

WHY SCORING A **D** IS NO FAIL IN PROPERTY

Did you know there are four 'Ds' that often spell bargain buying in real estate?

CAROLINE JAMES

Properties for sale due to death, divorce, debt or desperation can substantially lift one's chances of nabbing a keen deal, industry experts say. Gold Coast-based buyers' agent and valuer Tony Coughran of VFM Property Advisory says knowing how motivated a vendor is to sell is one of the most important negotiation tools available to investors.

He agrees there are four common circumstances where vendors are highly motivated, which can be used to a buyer's advantage.

"When negotiating, it's very important to ascertain how motivated the vendor is to sell and usually the more motivated, the better the deal you'll get," Coughran says.

"Typically, many of these motivations sit within the four



Ds – deceased, divorce, desperate and debt – and when opportunities like this come up you need to be prepared so that you can act quickly to secure them.”

Melbourne buyers' agent Cate Bakos concurs, but adds this warning – resist buying a rental home only because you got it dirt cheap in a distressed sale.

The best investments will always be those chosen on their merits including location, rental demand and capital growth prospects, she says.

If you subsequently discover the vendor is selling due to a 'D', use this knowledge to help you negotiate an agreeable price and settlement.

“Buying a property just because it's cheap is one of the most common mistakes people make,” Bakos says.

“A dud property is still a dud property at any price and won't change the fact there's an eight-lane highway outside its bedroom window.”

Stefan Miraglia, director of Independent Property Consulting, says his advice for investors looking to find a bargain due to one of the four Ds is based on “the fifth D”.

“Do your homework! These A-grade opportunities may come up every now and then but they'll be snapped up quickly.”

DIVORCE: The marital asset fire sale

WHEN MARRIAGES END and there was a family home or portfolio, divorce can see one partner keen to offload the property for less than market value “either in spite of the other partner or just because they're looking for a quick settlement to move on instead of battling it out between solicitors”, Coughran says.

But if you learn that a bust-up is behind the property's listing, don't instantly assume you'll score a red-hot bargain. In Miraglia's experience, if a divorce doesn't end in one of the parties keeping the house and it does go for sale, this often results in unrealistic price expectations and higher prices.

“I believe it usually has the opposite effect because the couple may not be able to agree on the sale price and it may not sell for a long time,” he says.

Bakos agrees: “Divorce sales are mixed in terms of discount buying.

“While one party can certainly dig their heels in on price, ultimately if it has to be sold then it does have to be sold and I've found in most circumstances people are just happy to negotiate a sale and move on.”

■ TIPS FOR NEGOTIATING:

Keep it simple, professional and discreet. Soon-to-be-divorcees will typically want a no-fuss, business-like transaction so definitely keep all emotion at bay.

Flexibility on settlement terms, unconditional offers and deal-readiness will be warmly received by these possibly emotionally exhausted vendors and may result in good buying. Complicated demands or delays will probably not.

DEBT: The bank sale

YOU SEE A SIGN GO UP on a property you've had your eyes on and spot the words “mortgagee sale”.

When a property owner who had to borrow to buy the rental home can't meet the mortgage repayments, the lender – who will have security over the asset – will move in and force its sale.

The bank is generally only interested in getting its money back and so, in theory, a mortgagee sale can mean keen buying. However, it can also mean fierce bidding if a high-quality asset goes to a bank auction without reserve.

“In this low interest rate climate, we haven't had too many mortgagee sales [in Melbourne] so, unless they [the owner] have got themselves into an unsecured debt mess or taken on another investment and then run into cash flow problems, these kinds of sales aren't common and when they do happen, they can result in very competitive bidding so you don't often get a genuine bargain,” Bakos says.

“The reality is the banks aren't in the business of building their property portfolio.”

TONY COUGHRAN

Adelaide-based Miraglia says: “Basically, if someone has taken on too much debt they may need to sell the property and you may pick up a bargain.

“But, once again this is difficult to know unless the agent states it's for sale by the mortgagee.”

In Queensland, Coughran says: “There are still the odd few cases of bad debt coming through with vendors financially in trouble having a last ditch effort of selling their property before the bank forecloses on them.”

“Likewise, when it comes to mortgagee auctions, the reality is the banks aren't in the business of building their property portfolio and will often sell the property under the hammer or shortly after to attempt to recover the monies they're owed.”

■ TIPS FOR NEGOTIATING:

Keep your ears peeled for any signals there's a third party, i.e. a lender, watching sale proceedings. It may be strongly promoted because agents know it can create keen buyer interest from those thinking they can nab a cheapie.

But if the bank hasn't yet got involved and the vendor is selling to clear debt before defaulting, they may not want to telecast this fact.

If this is the case, offer the quickest settlement you can manage – 30 days tops – and see if you can secure a reduced price in return.

DESPERATION: I've got-to-get-out-of-this-place sale

DESPERATION SALES are Bakos's favourite type of bargain buys "and are particularly prevalent in this market".

"I get calls all the time from real estate agents telling me about these great off-market listings because a lot of people are taking advantage of a rising market in Melbourne – and presumably in Sydney – and buying before they sell with 60 or 90-day settlement periods but then realising they haven't given themselves enough time between transactions, face the additional cost of bridging finance and won't have time for the luxury of a proper sales campaign to sell their homes," she says.

