

BUYING SIGHT-UNSEEN

Buying a property without inspecting it first may seem counter-intuitive but with professional advice and the right research it doesn't have to mean going in blind. **Terry Ryder**

MARGARET Lomas regularly buys properties she's never seen. Not only is she happy to buy sight-unseen, she believes it's the best way.

Lomas, author of several real estate books and owner of more than 30 investment properties, does copious research before buying. But her process doesn't include personally inspecting the target property.

She believes a personal inspection is both pointless and potentially damaging to a sound investment decision.

Occasionally Lomas has visited a property after buying it – and realised she wouldn't have bought it had she inspected it beforehand. But the property has been a fine investment: always tenanted, providing positive cash flow and seldom causing problems.

"Half the properties in my portfolio I would never have bought if I'd looked at them beforehand," she says. "But they're performing really well – which tells me that my personal inspection isn't a very good method for selecting an investment."

Why would she have rejected the properties if she'd inspected them prior to purchase? Because of their physical appearance. In a word, they were ugly.

But Lomas has built a portfolio of positive cash flow properties by buying ugly dwellings in "ugly duckling" areas around Australia.

Another reason she may not have bought those properties is because they're in distant locations, a long way from her coastal New South Wales base.

Having a "must inspect" policy can prevent an investor from buying in the most lucrative areas. Sometimes the best places to buy are interstate but it's impractical to fly there and devote days or weeks to finding the right property.



Use your head

Many Australians apply the same criteria to buying an investment as they would to buying a home for themselves. This leads them to shun areas or properties they wouldn't want to live in themselves. This is a mistake – and it's often the result of a visual inspection by the buyer.

Investors can better use their time and money by researching the target area and discovering as much as they can about its economy, infrastructure and services. Rather than visually assess a property, they're better advised to research its likely performance as a rental property and cash-flow generator, while leaving the physical inspection to professionals who know what to look for.

"People tell me they can't believe I buy without looking at the property," says Lomas. "They automatically assume I'm buying carelessly. Nothing could be further from the truth.

"I don't buy something simply because it has a good cash flow and the price sounds right. The amount of research I do before buying any property is enormous. I can find out a lot (about) the property and the area without personally visiting the location."

David Lawrence of Archicentre, the building advisory service of the Royal Australian Institute of Architects, says engaging professionals to check out a property is more important than inspecting it yourself, because buyers lack

Lomas has developed a "20 questions" technique to use when assessing a property investment. Key questions for buyers include:

- What is the cash flow of the property?
- What is the vacancy rate in the area?
- What is the competition?
- What improvements are being planned for the area?
- What are council/government plans for the area?
- What's the population growth like?
- Why do people live in this area?
- What's the economy like in this area?
- What services are available (shops, schools, etc.)?
- Is there transport nearby?
- Is the property tenant-friendly?
- What condition is it in?

Finding the answers doesn't have to involve a personal inspection by the buyer. Most can be answered through internet or telephone research. There are myriad information sources on the internet, such as suburb profiles, population growth data, demographic information and news about planned infrastructure or developments which create jobs.

Lomas uses her 20-questions technique but says investors can use whatever system they like, so long as they have parameters or guidelines to work to.

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the required skills and/or allow emotion to interfere.

"People purchase property with the heart, not the head," he says. "Buying a house is a very emotional process."

This may make sense for homebuyers but not for investors.

Buyers also over-rate their ability to detect problems during a personal inspection. The areas that reveal the most about the condition of a dwelling – the roof space and the under-house space – are places typical buyers never visit.

Melbourne investor Peter Gallagher had to overcome "a lot of emotional attachment to looking at the property" before buying an investment property in southeast Queensland.

He bought a three-bedroom brick-and-tile house at Eagleby, halfway between Brisbane and the Gold Coast, based on his research of the area, the economics of the individual property and the reports on the property from a building inspector, pest inspector and valuer.

Start with the basic research

Buying a property you haven't seen isn't reckless. But buying without researching the location is.

The time you might spend visiting the property may be better spent analysing the location and the demand for rental property there.

"But remember, the things you'd look for in a property for yourself aren't the things a tenant would look for."

The questions about the condition of the property and its "tenant-friendly" qualities are best assessed by experts who have better skills and local knowledge than the buyer does.

"There's nothing that looking at a property personally can do to change its status as a good investment or a bad investment," Lomas says.

"Looking at it will only tell you whether you like it or not."

Peter Gallagher did plenty of research before buying at Eagleby near Beenleigh. It told him the area was equidistant between the CBD of Brisbane and the beaches of the Gold Coast, had good motorway and rail connections, plenty of strong employment nodes such as the Yatala Enterprise Area, fine shopping facilities and lots of solid, affordable houses.

He found people were buying and renovating the older housing stock and there were also newer, better quality areas.

"The profile of that area was picking up," he says.

His property was 12 years old, offered good depreciation benefits and had a tenant paying \$225 a week. At a purchase price of \$215,000, it offered an initial return around 5.5 per cent with a rent review due at the time of writing. The

independent valuation confirmed the price and the building and pest inspections confirmed the dwelling was solid with no maintenance issues.

