

JAMES BUYER ADVOCATES

**BUYER ADVOCACY : AUCTION & BIDDING ADVICE : PROPERTY SEARCHING : NEGOTIATIONS :
EXECUTIVE RELOCATION : COMMERCIAL & RESIDENTIAL INVESTMENTS**

James Buyer Advocates are Buyer Agents, the opposite of real estate agents, in that we work exclusively for buyers of property. We provide professional, independent and unbiased advice on purchasing property. As Licensed Property Advisors and full members of the REIV, we provide a fee based service and receive no commissions from any agents whatsoever.

PROPERTY BUYERS NEWSLETTER

Welcome to our April 2005 Melbourne Property Buyers Newsletter.

Topics Covered

What's Happening in the Market?

The New Dummies

Underquoting – Bad for the Buyer and Bad for the Seller?

Doctor Syndrome

Finding Nemo – Real Estate Negotiating

Great little idea if you are buying then selling

Investing in Commercial

New Information Website

Apartments and Townhouses Report

What's Happening in the Market?

Median price this, interest rates that, clearance rates up, stock down. The stats are all there and they are being talked about everyday – but how do you relate them back to your specific purchase? Here is how we have found things recently:

Beaconsfield Parade, St Kilda West – Last Saturday

We missed out on a 'mortgagee in possession' sale at 74/333 Beaconsfield Parade for our client who is a doctor. A direct comparative sale in the block recently at \$475,000 and other lower sales comparisons indicated to us mid 400's tops. In addition, there were a number of uncosted "in breach orders" from the body corporate which had to be rectified at the purchasers expense. It did have good views – good WOW and the building was OK. We thought allowing for risk, \$425,000 was the right money. There were 5 bidders over \$450,000 and it sold for \$500,000. This is the most surprising result for me this year (in fact I lost a \$5 bet to my client on how many bids over \$400,000 – I said none). Obviously this time it well and truly exceeded our expectations.

8 Hamilton Street, Brighton – Last Saturday

Our client is a family whom we have bought 3 previous properties for. This time, we bought 8 Hamilton St Brighton for \$725,000. A really nice little family home of the cute single fronted Edwardian vintage – it was featured with a picture in last Sunday's Age. The agent was quoting \$640,000 - \$690,000. We opened proceedings at \$650,000 and with only two bidders against us, we bought it with authoritative bidding for \$725,000 - this was at the bottom of our expectations.

7 St Huberts Road, Carnegie

Our client is a young person – we missed out on purchasing 7 St Huberts Road Carnegie - \$445,000 because we didn't have enough. It was on the market at \$425,000 with another bidder and us. Strong bidding to \$445,000 saw us drop out. At the high end of our expectations. Our main disappointment of the week, as the property was a good one.

Pizza Hut Shop, Burwood Highway Ferntree Gully

Client is a city solicitor - we bought a shop in Ferntree Gully with Pizza Hut as tenant at Auction for \$744,000. This was a Burgess Rawson Portfolio sale at the Crown Casino and all sales featured in an article in the Australian Financial Review (Tuesday 19th April 2005). There was bidding from 5 sources. We purchased the property because our client allowed his limit to be flexible rather than strict. It went for exactly what we thought it would go for in this strong lower end commercial market.

133 North Road, Brighton

Client is a new arrival family from NSW and we bought 133 North Road (price undisclosed). An Edwardian family home, the agent was quoting \$1,350,000+ plus. There was only our opening bid then vendor bidding. There were two, possibly three, post auction bidders. We bought it at our limit and at our expectation level.

16 Breadalbane Street, Newport

Our client is a middle aged couple - we bought 16 Breadalbane Street Newport for \$600,000, with an 8 month settlement. A stylish townhouse, the agent was quoting \$640,000 - \$660,000. It was a Private Sale – we gave one firm offer with a tight deadline – and it was accepted. Totally in line with our expectations.

45 York Street, Prahran

Client is a family moving from the Eastern Suburbs - we bought 45 York Street Prahran (price undisclosed). This is a 4 bedroom groovy townhouse/house with a big WOW factor in an OK street. The agent quoted \$780,000+ then \$800,000+ a week before the auction (it had sold a year ago for over \$840,000). With two bidders, it was on the market at \$880,000. We bought it shortly afterwards. This was at the lower end of our expectations.

