their interests and go their own ways and if the wealth is concentrated in just a few significant properties, sale is the inevitable solution. Alternatively, and this should not be over looked, often a mid-way solution between selling and retaining an asset can be found through releasing capital by refinancing with appropriate structure, supported by independent accounting and legal property advice.

For those analysing the medium to longer term economic prognosis for Australia the coincidence of the possible impact of a lower $A on the retail sector, higher interest rates, low economic growth, low inflation and wage growth, higher unemployment and a lack luster corporate sector will fuel vendor intent. In contrast, “counter cyclical” purchaser engagement inevitably emerges. Yes, to some degree these are perceptions of the market cycle but are more deeply based than typical property rhetoric which is usually limited to surface observations only about interest rates, credit and supply.

Many properties, when aged / or of changed circumstances / amenity or zoning, become redevelopment opportunities or at the very least require significant recapitalization to remain of optimum commercial utility. Many owners neither have the capital, or inclination, to meet these challenges and consequently for these reasons, their focus turns to sale, independently of perceptions about the market cycle. Occasionally it can be that when an owner finds themselves in this position that they consider Joint Venture arrangements with partners who have either the expertise or capital that they themselves may be lacking. Not obvious to the general observer, but usually evident to expert analysts, “JV” arrangements, are often in effect a sale by one means or another and again not because of the market cycle but rather because opportunity has emerged.

In the public sector whether Local, State or Federal government or semi Statutory Authorities, the realisation of assets is never about perception of the market cycle but rather, always budgetary, infrastructure, planning or political issues. There can also be a variety of legal and other agreements / situations that require properties be sold. Examples include the vesting of trusts, Will provisions, mortgagee realisations, citizenship status and commercial partnership disputes. Others can be referred.

Fully understanding the often compelling motivation of both potential purchasers and vendors can be the critical key to unlocking the optimum results in real estate transactions. At Charter, our Advisory Capital and Research teams are experienced in recognizing, analyzing and navigating these influences.

Our **Advisory** team holds a unique understanding of how to find the true value of any property within what can be a dynamic landscape.

Charter’s **Research** is a leading provider of evidence-based property research and strategy.

**Capital** is an investment led, highly specialised, independent service connecting clients with undiscovered opportunities and wealth within property.

These services work cohesively to provide the highest quality of service to our clients with their best interest our utmost priority.