Leaving emotion out of it

But Lomas takes the 'buying sight-unseen' argument further. Not only does she believe a personal inspection adds nothing of value to the process, she believes there are advantages in not looking.

"That's because I'm an emotional person and if I look at the property it will become an emotional purchase, rather than an intelligent purchase. I will accept or reject it based on what my eyes tell me. I know I can't remain impartial because I'm a very visual person.

"I'm not very good with my eyes at picking the right property because I would've rejected a lot of really good stuff. Or I may have bought property that looked great but might not have been a good investment."

Lomas has met investors with badly performing properties and is convinced they assessed them visually rather than economically.

"Most of them bought their properties emotionally, like condos on the Gold Coast or units in a resort somewhere," she says. "Often, looking at it is your biggest mistake."

Gallagher believes that not looking before buying at

discovered by an inspection report: they'd rather not know once they've fallen in love with the place," he says. "But a secondhand house is no different from a secondhand car. Unless it's been meticulously maintained, of course there will be defects. It's a question of whether it's a minor or a major problem.

"Whenever I've bought property, I've had someone from Archicentre inspect it. I wouldn't trust myself to do it."

Lawrence says the biggest issue for buyers is that they're unlikely to look at the most important areas.

"The areas that tell us the most about the condition of the structure are the roof space and the under-floor space," he says. "Roofing is right at the top of the pile of serious problems discovered by qualified building inspectors. But very few buyers will get up into the roof space and even if they do they won't know what to look for. The under-floor space is even more significant but not many people crawl down under there."

Lawrence says older properties often have dated wiring and plumbing and many homes have illegal do-it-yourself building work that a layperson might not detect.

Having a building inspector and a pest inspector check out the property are the most basic of steps for investors.

Others who should be called in are property managers and valuers.

Gallagher believes that not looking before buying at Eagleby helped him get over the barriers blocking his first investment property.

Eagleby helped him get over the barriers blocking his first investment property.

"It stopped me being emotional and finding excuses not to buy," he says. "I had to change a few habits. It felt like jumping off a 30-metre tower at first. But previously I had been looking at properties and I was looking for excuses not to purchase.

"But at the end of the day, at Eagleby I looked at the figures and the research about the area and it all stacked up. The building was sound, the valuation was within \$1000 of my price and the returns were good. Everything came back positive. So I said to myself: why shouldn't I do it?"

Let professionals inspect the physical

Lomas says those horrified by her non-inspection approach often ask: what happens if it has a structural problem?

But detecting structural problems or maintenance issues is the worst reason to personally inspect. Unless the buyer has specialist skills, they're unlikely to detect a structural problem during a personal inspection. Often such problems are hidden and require an expert to sniff them out.

Lawrence, Archicentre's manager for NSW and the ACT, says some buyers decide to buy a property they love visually and don't want to know about any hidden problems.

"It's a bit strange how people are fearful of what might be

Once she's researched an area and found a likely property, Lomas asks a property manager to check it over.

"You can phone a manager and ask them to look at the home and provide a condition report," she says. "Most managers want your business so they'll do that for you.

"A good manager will come back and tell you 'yes, we have a tenant market for that property' or 'these are the things you'd need to do before we could take it on as a rentable property'. That's the sort of manager I would want to manage it for me."

Lomas engages a valuer to ensure she's paying the right price but not until she has a negotiated price. She writes into all contracts a special condition that she'll proceed only if a valuation confirms the purchase price.

Mad not to have a look

Sydney buyers agent Patrick Bright believes it's "just crazy" to buy property without checking it out yourself or via a trusted representative.

"If you're going to pay half a million bucks for a property, spend a few hundred dollars on a plane ticket and go and have a look at it," he says. "I think it's stupidity not to do it.

"If you can't do it yourself, get someone you trust to look at it for you. And if you can't find a friend or family member, you can use a buyers agent.

Inspectors without gadgets

It's vital to know that the building inspector you employ is doing a professional job, especially if you're going to use their report to buy sight-unseen.

What to ask:

- Do you have professional indemnity insurance?
- What are your qualifications?
- What will be checked and covered in your report?

Warning signs

- A request for cash payments before the inspection.
- Only provides a mobile contact number, or a post office box address.
- No indemnity insurance.
- Lack of professional equipment, such as ladders, damp detectors, levelling devices and probes.

Source: Archicentre

"It's obvious I would say that – but you need to get somebody to look at it."

Bright cites recent examples of people who were ready to buy based solely on what they saw on a website. One was a client who wanted to buy a Manly home and fell in love with the view depicted on the internet.

"The problem was that the view on the website wasn't reality. It portrayed a sweeping view of the water from the lounge room. But that view was only available if you went out on to the balcony, took a 90-degree turn and looked down the side of the building. The view as portrayed would have been worth an extra \$150,000 to the property's value but the reality was probably worth only \$20,000.