Kooyongkoot Road (Buy) & Urquhart Street (Sell), Hawthorn

We recently purchased a property for clients in Kooyongkoot Road for \$1.845 million. There was no bidding at auction and probably no bidding afterwards and the property was purchased slightly below our level of expectation, but at our limit. The agents Tim Bennisson and Iain Carmichael did a good job at a difficult auction. We then organised agents to sell their property at 78 Urquhart Street Hawthorn. The property sold at \$990,000 on a quote of \$900,000 plus. There was only one stand out buyer who was very well managed by the Marshall White Agent (James Tostevin) and Collins Sims Auctioneer (Antony Woodley). This property sold above the agents stated expectation levels.

7/19 Dalgetty Street, St Kilda

Our clients are ex-pats. We bought 7/19 Dalgetty Street St Kilda for \$290,000. Private sale quote was \$310,000. One offer with a tight deadline brought an immediate result. This was at the lower end of our expectations.

The New Dummies

If you have been impressed with the way selling agents have positively responded to the Dummy Bidding laws re the live auctions (there is very little of it during the 15 minutes of a live auction), then you may be equally unimpressed by the increasing prevalence of the NEW DUMMIES - The Mysterious Phone Bidder and the After Sale Auction Rush.

How many people can't attend or send a representative or a family member to an auction? Very few – although our ever flexible selling agents are finding more and more of these 'don't have the time but will buy over the phone' type of buyers. At two recent auctions we attended, there was phone bidding but miraculously none of it happened after the property was one the market!

We are contacting the REIV and our solicitors for an opinion on whether this breaks the law with regards to identifying a bidder upon request and our feelings are if we are forced to bid against someone on the phone, then we would require the agent on the Monday to identify the bidder or else receive a writ from us claiming damages on behalf of our client. However this maybe just wishful thinking on our part and we will keep you informed - but be very aware of the PHONE BIDDER. This is not an Antique TV show – where the sales are unreserved. PHONE BIDDERS may well be DUMMY BIDDERS.

Secondly, with the market easing over the last year or so, we have understandably seen an increase in pass ins at auctions. Do you have a strategy for managing this and do you understand that whom you may be "bidding" against in post auction negotiations may be real or unreal and the recent legislation DOES NOT protect you from this? However on the other hand, NOT ALL DUMMIES ARE DUMMIES.

Real Life Recent Example:

Our bid at auction \$1,200,000. Vendor bidding to \$1,300,000. Passed In. Post sale negotiations. This was a very stressful time for all parties – Hocking Stuart Auctioneer Peter Kennett breathing fire, brimstone and colorful language does add a few extra heartbeats when he is jiggling around in your personal space – but this is the big time – our clients 'grand final' and you need to keep a clear head. We had to make a call - was this other party for real or was he a ...?

We had warned our client about this scenario, however in the heat of battle explaining on the phone how the only real bidding which they witnessed at \$1,200,000 was now over \$1,300,000 because we believe the other

“bidder” is real is not the easiest part of our job. The buy price was within our Property Report recommendations and it was a good place. We have a good working relationship with Peter Kennett. He has been straight with us before. We bought it.

As a footnote, we accepted that we would never know for sure how real the other bidder was – but by an incredible coincidence the following week, we ran into the underbidder, who had all the property guides in his possession in a Middle Park coffee shop and we had a chat – maybe he will become a client or maybe he will never speak to us again because he said he didn’t believe we were buyer advocates (I’m not sure if I should be insulted) and he thought the agents were lying to him and that’s why he walked away.

He was real. So were we. One of us made the right call under pressure.

Our client now owns a beautiful home.

Underquoting – Bad for the Buyer and Bad for the Seller?

Underquoting has been in the news lately with Gary Peer and the Federal Court Case. Phillip Kingston and Gary Peer are very good local agents however the court decision has hopefully sent a message.

