

R *THE REAL ESTATE* **ROUNDABOUT**

VZ Real Estate Publication - Issue Forty Four

MAINTAINING COMPOSURE

Why due diligence still matters!

Good times can breed bad practices. You know the real estate market is strong when buyers submit unconditional contract offers whilst forgoing due diligence such as building inspections, or when unrenovated properties sell for comparable prices to renovated properties. Such displays of buyer aggression can be explained as taking a 'risk on' trading conditions.

Buyers have a higher appetite for risk given they believe the overall upside in the current market comfortably outweighs any risk of undetected property defects. Even though this buyer psychology is common in the current market, that's not to say it is wise behaviour.

In contrast to 'risk on' behaviour, when confidence is slow and prices are stagnant or falling, buyers take a 'risk off' approach to purchases. The property market was operating just like this only 18 months ago in 2012. How quickly things can change. In hindsight, many buyers played it



884 Samford Road Keperra exceed expectations after just 2 weeks on the market and obtained list price

too cautiously back in 2012, passing up buying at great value. Anyone who was brave enough to have made a purchase then, effectively bought at the bottom of the cycle, whether by design or default.

Now there is a risk that some buyers may be too aggressive for their own good. Paying for due diligence on multiple properties that you will

inevitably miss out on can cause you to question the value of doing due diligence.

The temptation to pass up on due diligence also increases when reports are written up with multiple disclaimers and cautionary tales that do little to guide you in the right direction.

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Letter from the Editor

Dear Readers

Welcome to the latest edition of The Real Estate Roundabout.

The team at VZ Real Estate would like to wish you the best for 2015!

In each month in The Real Estate Roundabout, we cover the North West property market to identify emerging trends and sales of interest. We aim to keep you totally updated and informed with the marketplace.

I hope you find the following articles of interest:

Best wishes

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Disclaimer: this publication is intended for general information only. Verstandig Zaini Real Estate accepts no liability for any actions taken by any persons acting on any information contained within this document. There are many issues involved with buying and selling real estate so it is important that you get specific advice prior to making any decisions on your next real estate transaction

Who Can Predict the Market?

Why do so many property experts have difficulty predicting the market and why do they keep getting it wrong?

The property market always seems to evoke strong and conflicting opinions.

Many so-called property experts have been predicting for years that Australian house prices will crash, but so far they've been wrong. Yet there are others who believe that our housing market is underpinned by the strength of our economy, a booming population and low interest rates.

In today's information age our economists and property experts have available to them unlimited online information and access to so much data and research and yet there is still no consensus about where the market is heading. Why is this so?

When you look at the property market fundamentals they are clear and easy to monitor. Some of the main drivers of the market are supply and demand, employment levels, population growth, interest rates and affordability. However there is one key element that the experts have difficulty assessing; this is investor psychology and consumer sentiment. Because this is an emotional dynamic it's hard to measure and also hard to assess the impact it has on the market. That's why predicting property price movements is far from an exact science.

The resilience of our property market over the last two decades has baffled many market pessimists who have been predicting the collapse of the Australian housing market.

A little over a year ago U.S Demographer and author, Harry Dent, predicted an imminent catastrophic collapse, of up to 50% in Australian housing prices. At about the same time SQM research analyst, Louis Christopher had a more optimistic outlook about the market and he accurately predicted a 20% growth in the Sydney market.

If you followed Harry Dent's advice you would have regrettably either sold in a panic or stayed out of the market. But if you followed Louis Christopher's advice and invested in property, today you'd be very happy, having been rewarded with strong capital growth.

Despite the negative headlines of boom and bust, we are living in a politically stable, resource rich and financially sound country which is underpinned by demand from a booming growth in population.

Australia is seen by the rest of the world as a safe place. Currently money is pouring in from foreign investors from all over the world as they look for a safe haven to invest their savings.



No Lies, No Deceit, Just Honesty, Integrity and Results

Maintaining your due diligence

Getting the all clear on a pest and building inspection can sometimes feel as though the expenditure was wasted. The insurance in ensuring that you have not purchased a problem property makes due diligence the best money you will ever spend.

Even though the benefits and information gained from these reports may be minimal, they can act as safeguards against the discovery of post purchase structural defects, possibly saving you tens of thousands of dollars later. Therefore, they are a very worthwhile investment, particularly when their small cost is weighed up against the overall value of the transaction.

The only thing worse than missing out on the right property, is buying the wrong one.

A Penny Saved is a Penny Earned

There are a few ways to ensure that money is not wasted doing due diligence on a property you may not ultimately secure.

Firstly, if the price guide seems too good to be true, it probably is. Everyone is fully aware that bait pricing is rampant. Maintain pragmatism when assessing what a property is likely to sell for. If it's likely to sell above your budget, don't spend thousands on inspections, strata reports and contracts being read etc. This will prove fruitless.

