



Finding the perfect property

A good buyers agent can take the pressure off time-poor investors, but is it true they can also save you bundles of money? **Bronwyn Davis**

MOST of us wouldn't buy a used car without having a qualified mechanic check it out first to ensure it's not a lemon, so should the same rule apply when you're purchasing an investment that costs hundreds of thousands of dollars?

Buyers agents are an evolving breed in this country, whereas in the United States they're commonly employed.

Patrick Bright, buyers agent for EPS Property Search in Sydney, observes, "The industry only really started there in the 1980s. So in only 25 years it went from where Australia is today to almost two out of three transactions involving a buyers agent acting for the purchaser."

Although the residential property market is only really now being introduced to the concept of a buyers agent, Angus Raine, CEO of Raine and Horne, suggests, "I'm originally from a commercial background and the phenomena of using a buyers consultant in commercial property was quite common about 15 years ago."

Buyers agents are partaking in more real estate transactions every day, particularly for investments. In fact, there's now a governing body for buyers agents to regulate the industry.

The Real Estate Buyers Agents Association of Australia (REBAA) was founded in 2000 to raise the profile of the industry and establish guidelines for the professional conduct of agents.

What is a buyers agent?

Queensland-based buyers agent Scott McGeever from Property Searchers says, "A buyers agent works wholly and solely on behalf of the buyer. They're engaged to find specific properties for buyers and negotiate the best price and terms for them."

A good buyers agent will listen to their client's needs before scouring the market for the perfect property.

David Devenish, secretary of REBAA and Perth-based buyers agent, explains, "A buyers agent can provide a potential purchaser with advice about tips and traps, what to look out for and possible areas that might suit their requirements for either investment or owner-occupation."

Devenish says the primary benefit of employing a buyers agent is that there's no conflict of interest, "which is rampant in the real estate industry".

He says, "Purchasers seek advice from people who really don't have their interests at heart because they're receiving commission from vendors or developers."

Buyers agents not only research the market an investor is interested in, they can also arrange inspections, deal with the selling agent on the buyer's behalf, organise necessary building and pest inspections, bid at auction or negotiate a private treaty sale and generally attempt to secure their client a deal that will be profitable in the long term.

Because you're relying on them to find and obtain the best possible deal on your behalf, buyers agents need to have a thorough knowledge of not only the local property market, but also how sales agents work, how vendors think and how to negotiate effectively.

At present, obtaining the qualifications to become a buyers agent is simply a matter of undertaking a sub agents or full licence course, depending on the state.

McGeever claims this is worrying because investors, whose financial commitment to the property they buy can make or break their portfolio, are making decisions based on information from their buyers agent.

He says, "It's different to a real estate agent who relies on the market to determine the best price for a property they're selling. A buyers agent has to have a really good idea about the market and if you get it wrong you can cost someone thousands."

Bright recommends you look for someone with at least two years' experience as a successful selling agent and proven negotiation skills.

He explains, "If you want to outsmart a selling agent you need to have walked in their shoes to know what really presses their buttons."

What's it worth?

Michael Ramsay, president of REBAA and Melbourne-based buyers agent, says, "Investors realise that if you make a mistake when buying your

property it can cost you a lot further down the track."

McGeever says, "We could save (a client) 5 to 10 per cent, but you need to consider that buying a person the right type of property could potentially save them tens of thousands."

"I spoke to a guy who was considering using a buyers agent, but he decided to do it himself. He bought on a main road, spent money renovating the home, then got it revalued in an attempt to gain equity and buy another property. He needed it to be valued at just over \$300,000, they valued it at \$250,000 and he'd bought it for \$210,000. We possess the knowledge to say here's a property that needs renovation, here's what you'd need to spend on it and this is what it would be valued at as a finished product in the marketplace."

McGeever says even if a buyer negotiates a \$400,000 home down to \$360,000 and believes they've nabbed themselves a bargain, they still may have over-capitalised if the true value of the property is only \$340,000.

Having someone else do the hard yards

After spending four months glued to the internet, endlessly perusing newspapers and agents' windows and pounding the pavement, Perth investor Nick Fennessy stumbled on the concept of a buyers agent. He'd become so consumed by the hunt for the perfect home that it was even eating into his working hours and he felt like he was getting nowhere fast.