The legislation has not fixed up quoting - agents can still verbalise whatever they want (many Inner Eastern agents do not state a price in writing at anytime) and while a few agencies eg some Hocking Stuart and some Jellis Craig have made an effort to accurately quote and more individual agents are happy to communicate with us as advocates more accurately than before eg some Kay and Burton, Marshall White and R T Edgar agents to name a few there is still an overall problem. Look at how much abuse is still occurring within the 10% Buyer Enquiry Range or rubbish from agents mouths’ like this is the Buyer Enquiry Range not the Estimated Selling Range. What???

It still continues on partly because:

1. of market forces (we don’t get the buying side right every single time); and
2. some agents think the old adage “quote em low, watch em go and quote em high watch em die” is the right thing to do 100% of the time; and
3. the legislation or regulatory authority is unable to force selling agents to understand that if Coles-Myer quoted fridges for sale at \$1000 and there were not any, they would have the ACCC or the Office of Consumer & Business Affairs on them in a flash. Why shouldn’t selling agents who quote \$350,000 - \$380,000 for a private sale or auction but won’t sell it at that, expect the full force of the law to reign down upon them?

Part of us hopes this stops and helps improve the reputation of our industry. However poor quoting helps our clients as well. Let us explain...

Underquoting in our opinion is bad for the buyer - they pay for pest and building reports with no hope of buying the property – after a while some buyers dismiss looking at certain agents houses.

Less competition is good for us and our clients.

On auction day, underquoting also helps us because with an underquoted property, as the bidding gets further and further above the “bull----” quote price and closer to the real value price, more and more buying competitors get nervous and drop out for illogical emotional reasons when they could of and should of kept going and possibly bought.

This is also a message for our clients who choose to sell – be careful who you hire.

There are good selling agents out there and we have recommended them (without kickback) and continue to do so when people are looking to sell. Of course it’s completely different when buying off them. **When we buy, we do not rely on an agent’s quote. Information and preparation are the keys to successfully negotiating. We define our strategies from our detailed property reports using the quote from the agent only as a guide to where the vendor’s expectations may be.**

Case Study

We recently purchased a property where the quote price was \$780,000 plus – despite the fact this was a great home and was recently purchased for mid \$800,000’s. ‘The market has dropped’ I hear you say – it hasn’t for high quality properties with WOW and we had direct comparables that had sold at over \$900,000 recently. In

fact, after we had made a mid campaign offer of high \$800,000's – which wasn't even written up onto a contract - the quote remained the same (\$780,000+) until it moved at the last minute to \$800,000+. We bought it on the market at auction for an amount slightly above our initial verbal offer.

Was the agent doing the wrong thing? We think probably not as he is a reputable agent but he was pushing the boundaries. If anything, we appreciated the underquoting as it helped our competition (other buyers) be underprepared at the auction.

Not all agents underquote– some over quote either because they:

1. have misjudged a property (rare if experienced),
2. lied to an owner to get a listing (in fairness some vendors encourage the lying) or
3. have a vendor with an unrealistic opinion (becoming more common in this market).

We find an overquoting situation even more difficult to manage in an auction situation. We explain to our clients via a detailed Property Report where we think the good buying range is. We then have to make the difficult decision to suggest pest and building inspections and explain to our clients that they may spend \$800 but at a \$700,000 purchase price, it's a small price for "insurance".

So what can really work? Accurate quoting.

We had dealt a number of times with Raoul Holderhead of Burgess Rawson (a commercial agent) without actually buying anything and apart from a bit of agent exaggeration to the benefit of his vendor, he had been pretty accurate in his final analysis. We believe his accuracy on quoting the shop we bought in Ferntree Gully (see What's Happening in the Market) was perhaps the difference between us getting and not getting it and for his vendor, he squeezed a few more bucks out of the deal. While on the subject of commercial, we find as a rule if you deal with them professionally, then they are generally more accurate in their quotations – however in fairness there is less market emotion than in residential to contend with. Two other reasonably straight shooters we find in commercial are Mark Grogan from Gorman and Kelly and Matt Nichols from Nichols Weber. We receive no fees from them and our only word of warning is they are very good selling agents – but selling agents don't work for the buyer.

