WANT A GOOD LAUGH!

3 surefire ways to secure a property bargain

Can houses or apartments ever really be a bargain?

Unlike handbags on sale at David Jones, snapping up a cheap residential property could be like buying a used car and getting stuck with a lemon.

Fools may believe that paying $50,000 less than the median price of homes nearby means they have snared a property bargain, but if that property is on a main road, has plumbing problems or a roof that's caving in then the cheap price isn't worth it.

Dave says; As property investors we have to be wary when median prices are used as the base for an argument on qualifying property prices – what he says is pretty correct however as he is talking in general terms about a possible scenario that unsuspecting purchasers or investors could encounter if they do not prepare themselves properly. As property investors we have to know what we are doing or we will get burned and this is exactly the reason why we run our www.followmechatclub.com.au and it's group of companies including the Buyer's Agent, The Apprentice Millionaire program and in November The Next Property Millionaire Program.

We are there to help you buy right and help you learn the basic mechanics of property investing including, how to buy, what to buy, how to plan, what to plan, how to get finance, what type of finance, how to find experts, who are experts etc etc. Most of all is the need to learn and understand how to "keep it simple" and the need to F.O.C.U.S. (Follow One Course Until Successful.) Property investing doesn't have to be complicated, people however tend to make it that way.

In today's volatile residential property market some million-dollar plus homes can be 20% or 30% cheaper this year than last year, but does that make them a bargain? Dave; Stay away from $million dollar homes if you are building a portfolio

Take the Gold Coast beachfront home of former Globe clothing millionaire Stephen Hill. A stunning architecturally-designed home that cost $10 million to build on a block of land he paid $20 million for in 2006. Pokies king Bruce Mathieson just bought the the house for $18 million -- $15 million below its asking price.

It's definitely a bargain compared to the money Hill ploughed into it. But if Mathieson tried to sell an $18 million Gold Coast property tomorrow, he could well struggle to achieve such a price given that it is raining doom and gloom on Queensland's glitz strip.

"You can really only claim you have bought a bargain if you pay at least 10 per cent under what would be considered 'fair value' for a property," says Residex's John Edwards. Dave; This statement is closer to the mark, it would have to be under what was considered fair value today – and the key is to find out first of all the true value of that particular property – not the median price of properties sold in the area.

But if 'fair value' is a concept that moves up and down with the market, how can you pin it down? Dave; Correct, so that is why we like to categorise the risk content of buying. Like any market, if you buy in areas where or when there are no buyers then you are headed for trouble, unless you have plenty of back-up funds. That is why we need to buy in areas where there are known buyers.

Bill Fatouros of LandMark White independent valuer's says the technical definition of 'fair value' is what a willing buyer would pay a willing seller at a certain point in time to purchase a property.

"A bargain is only ever relative to true market value -- and for valuers, market value is a moving feast," he says. Dave; Again correct, so it could be wise to listen to a valuer, but even then this depends much on the instructions a valuer would receive from the people who employ them, notably the banks and the mortgage insurer. If a bank is instructing a valuer to get close to fire sale (even less 10% at times) then the valuer himself may have a negative influence on the real value of the property. Another reason for staying away from high prices properties in a volatile market

So does that mean there's no such thing as a bargain in real estate?

I don't think so. There are real estate bargains available in any market -- boom or bust. It just takes clever research to pick them out. Here are some examples: Dave; Agree

CASHFLOW POSITIVE PROPERTIES: If the rental income a property can earn will cover the mortgage payments, management fees, repairs, and running costs then a property is definitely a bargain. "More of these are coming on the market now that there's a strong rental market and a poor buyers' market," Fatorous says. Dave; Agree with an add-on. Cash-flow property + capital growth is what we can find in outer Sydney at the moment. The capital growth possibility is the key factor, as it helps create deposits for future purchases.

DISTRESSED PROPERTIES: A distressed property is one with a distressed seller. Job loss or transfer, divorce, death, pending foreclosure, and lack of money cause sellers to sell fast for less. Discovering the seller's problem and finding a solution is the key to buying a bargain property. Dave; Agree that we need to identify the sellers motivation to sell if we can and mortgagee in possession is a key indicator.

The old wisdom used to be that if you bought a mortgagee in possession property, you would get a bargain. Dave; Possibly so, but seldom easy to find without the right contacts, experience and knowledge.

But that's not always the case because if first home buyers are all competing at a mortgagee in possession property auction, it can push up the price. It takes a lot of research and homework to come across a true 'distress property' where a sale can be had for less than fair market value. Dave; At the moment this is what is happening and this is definitely making bargains hard to find at Auctions, but later there will be the "untrained investor" who will assume that bargains are found at this level so it will remain a falacy. The best property to look for is the one that nobody else is interested in – and because of extensive advertising they are not usually found at auctions

UNDERVALUED PROPERTIES: This takes real market expertise and valuation excellence. Dave; This is what I know to be 100% true and this is why we all need expert contacts. And if you are in the property investing market looking fr a real bargain you can find your experts at www.followmechatclub.com.au and their group of training programs and services.