"Those are things you can't know unless you physically inspect the property. Things are not always as they seem. Agents get very clever with their descriptions of properties. They say double-bedroom and when you look at it, yes, you can squeeze in a double bed but there wouldn't be room to walk around it."

Another example was a couple who wanted to buy a property that looked fantastic on the website, but the marketing material didn't show the block of apartments that crowded the property, nor the commercial buildings 50 m down the street.

"It just wasn't what they wanted at all," Bright says. "They said: 'Thank God we didn't make a move on that one.' I would be very cautious about buying sight-unseen. I can't understand people doing it."

University lecturer Peter Koulizos, also known as 'the property professor', finds it "very scary" that people buy property they haven't seen.

"If it's the biggest investment in your life, make sure it's the right one," he says.

Koulizos says investors planning to outlay

hundreds of thousands of dollars on property shouldn't be afraid to spend a few hundred dollars on proper research, including whatever it takes to personally inspect a property.

"If you're committing that much money, you would want to feel comfortable you're buying the right property and more importantly in the right area. If it's in your own city, it's an hour of your time. If it's in another city, it's a day and a few hundred dollars: you can fly in, drive out to the location, organise an inspection and fly back."

Perth buyers agent John Taplin of Property Wizards says buyers of land need to reassure themselves the land is level and free of building rubble or rubbish (which can be costly to remove), check the location of major drains nearby and observe the quality of properties nearby.

"I've visited sites and found they have high-powered overhead electricity lines nearby," he says. "Unfortunately some agents omit information or don't provide full information in their marketing. Sometimes it's misleading and deceptive."

House buyers need to visit the property to check whether it's on a busy road and whether other properties in the street are good quality.

"If buyers don't actually see the property, they don't know how the house presents and whether it's inferior or superior to other homes in the area," he says. "I've found some photographs published on the internet are not recent photographs and properties can age."

"If the home has been a rental property it can be rundown and you can't always rely on the photographs provided by the agents. Agents try to market the property in its best light so they focus on the best features. Does the property have actual views as described by the agents?"

"The advantage of physically inspecting is that you can see it warts and all. One house I inspected was described as brick veneer but in reality it was brick cladding over fibro. I've recently seen homes advertised as three-bedroom but they were actually two-bedroom homes."

Happy with properties he's never seen

Michael Johnston has bought several investment properties in the past three years and hasn't inspected any of them. A busy property professional based in Melbourne, he doesn't have time to go property hunting in distant locations. So he gets other professionals to do the looking for him.

Johnston owns a house in Mount Isa in far western Queensland which he hasn't seen and probably never will see. But it's performing excellently as an investment, providing double-digit returns. And he knows the property is solid because he had it checked out by a building and pest inspector, a valuer, a property manager and a trusted friend.

He's used the same system to buy rental properties in Tasmania. The one he bought in Launceston (two standalone brick units on one title) in 2003 has doubled in value since and, after rent increases, now yields close to 11 per cent.

Johnston is amazed at investors buying properties over the internet without proper research.



"They must think they're buying shares," he says. "You don't need to see the property yourself but you must check out the area and the returns – and get professionals to check the structure and the value."

Lomas has bought five properties in Elizabeth in the northern suburbs of Adelaide, where typical houses cost \$160,000 to \$180,000 and maisonettes (a form of duplex) can be bought for \$100,000 to \$120,000. She didn't inspect any of them before buying them, although she's seen them since.

"I wouldn't have bought those properties had I gone and looked at them. But thank goodness I bought them because they've performed very well as investments. I bought them after lots and lots of research and made judgements based on that research."

Support from the professionals

The importance of having professionals check out a dwelling, rather than trusting your own eyes, is emphasised by Archicentre, which conducts 20,000 pre-purchase reports for buyers each year. Archicentre says one in three homes have problems which can cost the new owners serious money.

In Victoria, more than half of all dwellings sold have roofing problems. Four out of ten have timber rot, a third have stumping issues and a third have electrical faults. In South Australia, 36 per cent of homes have illegal building components and almost half have damp.

Most are problems not apparent to the uneducated eye.

Adding to a buyer's dilemma is the frequency with which homeowners use "weapons of mass deception" to cover up serious problems before selling.

"Many of the cover-ups are effective because prospective homebuyers don't know what to look for and fail to understand the cost of hidden problems," Archicentre managing director Robert Caulfield says.

"Typical weapons of mass deception include the use of gap-filling products, wall paneling, strategically placed furniture, pot plants or rugs and newly painted surfaces."

If you find a problem, negotiate

Discovery of a major defect or maintenance issue doesn't necessarily mean a buyer should walk away from the deal.

"If things turn up in an inspection, people often don't want to know," says Lawrence.

"But the key point is that everything can be overcome and any defect can be remedied; it's a question of money and time.

"The buyer can ask the vendor to fix the problem or deduct the cost of the repairs off the purchase price.

"If people discover there's a problem with a house and decide they no longer want to buy it, it's like saying all the beneficial things that attracted them in the first place, like the good location or the wonderful view, no longer apply." ■

Terry Ryder is the author of real estate books and creator of hotspotting.com.au

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