Doctor Syndrome

This was a heading to get your attention. I am married to a doctor, so I have to be careful. Also we have acted for 5 doctors this calendar year alone. Doctor syndrome (as we call it) is for those people (many of whom aren't doctors) who are fleet of mind in that they can change from one committed thought to another in the blink of an eye and make snap decisions. In surgery, this is great skill, in football this is very useful and as a television presenter it's a pre requisite. In property - it's a worry!!

For example, we have been looking at \$1 million dollar homes for a client and all of a sudden, they see their dream home at \$1.8 million.

In case study one, there is no denying that the \$1.8 million home is better than the \$1 million dollar home – it's got a pool, more rooms and is in a more up market suburb. So when we are a little circumspect, it's not that we don't think the \$1.8 million home is a bad buy – it's just that it's \$800,000 off 'brief', and for \$1.8 million, there are many other better alternatives than the \$1 million home and possibly a number of homes more suitable at \$1.8 million.

Alternatively, in the second \$1 million case (client now spotted an "investment" at \$623,000), moving downwards like this is \$400,000 off 'brief' – OK but we were originally looking for a home – not a high rise building where they had never lived before. Yes the high rise might be a good buy, and yes it's a lot cheaper, but we are circumspect for other reasons related to resale if this is not the right property in two years time. In addition, if you are now looking at high rise, we should look at another 10 or 20 similar places and possibly different areas before we make a commitment.

Our role as advocates is not to tell you what to like – after all we buy a wide range of properties - our role is to keep you on 'brief' unless we have properly explored a wide range of alternatives. So if you are fleet of mind, please remember that we will always refer back to what you have told us are YOUR NEEDS.

Three additional points:

1. Of course we can change YOUR NEEDS – but let's do it in a considered manner.
2. Of course we can move and think quickly – we can and have bought properties the same day as we first saw it (usually with conditions). But the clients were on brief and on budget.

3. Yes a high rise may have unique stunning views but unique stunning views are not necessarily rare and that presents demand and supply issues on resale. That view may not be repeatable but that type of view may well be.

Finding Nemo – Real Estate Negotiating

If you have kids, you will have seen Bruce the Shark at the “I don’t eat fishes anymore” meeting go crazy when he gets the sniff of blood in *Finding Nemo*. If you haven’t got kids or you haven’t seen the movie, you will probably think this a very poor intro to real estate negotiating.

Our favourite people we like to negotiate up against are other buyers who are experienced deal makers who are not involved in property. Our hardest clients to manage at times are professionals who are very experienced in deal making but not home buying deals. The deal structure is completely different for say, a lawyer. With a lawyer for example, there are two sides and very flexible time limits and to some extent full disclosure of facts to both sides. In home buying, there can be five or six sides, very inflexible deadlines and non disclosure of facts.

Sometimes with other professionals they can feel a deal going there way and then they decide to squeeze really hard – in investing this often works as people on the other side take a commercial view. But with some home sellers it becomes an insult and the dealmaker professional won’t be getting the place even over the sellers dead body.

Finally brokers, insurance people, maybe even us agents when we are emotionally involved etc who get a seller into a good deal position to buy seem to get the blinkers and forget that at a new lower level a broadside from other buyers is now a real possibility.

That’s why when some of our clients get the sniff of blood in the residential property market as Bruce the Shark did - we counsel them to be cool and to act with thought rather than ego. Of course we are talking about good quality property as you shouldn’t be buying rubbish anyway.

At the end of the day, if you are a dealmaker ask yourself this: Is your spouse going to love you that little bit more because you tried for the deal of the century and missed or because you got the dream home at a fair and reasonable price?

Great Idea if You are Buying Then Selling

To increase your chance of getting editorial and getting your place to sell up on the net quicker – get your photos done in advance so as when you buy, you can press the button to sell straight away. This suggestion came from our client Kate – well done – it’s so obvious it’s almost embarrassing that we haven’t thought of this before.

Investing in Commercial

Due to the amount of feedback we have received on our Investment articles and documents, we thought we might continue on with some of the same. This time instead of residential we have selected commercial to talk about.