These could be locations that are undergoing change, such as St Kilda in Melbourne or Paddington in Sydney, where workers' hovels that could be bought for a song 20 years ago are now worth millions. Undervalued properties can also be those which appear to require a lot of renovation work, yet may only need some cost-effective cosmetic repairs. But remember this -- if you genuinely believe a property is undervalued, why doesn't the rest of the market? Dave; Yes I agree again, these are not easy to find, but they are the key to creating wealth. The best way by far is to find the real deals is to find an expert first, one who knows the true value and real potential of a property in that particular area or market, and certainly not one who relies on across the board data, statistics and media hype

These are just some of the examples of properties that I would say are bargains. They are rare. They aren't easy to find. Dave; Agree again, but they say the deal of a lifetime comes along every day. The problem is that most people, as Kiyosaki says, "see with their eyes and not with their mind." Most people are driven by emotion and emotion has little place when it comes to working out a property investing deal that will make you money.

The residential property market is similar to the market for fine art or antiques, where value is always be determined by supply and demand. Markets such as these will continue to be a cycle of ups and downs, but true quality will always hold its own. **Don't you agree?** Dave; Thanks for the article - I think you have nailed it. Very good.

Posted by Alex Brooks

June 29, 2009 2:43 PM

This is a great topic. I think the concept of a bargain is the ability to buy and then sell in a short time at a substantial profit.

For instance, I know of a place in Mosman which was appraised recently at mid $m teens and will likely fetch around $10.5-$12m. A true bargain. If I could afford it, I would certainly buy it. Although it doesn't typically fit my definition of turning it over for a profit in a short time, I think this will be worth in the high teens in 5 years time, as long as the economy recovers in 2010/11.

I viewed a Californian bungalow in Lane Cove recently which sold for mid $900's and needed a lot of restoration work. Other renovated bungalows in the same street have sold for $1.5m in the last 2 years. This property in question probably needed +/-$300k's work, but a good profit could be had with some hard work, and it would make a lovely family home. The young couple that bought it certainly bought well.

Binh (through these blogs) has indicated that he has bought properties, sub-divided them and sold them for big profits. This requires a lot of talent, but obviously to a keen eye with time available, it represents a bargain.

Distressed properties are harder to guage. Bank's these days are generally pretty keen to allow owners time to sell and achieve a maximum price. I have also been to a few distressed auctions recently and my opinion is that the results quite often are anything but distressed.

Cash flow positive properties do exist but you must be careful about the location. If they are not near a main city or town, then I wouldn't touch them. Such properties are common near mining towns which is great when there is a mining boom and ore in the ground. But what happens when things change? Investors need to consider this and decide whether the risk is right for them.

On other matters, a thought provoking article on Michael Pascoe is in API this month. Interesting that his thoughts exactly reflect what I have been saying for a while; he is not too keen on residential property as an investment class compared to other asset classes and he doesn't expect property values to change much in the next 12 months (for 'average' residential properties) except that the luxury end will continue to fall as unemployment rises and those big fat bonuses become wafer thin. Interesting to see he has an investment unit in Pyrmont too. Kim will be pleased!

But his article does show that if you are after an 'average' property as an investment, now is still not sexy enough for savvy investors. Substantial gains cannot be made again until the economy is chugging at 3.5+% GDP, unemployment is falling, and the consumer debt binge of the 1990's/00's is unraveled. This won't happen for at least 2 years. Forget any of the other 'so called' factors such as supply because it’s already here.

As I have predicted, the period between 2003 and 2012 for the 'average' Sydney house will not provide anything that resembles a reasonable nominal positive capital return, let alone it doubling in value. Any positive return certainly will not beat capitalised inflation over this period.

For further proof, an analysis of Saturday's Domain will clearly show that over the last 5 years, even solid properties with substantial renovations in good suburbs have not moved that much. And if they haven't been renovated at all in the last 5 years, they haven't moved anywhere above inflation. It is only those properties that have had thousands upon thousands in the last 5 years spent on them that are skewing the numbers just a little. It just seems amazing to me how API can still expect us to believe that there have been great gains to be had in recent years for 'average' properties!!! Dave; I wonder what they would describe as an average property? I agree with the next post below on this. The reason we have a great opportunity to make great profits in these times is because of a number of factors. Warren Buffet talks about, “being greedy when others are being wary” now is one of those times in some areas, especially in the outer west of Sydney. Values are low, supply is short, demand is high, rents are increasing. It doesn’t cost an arm and a leg to make a bad property into an average property and an average property into a good property. Prices have risen some 20% in the past 6 months so the bottom end has increased making bad deals into good deals. Will it keep going? Supply and demand drives all markets, with rents making properties positive cash-flow it makes sense that these properties will continue to grow in value and bargains will be around for some time. While most are sitting on the fence we are following Warren Buffet and Robert Kiyosaki and Robert Allen. We are looking for Robert Allen’s don’t wanter properties in times like Warren Buffet say “when others are being wary” and we are seeing with our mind and not with our eyes, just as Kiyosaki told us to do if we wish to identify real bargains.