Secondly, ask the owner via the agent or the owner's lawyer what price they

would be prepared to sell for today. If you can meet that price, then by all means, conduct some due diligence in a rapid time frame, knowing that it won't be a wasted effort.

Thirdly, see if other buyers have paid for a pest/building inspection. If so, ask the company that did the report if they will sell you a copy at a reduced rate, or offer you a rebate should you miss out on that property. Many companies are happy to do this at present.

Lastly, don't ignore the obvious. A building inspection report on an unrenovated and unlivable property is going to tell you that the property is unlivable. Don't pretend it's something it's not. If your budget is unable to oversee a total renovation project, don't engage in one to begin with.

If a property is newly built or just renovated, a building report should still be done prior to purchasing it. Making a profit from developing is hard work. Disregard what you think you saw on The Block. Many people who attempt to renovate for profit lose money or at best, merely break even. As this reality starts to dawn on them, they begin to cut costs to meet their budget. A trained building inspector will pick up on any issues this may cause, if any exist.

To get full value from a building report or inspector, turn up on site when they

are doing the inspection and talk through any practical issues they raise. This often offers more value than just waiting for a written report. Some reports are full of disclaimers and alarmist language, yet tell you little about the true state of the home. A conversation with the inspector can add great context and value to their written report.

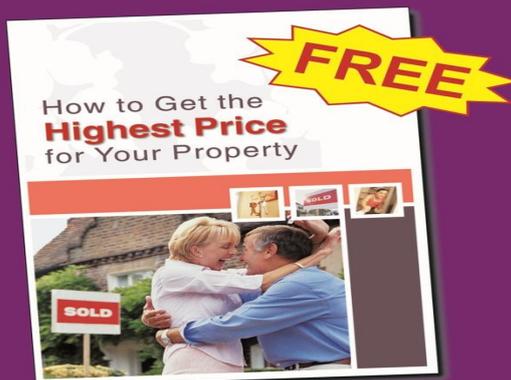
Strata reports are often a great source of information for apartment buyers. Projected works or increased fees, neighbour disputes and structural issues are all contained in strata minutes. Don't just read the minutes of the most recent meeting, go back several years to ensure that there are no festering issues.

An unexpected special levy shortly after purchasing an apartment for top dollar can set your finances back a long way. If you do this type of research, at least you will know if there are any impending levies prior to buying. They can then be factored into your offer/plans.

Paying for due diligence on multiple properties in a competitive market environment can be frustrating. If you are considering passing up on this prepurchase research, please note that you may be taking an unjustified risk.

The only thing worse than missing out on the right property, is buying the wrong one.

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Petition to Ban Bait Pricing and Underquoting

High profile and respected buyer's agent Patrick Bright, has begun a petition addressed to the Minister for Fair Trading, Stuart Ayres, on www.change.org. Bright's goal is to have vendor reserve prices advertised and underquoting to buyers stamped out.

Underquoting is the nice way of saying 'bait pricing buyers into bidding at auction.'

Bright, who is the author of 'The Insiders Guide to Saving Thousands at Auction', knows the auction system and how it operates. And he knows the financial and emotional damage bait pricing does to aspirational home buyers.

Bright says, 'The fact is price guides are more often than not significantly below the price a selling agent knows a property is likely to sell at and well below what the vendor would actually accept. Agents are thereby enticing buyers into thinking they can afford a property that is well above their budget.'

It's called underquoting and it's a misleading and deceptive practice that needs to be stamped out.

This is why I am advocating for a more



transparent process where there is a legal requirement to advertise the seller's reserve price seven days out from a property auction.'

If the seller's reserve price were known prior to the auction, it would save multiple buyers from having to individually spend thousands of dollars on due diligence, for a property they cannot afford in any case.

Under Bright's purposed amendment to the law, sellers who choose to auction their homes would not be disadvantaged, as any buyers that decide not to spend money and time attending the auction (once they know what the reserve is) are below

the seller's reserve price so they were never really in the running to buy it anyway.

The tactics and conduct systematically employed within the real estate industry to get bidders along to auctions would land professionals in other industries a stint in the big house. Yet the real estate industry sails along blissfully ignorant of the fact bait pricing occurs on a weekly basis.

To join Patrick Bright's petition, go to www.change.org and search for 'underquoting' or email him at patrick@epspropertysearch.com.au.

The agent carries the risk, not you.

Will you sell your property? If so, I would appreciate the chance to offer my services as your estate agent.

The service you will receive is very different. For instance, we offer you a '**RISK FREE**' sale. What this means, for you, is simply this:

The agent carries the risk, not you.

There are many people who are *interested in real estate in your area*. Many are ready to buy now.

If you think you might like to sell - even at some time in the future - please consider the price you could get. By all accounts, the price should be high. And, if not, you lose nothing.

That's what '**RISK FREE**' selling is all about.

You can contact us
at anytime
most convenient for you.



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