Nick explains, "Part of the reason was that the Perth property market at that stage was so ridiculously hot. There were properties hitting the market that were due to have their first open house on the Saturday and were selling two days before... and they were selling for much higher prices than they were being advertised for."

After a couple of failed attempts at securing a property on his own, Nick went and spoke with four different buyers agents and finally settled on Profound Property.

Nick claims the primary reason he felt compelled to use a buyers agent was to conduct the market research to ensure he got the best deal possible.

Nick ended up buying a four-bedroom, two-bathroom house last August in the Perth suburb of Morley for \$465,000. The house was advertised at \$460,000, however at the time the Perth market was so hot it wasn't uncommon for houses to be selling for up to \$20,000 more than their advertised price.

He confirms, "I missed out on the first house I looked at by \$40,000 and the second one by \$80,000. With the right advice I was able to determine that the properties weren't really worth that much, but were actually closer to what our initial offer was, so just having that knowledge potentially saved me a lot of money."

Nick is more than happy with his investment.

He says, "Given its location, potential and existing rental return, I think it should prove to be a very good purchase as the years roll by."

Nick admits not every investor needs a buyers agent, particularly if they have the skills and time to conduct their own research and due diligence before committing to a property purchase.

But he says, "If people don't have those qualities, they could save quite a bit of money using a buyers agent."

"We've bought heaps of properties that have come onto the market for \$350,000, we've estimated their worth to be around \$300,000 and we eventually ended up paying \$280,000 to \$290,000 for them."

While Devenish acknowledges the potential savings to be had on purchase price as one of the main reasons to hire a buyers agent, he also advises clients that they can gain three further financial windfalls.

"(One is) capital growth – whilst there can't be any guarantees, our job is to seek properties with the potential for above-average growth. That can be an extra 4 per cent per annum, sometimes more and sometimes less."

"Then there's the cost of doing nothing."

"Many people procrastinate over buying because they don't know where to start, there's confusion and they're untrusting of real estate agents."

"The cost of doing nothing in a market where you have increases of anywhere between say 8 to 10 per cent per annum can represent 1 per cent

per month in lost capital growth that the investor could be enjoying.

"The last area is reduced risk in unforeseen costs. Many people don't conduct enough due diligence on a property; they purchase an asset and then discover almost immediately after settlement that it needs substantial expenditure on it, whether it be general repairs and maintenance or things that were faulty at the time of acquisition but not properly documented in the contract.

"A buyers agent is trained to be able to identify areas of immediate and potential future costs and we're able to build that into the contract and ideally compel the seller to make good on certain items. That could represent a cost saving from anywhere between \$200 to \$2000."

Taking the time

Not only is extensive research required to ensure your investment will provide you with the necessary growth to make it financially viable, as an investor you also have to field phone calls from real estate agents and make the time to inspect what could amount to hundreds of properties before you find the right one.

McGeever says, "Investors might have agents calling them at work or contacting them via email to say they have a great property they need to inspect straight away or it's going to sell. They can't just drop everything and go, whereas the buyers agent is on the ground 24/7. When we find out about properties, we're out the door and looking at it for the client immediately and then we can either get them to that property or the trust factor should be there to advise the client to put the property under contract subject to their inspection."

Reaping the rewards

Ramsay says, "It's all about buying the right property. Timing is important but

it's not as important as where you buy and what you buy."

If an investor chooses the right buyers agent, they should find themselves with a property that's easy to tenant due to its desirable location near all the right amenities and that attracts exceptional capital growth (ideally above the going median rate of growth for that area).

Devenish points out that increasing

agents so they become aware of properties prior to them being advertised."

Ramsay points to the objectivity a buyers agent can bring to the table.

"We keep emotions stable so that investors don't exceed a sensible purchase price. With investments particularly, once you get to a certain price the numbers just don't stack up. How much you pay for an investment is always important in order to maximise potential returns."

How to find a good buyers agent

Scott McGeever says:

- The buyers agent should hold professional indemnity insurance. That way you know if something happens you can pursue legal action and have an avenue to gain compensation.
- Make sure they've worked in the industry, sold real estate before or worked for another buyers agent and ask them how many properties they've bought for clients.
- Are they experienced in negotiations? What's included in the service? Are they linked with any real estate agents or developers? Do they belong to professional associations?