Investing in Commercial is an area that causes us some angst before we are even hired by a client. Why is that when we love commercial and own a commercial property ourselves and we like to buy them under the right circumstances? It is because it is the area that we find a lot of inexperienced investors have read about and attempt to hire us without fully understanding the ramifications of such a purchase.

For instance, if you have no property portfolio and are going to be heavily geared, we would not have recommended purchasing the shop with Pizza Hut as tenant in Ferntree Gully for you unless you had specific advice from your advisors and clearly understood your commercial risks. We would be more likely to have steered you in the direction of a say a \$350,000 retail shop in a developing shopping centre or a residential purchase. These are not better investments – but they might be a better match for your investor profile. Back to the Pizza Hut example, our client was a sophisticated and experienced investor, owned other commercial property and had very specific financial and timing reasons for the purchase. On top of that, the 173 page contract, the depreciation schedules, our special commercial report and an agents investment report was read

by his accountant and solicitor as well. We explained to our client that we could not see above average natural growth from the suburb and the yield at our expected buy price would be tight, but, as a whole we loved this particular site

1. which is the only homeward bound site between Knox Shopping Centre and the Mountains (the old Swagman for those old enough to remember),
2. the development (brand new and plenty of car parks),
3. the tenant (Pizza Hut Australia and not a franchisee with a strong 6+5+5 year lease) and
4. the other tenant mix (Aldi's, Blockbuster, Cellarbrations, National Pharmacies - moved from a local site to here, KFC – also moved from a local site to here, Nandos etc and within eye line Safeway).

Below are our rough drawings and if you would like to see a copy of the commercial property report (with private client details removed) please email mal@jpp.com.au.

Drawings available at http://www.jpp.com.au/current_market_news.html

If you are thinking about Commercial Investment, we refer you to our Commercial Strips research document at our website at www.jpp.com.au/specialreports/commercial. This reference came in recently for a group of shops we bought on the Maroondah Highway in Ringwood.

29 March 2005

Dear Ian and Mal

Re: Letter of recommendation

I write to offer our recommendation for the service you provide, especially in our purchase of a commercial property.

It was the first time we had purchased commercial property, and we greatly appreciated your guidance, frank and straight forward explanation of the processes involved and especially your patience in dealing with both us and real estate agents acting for vendors.

In our particular case, we had in mind a certain area and type of commercial property. We looked at a number of properties, with your guidance and assistance. We even made an offer on one property, only to miss out due to the (unpredictable) actions of the vendor's real estate agent. We felt quite 'low' at that time, but you provided a great deal of encouragement, and we persisted. Eventually, we found another property, which provided an even greater opportunity than we initially planned for. With your assistance, we obtained the necessary advice to determine the viability of this new opportunity.

Ian and Mal, you 'came into your own' when we began negotiating with the vendor's agent who was very difficult to deal with because, for example, he not indicating an acceptable sale price. This made our determination of what would be a reasonable offer very difficult. In the end and with your help, we purchased the property at a significant discount to the valuation we had received.

In recommending you, Ian and Mal, we found you very professional in your dealings with us, we highly recommend you, we wish you all success in your future business dealings and are happy to provide a reference for you in the future.

Yours faithfully

Richard Smoorenburg

New Information Website

Incredible increase in traffic and enquiry off our new BUYERS website – thank you for the vote of confidence. If you haven't already done so, check it out at www.jpp.com.au

Apartments and Townhouses Report

Some really good feedback on this detailed statistical analysis of where Melbourne townhouses and apartments have gone in the last 20 years. It's available on our website (under the client and referrers section - password is "property") or click on www.jpp.com.au/specialreports/apartments

Hope you enjoyed this one. Thanks for reading.

Kind Regards

Mal, Ian, Sam, Antony, Chris, Peter, John, Janet and the team.

Contact Us

If we can help you with any buying advocacy matter, or one of your clients/friends is in need of independent, qualified and experience based residential property advice, then please call us on 03 9591 0199 or email mal@jpp.com.au or ian@jpp.com.au. Our website is www.jpp.com.au.

No Thanks

It is planned to regularly release and send you property updates. If you do not wish to receive these, please reply email with **unsubscribe** in the subject field and we will remove you from list.