- Posted by: DB at June 29, 2009 6:03 PM

Great.

What a complete lack of insight you've provided today.

Do you get paid for this?

Thanks for sharing.

- Posted by: apple at June 29, 2009 9:00 PM

Alex, apple's comment was probably directed at me, not you. But, each to their own.

I say let's all share our commentary in the name of debate - but let's try to be nice about it. A friend of mine is fascinated by the Rise of Snark ... and the internet is where it's all hiding,

- Posted by: DB at June 30, 2009 9:04 AM

Hey "Apple". Are you the same Apple that's living in the UK, who thinks that wages can't rise in a recession ? Just curious.

- Posted by: hptcc at June 30, 2009 12:30 PM

Hey hptcc, don't put all apples in the same basket! *groan*

That made me giggle.

- Posted by: Dan at June 30, 2009 1:50 PM

Either avoid becoming one of Australia's herd of dumb uneducated MEGA MORTGAGE MUGS or move to the US or Europe. No Bargains to be had in Australian Sub Prime Overheated Inflated Property Market Still overvalued by between 30 and 70% depending on Location. You STILL Fooled?..Ha Ha.

I wondered where you'd got to. Today's RP Data-Rismark figures show Oz house prices have gone up by nearly 4% between January and May ... and there's an economic crisis on. Go figure.

- Posted by: We Love Ha Ha at June 30, 2009 4:16 PM

Bravo 'We Love Ha Ha'...That's spot on. This lingering Herd mentality is steadily marching to the biggest bubble burst in Aust, nay global history. What happens when the baby boomers start dying off, or their children start pushing them out of their homes and into nursing homes? Massive oversupply of properties in a population massively skewed at the top, with much less younger, working buyers. What does economics 101 tell you. Supply greatly exceeds demand - prices plummet. There is another few years of this inflated MEGA MORTGAGE PANIC yet, but then watch the real PANIC set in when mortgages start outstripping sales values by record amounts. Yes friends, relax and wait, then you will see bargains.

- Posted by: Dank Spot at June 30, 2009 4:47 PM

Interesting article but unless you are willing to hang on to property for a long time you should not be buying. There are rumours that in the US the markets are about to take another dramatic tumble and that will affect all other economies. The job lay offs have not really started in OZ but they will happen in the next 6 - 12 months.

This flurry of buying is brought on by naive first home buyers who in their desperation to secure the govt grant are over spending by $50 - $70K. This represents lost value and will take years to regain. The government is fully aware that it is doing the wrong thing but propping up property is the best way to keep money spinning in the economy.

So sure go ahead and buy if you are buying to hang on for at least 10 - 15 years and if your job is 100% safe but if it not you could be setting yourself up for a massive bankrupcy.

- Posted by: Michael Nejad at June 30, 2009 5:11 PM

I'm interested that you put cash positive properties in that list...i subscribe to a list that sends these out, and so many look too good to be true...i wonder why more people don't buy them if they are so good, and assume they must have really low capital growth prospects. I'm overseas so not an option to go and inspect, and am wary of the agents pushing them since it's in their interest to sell. Anyone got anything constructive to say about these types of property as an investment option..?

- Posted by: Lucy at June 30, 2009 5:33 PM

Lucy, generally my view is that the higher the yield the higher the risk of vacancy.

But if you were to buy a 1brm apartment within 10kms of a major capital city and probably pick up gross rental yield of around 6%, it may not be a bad long term play. You can fix 1 year interest in advance at about 5% at the moment.

But in my opinion, within only the property class, there are better growth opportunities elsewhere simply based on the concept of P/E multiples i.e. for every $1 rent rise, the property value might rise by $16 in a one-bedder, but for a 2 bedder the property value might rise by $20. I do subscribe to the P/E multiple principle generally at the cheaper end of the market.

- Posted by: DB at June 30, 2009 6:26 PM

There will always be properties for sale and properties to buy, dependent on who the consumer is. Take your time, investigate the market, buy when you think it's right! I have bought and sold over 150 houses/flats and can honestly say that I was happy with every purchase/sale. Negotiation is the key to most successful dealings. Be smart, not like most of the negative comments I've read on this post. Do most of these negatives come from home-owners, I don't think so!

- Posted by: CM at June 30, 2009 7:08 PM

If property prices keep going up, sooner than later no one will ever be able to afford to buy. So expect a lot of builders to be sitting at home doing nothing. The government will be to blame for giving to much to the first home owners. Prices already in this country are not affordable to many and it is getting worse each year.

- Posted by: richard at June 30, 2009 8:09 PM