

Ripe for the picking

Where to buy bargains now

Buying low without compromising on quality, location, yield or future resale value is a powerful investment strategy.

Pauline Hatch shows where to find these gems



While a motivated seller might be propelled into a hasty sale due to divorce, deceased estate or the purchase of another home, distressed properties have owners looking down the barrel of foreclosure and a black mark on their credit, or have already been repossessed by the mortgagee.

These desperate circumstances compel owners to drop their asking price to initiate a speedier sale, which is where smart investors can step in.

When it comes to buying a property 'under market value' or for a 'bargain price', it's important to understand why the property is selling for a relatively cheaper price.

That's because this can have serious implications for future capital growth and tenant prospects, says Amy Mylius, buyer's agent with Cate Bakos Property.

There are many reasons why a property could be selling for a significantly lower price than other comparable properties that are for sale or have sold recently, but there are two main reasons, according to Mylius.



1. Situational reasons

These are created by the vendor's personal situation or the current market conditions.



Example #1

The vendor may be in a position where they have to sell by a certain date and, therefore, they're more amenable to accepting a lower purchase price if they can get the terms they require.

Example #2

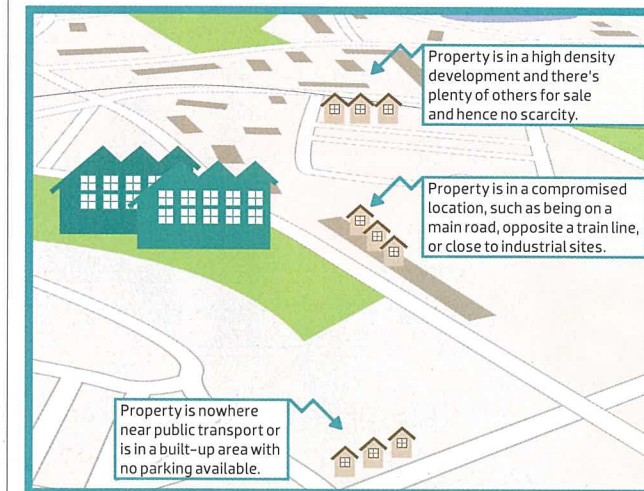
When there's an above-average number of that type of property on the market and the buyer pool is diluted, which can put the buyer in the position of power at the negotiation table.

"When situations like these happen they don't necessarily imply that the property is worth less, but do create an opportunity to purchase a property at a discounted price," Mylius says.



2. Characteristic reasons

More often, Mylius explains that the reason for a property being a bargain is due to the property's characteristics, which are often difficult if not impossible to change. These include:



"As soon as there's a tangible aspect of the property that might detract from it, the buyer pool of people who will consider it will shrink and hence reduce the amount of interest you might receive if you want to sell," says Mylius.

Capital growth is driven by demand, and the best way to stimulate competition is to have a property that will appeal to the widest possible demographic of buyers. When assessing a property you need to put yourself in other people's shoes – you might forgive certain drawbacks to a property, but the likelihood of everyone else feeling the same is unlikely.

When buying an investment property, you need to consider the needs of your potential tenants.

Mylius points out that while tenants are more forgiving than buyers, they'll still have their 'deal breakers' or will only accept shortcomings of a property at a discounted rent.

"While you may have bought the property at a great price and hence expected a stronger yield, you may be faced with higher vacancy rate or below average market rent," she says.

As always, the litmus test of a profitable investment is the growth potential of the neighbourhood, location, and supply versus demand – all factors that drive capital growth. Regardless of the 'great deal', be prepared to walk away if the numbers don't line up.

Discounts can be found even in the strongest markets

A variety of factors can cause a property to fall into arrears, and no location or price bracket is immune.

Statistics from Real Estate Investar have revealed that several middle and inner-ring suburbs have experienced heightened proportions of distressed listings, giving investors the opportunity to buy in locations where sellers normally have the upper hand.

For instance, anyone thinking Sydney has become an unattainable market may find the time is ripe for buyers to get a toehold, as forecasters predict a modest increase of 4% in values this year and discounted properties being available within minutes of the CBD.