David Devenish says:

- Check their track record – how long has the business been established?
- Employ someone who works exclusively as a buyers agent.
- Choose a buyers agent who is licensed.
- Ask for references from past clients – seek testimonials or talk to past clients for feedback.

Patrick Bright says:

- Ask to see at least 50 testimonials or references to review.
- Is the buyers agent an investor themselves and do they own real estate?

Michael Ramsay says:

- It's best to use a member of REBAA because of the guidelines we have, including: they have 12 months experience and professional indemnity insurance and abide by a standard of practice and a code of ethics.
- It's also a personal preference. Some agents might be too aggressive for certain investors, so it depends on how well you relate to them and how much you trust them.

complexity within the real estate industry can cause headaches for investors.

"Sales pitches from scrupulous developers and agents are far more sophisticated, not to mention the array of information and product to wade through. This information overload can cause investors to shy away from the market entirely or buy something without a clear and concise plan of attack."

Bright says, "A buyers agent will act unemotionally, they're looking for great deals 60 hours a week and many have good relationships with selling

The cost

Fees for employing the services of a buyers agent vary, depending on the exact nature of the assistance you require. If you're simply seeking advice you'll often pay a small upfront fee, however if you want the buyers agent to research the market, find your ideal property and negotiate the contract price and terms (including bidding at auction where necessary), you'll generally pay a commission.

This can be anywhere between 1.5 to 2.5 per cent of the final purchase price for the property, plus GST. Some buyers agents prefer calculating their fees and charges in this manner, while some prefer an upfront fee.

Bright breaks down the costs for a buyers agent a little more specifically: "If you want to find the property yourself and

have a buyers agent research and negotiate the purchase for you, you'll be up for around 1 per cent of the estimated purchase price. For bidding at auction you're likely to pay anything from a flat fee of \$500 up to 1 per cent of the purchase price upon success. Essentially, as with any industry, you get what you pay for."

And if you're still not convinced that a buyers agent might just make a good investment, McGeever notes: "The fee for a buyers agent can be used to reduce capital gains tax on the asset as it's considered a capital cost in the acquisition of the property."

Are buyers agents for everyone?

The simple answer is no. The costs involved can be quite steep and if you're merely dabbling in the lower end of the property market to find your feet, it's probably easier and more cost effective to do some of your own research and get a feel for how the whole industry works.

If you're a fairly experienced investor then you'll probably feel confident enough going it alone if you have the time, saving on buyers agent fees and allocating that money to your next investment instead.

Raine believes most of us possess the ability to know a good deal when we see one.

On the other hand, Devenish says, "A big proportion of investors buy outside the area they live in and increasingly interstate, so if you're a remote purchaser, using a buyers agent is highly recommended."

Raine agrees and suggests that for the thousands of ex-pats living and working overseas, buyers agents can be a great asset.

"About 80 per cent of ex-pats living overseas are going to return eventually.

"It's difficult to buy a property from Hong Kong, London or Singapore and that has been a significant driver of the buyers agent market."

With buyers becoming increasingly savvy about the nature of real estate transactions, it's no surprise that the number of investors electing to utilise buyers agents is on the rise.

McGeever estimates, "Since we started and judging on how many buyers agents are operating now, I'd say the rate of investors using buyers agents in the last four to five years has increased tenfold."

Bright predicts that one in every three transactions will involve a buyers agent in Australia within the next 10

years, however Ramsay says the exponential rate of growth the industry has enjoyed up to now isn't sustainable in the long run.

"In Victoria it's gone from 5 active buyers agents to 50 in 8 years and in Australia from about 15 buyers agents to 100.

"I think the industry will keep growing but not at the speed it has in the last six years."

So will buyers agents ever spell the demise of the traditional real estate agent in this country?

Raine thinks not. "There's always a need for a middle man with a transaction of that magnitude. And real estate's a contact sport, you actually have to wear out shoe leather, inspect properties and have a real estate agent involved in that transaction for the vendor, as they're usually selling their largest asset and a lot is at stake." ■