"These vendors have often bought their next homes without really thinking it through and that can result in a desperate sale."

Miraglia says desperation is the most common of the four Ds.

"Usually this is because someone has bought another property and they need to sell this one to get the deposit, or they may be moving away or had a change in life circumstances," he says. "This is the best chance of a purchaser picking up a bargain, especially if you can offer favourable terms to the vendor such as an unconditional contract or a short settlement date."

■ TIPS FOR NEGOTIATING:

"When a property ticks every box, as an investor you should then go in looking for clues as to why the vendor is selling," Bakos says. "An agent isn't going to automatically tell you their vendor's reason for selling but there are little ways you can often flush out if it is a hasty sale, i.e. a desperate sale. One way is ask for a 150-day settlement and see what you get in terms of reaction. If they balk it tells you there's a reason they need to sell it more quickly and this may help with price negotiation if you can offer the vendor favourable terms such as an unconditional offer and a short settlement time."

MOST COMMON REASONS FOR A DESPERATE SALE

- ▶ Bought next home before selling current one.
- ▶ The imminent arrival of a baby.
- ▶ School zones: "That's a big one and can trigger a flurry of selling/ buying in advance of a new school year," buyers' agent Cate Bakos says.
- ▶ Adverse reaction to a new home: "When someone moves and quickly realises they hate it."
- ▶ Interstate/overseas jobs.
- ▶ Interstate/overseas romances.
- ▶ Illness or ageing, which makes a current home unsuitable for occupation.

INVESTOR SNAPSHOT

Instant \$40,000 equity

Adelaide investor George Mavromatis saved more than \$40,000 when he bought his first rental property after a failed auction in February.

The bargain buy – \$397,000 for a double-brick partially renovated three-bedroom house in Blair Athol about 15 kilometres north of Adelaide's CBD – was sold by an increasingly desperate vendor who had already committed to buying a commercial property.

Mavromatis says he'd made a pre-auction offer on the 770-square-metre property and been told the vendor wasn't considering early offers.

"I knew what I was looking for and when this one came along I knew it would be perfect for subdivision one day but also easily rentable in the meantime," 26-year-old George says.

On auction day, and despite several bids, the property failed to reach its \$420,000 reserve. That's when George's buyers' agent kicked into action.

He and George had already discussed they'd be prepared to pay up to \$440,000 on auction day to clinch the site. But, when nobody bid, they kept their top price under wraps.

Negotiations between buyers' and sellers' agents began.

"If it had been left up to me I probably would have ended up offering \$20,000 more under pressure because the agent, who was just doing his job, was telling me other people had made pre-auction offers of more than I was offering.

"But my buying agent kept a cool hand, picking up that the vendors

were selling because they'd bought somewhere else and guessing they'd be desperate to secure a sale.

"He kept a poker face and made our offer, making it clear I could sign the contract today and pay a deposit... it worked, and so we got it

for \$397,000, a real bargain as this price was under land value and I'd been prepared to go up to \$440,000."

George and his advocate offered a short, 30-day settlement and both vendor and buyer were happy. The property rented for \$355 per week within a fortnight.

He's hoping banks will lend to him again before the end of the year so he can buy another rental home.

May's interest rate cut and the \$40,000-plus equity that already exists in his Blair Athol property will, hopefully, secure his next investment loan.

"I'd also been looking for deceased estates because even though they may have retro-dated kitchens, often the families selling have no emotional connection or can't even speak to each other and just want to get rid of it.

"Obviously, there's money to be made and I'd highly recommend using a buyers' agent because while they will cost you money, they save you money in the long run and the four Ds will also definitely help you secure a bargain."



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DEATH: The DECEASED ESTATE

PROPERTIES FOR SALE because a homeowner dies are not cut-and-dried bargains – but can be, according to the experts.

Death often leads to the deceased's former home being handled by a trust or trustee.

“And this means it would usually go to auction and go for the market value,” Miraglia says.

But there are exceptions, particularly if the deceased's spouse is alive.

Last year Bakos helped a client, a single dad, purchase a three-bedroom house in an east Melbourne suburb from a widower.

It had been the vendor's family home but after the death of his wife, it was too big for its sole occupant, who decided to sell.

The man received offers from Bakos's client and a rival buyer, a developer. But despite the developer offering \$35,000 more, her buyer's offer of about \$500,000 was accepted.

“It was because the vendor could see how much my client genuinely loved the house and wanted to make it his family home and decided to sell to my client even though it was a lower price,” Bakos says.

“Death is a tricky one because it's usually the children selling.”

CATE BAKOS

“Death is a tricky one because it's usually the children selling and although they can't just dig their heels in and refuse to sell, it can be extremely frustrating to buyers if the siblings live remotely and are slow to reply. I've also had many examples over the years where siblings would rather sell their parents' home to a loving family over a developer so, although it's a bit counter to common thinking, it can bring a lot of closure for the selling family and be okay to be vocal about how much you love the home, to show real emotion.”

■ TIPS FOR NEGOTIATING:

Deceased estates will often result in beneficiaries who are eager to offload estates to cash in, Coughran says.

Many adult children live elsewhere and don't know local housing values, which can also spell bargain buying for investors.

“Vendors are generally extremely motivated and you could pick up a good buy... but make sure you do your research here. Many deceased estates need extensive renovation work and generally attract a lot of buyers.” AP



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