

09 June 2009

11:27 am

Buying blind or sight unseen on the internet

The urge to make big bucks in a red-hot property market is driving many investors to embark on riskier tactics such as buying sight-unseen on the internet. Do the benefits outweigh the risks and how can you play it safe?

Buying and selling properties over the internet has become a crucial part of many investors' strategies, particularly in the current fast-moving market.

The web enables buyers to check out the neighbourhood, get details of the area such as the region's population growth rate, development plans or council infrastructure policies at the touch of a button. You can also obtain the property's sales history for a small fee. These days, it's even possible to bid in an auction online.

Gavin Stewart runs an online auction system through his website www.ptyauctions.com which was launched in November last year. The

interactive online bidding process is run in tandem with the traditional auction, with would-be property buyers staying connected to the auction via cameras and microphones placed around auction rooms and on site. It costs vendors around \$320 to place their auctions online, with bidders able to register, bid and exchange contracts over the internet.

Advantages

With property prices rising by around \$20,000 within just a few months in some areas, many investors feel compelled to take advantage of the opportunities as they occur, for fear that they might miss out if they take the time to see the property first.

"If you insist on looking at all the properties you're potentially going to buy, you're either going to spend a lot of money travelling while you search, or you'll buy a lot of properties in the one area," says Margaret Lomas, author and property finance advisor and founder of Destiny Financial Solutions.

Buying sight-unseen also helps investors become less influenced by emotions when purchasing.

"When people select a property, we do so on the basis of how we feel about it," she says. "Taking a trip to 'view' a potential property will only satisfy your emotional needs – and this often results in buying what you like physically, rather than what's right financially."

The trick, Lomas warns, is to be able to assess a property's potential, without getting emotionally involved.

“If we do the research and ask the right questions, then there’s nothing that actually looking at a property can do to change its viability as an investment. Also, if you must go and look, it will extremely limit your capacity to buy widely – the best bargains could be a long way from where you live, and you may not have the opportunity to go there.”

Disadvantages

But not everyone shares Lomas’ view. Buyers agent Patrick Bright from EPS Property Search believes it’s vital for would-be buyers to inspect the property they intend to invest hundreds of thousands of dollars into.

“The photos on the internet don’t often tell the full story,” Bright says. “The visuals that are put on the internet are taken from the best angles possible, and are taken at the best time of the day, often with artificial lighting.

”Bright also warns that views and aspects can be distorted. For example, the agent will take a picture of the view from the best possible position, which might be the corner of the lounge.

So, sure, you get the view from the lounge – but only if you’re standing in the corner, looking out at a particular angle, Bright says.

“I’ve been asked to view properties on behalf of people who were living interstate or overseas, and I’ve gone there and taken my own photos of the property. In some cases, when I’ve sent the pictures back to the client, they actually couldn’t believe it was the same house.

”A quick trip to your chosen property is essential, Bright says, not only to view the property, but also to familiarise yourself with the area and do “a comparable amount of research”.

“There are opportunities to have a buyer’s agent or representative inspect a property on your behalf if you need it, but basically, if you can’t afford to fly there and inspect it, you can’t afford to buy it,” Bright says.

Mitigating the risks

Buying sight-unseen requires that you have deep trust in your team on the ground and you need to be savvy with your research. If you don’t plan to view the property personally, it’s important to have an independent team, such as building inspectors and property managers, to help you weigh up your decision. “These people are acting as your eyes, if you want to know things about basic habitability of any property you may be considering,” Lomas says.

She points out that you can’t ‘build a team’ of the right people, since you should be buying property all over Australia. For example, conveyancing most often must be done by someone who operates within the state in which you’re buying. However, you can build a list of your own criteria that you use to find your team in each new location. You can also develop an interview process by which you choose your building and pest inspectors as well as conveyancers.

“Think of all of the important points that you need in each of these professionals and ask them. Build in a ‘service guarantee’ – an agreed service delivery which, if not satisfactorily met, means that you don’t need to pay, and put this in writing for the person to sign before you retain them,” Lomas says.

She adds that it’s also vital to read any contracts given to you by property managers and take out the bits you don’t like, such as lengthy termination clauses and excessive charges. If they want your business they’ll accept an amended contract.

Building and pest inspections will cost between \$300 and \$800 per property, depending on the dwelling type, size and location, and they’re essential in terms of assessing the quality and condition of the property. Most building inspectors will take photos of the property at the time of inspection and supply these to you, so make sure you confirm this service upfront – often the photos you get from the building inspector will reveal a very different story from the photos used by the real estate agent.

A reliable, honest property manager will help keep your property in top condition to attract the best quality tenants. Property management fees are generally 8–10% of the weekly rental return.

Research, research and more research

You need to thoroughly research the market to ensure that you’re making a sound investment decision.

“Be sure that you understand that an agent has a legal responsibility to the vendor, not the purchaser, and therefore, a real estate agent is not the person to use for your research,” Lomas warns.

Instead, she recommends that investors develop their own set of criteria to critique potential property investments.

“I have 20 questions which must be asked about every property I buy. These questions are incredibly in-depth and are designed to take the emotion and guesswork out of the process,” Lomas says.

“While they aren’t a guarantee of success, they certainly increase your chances of buying something not only right for your own personal circumstances, but also one which has every chance of working well for you.”

Lomas says the questions are “all about the economics of a property investment”, and relate to being able to forecast what may happen in the future, based on what you can find out about it today.

There are also several online resources you can access to help you gather all of the required information to make a decision.

Local council and government websites will tell you what kinds of developments, road upgrades and infrastructure projects are underway in the area, while the Australian Bureau of Statistics (www.abs.gov.au) can provide information about

population growth and demographics.

Property research companies such as Residex and RP Data offer national historical data on various property markets throughout Australia. Flick to the back of Your Investment Property for an exhaustive nationwide suburb listing, including information on capital growth, median values and average rental returns.