

# Buying sight unseen: Turning risks into profit

**Buying sight unseen is a risky strategy, but there are ways to reduce the potential dangers. Helen Collier-Kogtevs, director with Real Wealth Australia, explains**



**B**uying sight unseen can be a handy way to buy real estate; unfortunately, many investors get it wrong. I once listened to a property guru who, while on stage, mentioned that in his opinion new investors should not buy property sight unseen until they have viewed at least 100 properties. I happen to agree. I can't tell you how many properties I have viewed over the years. For months on end it was all Ed and I did every weekend. We used to get up early every Saturday morning and head straight to the real estate agent's office so we could view as many properties in one day as possible.

Unfortunately, many investors (even those with a few properties

under their belt) are so keen to buy property that they don't view enough to fully appreciate what they're buying. They think it will be okay and in most instances it usually does work out, but only because property is a pretty forgiving investment. However, I also hear of horror stories from investors where it hasn't worked out.

### Not for the faint-hearted

Buying sight unseen can lead to many problems for the unsuspecting investor. I remember when I was looking for opportunities and came across a town with high yielding properties. At the time I didn't think much of it, yet it caught Ed's attention and he decided to pursue it. The

result was that we purchased a little three-bedroom property that was about 25 years old. The photos we received from the real estate agent showed the property to be in fairly good condition.

It wasn't until we saw the property some months later that we received the greatest shock. It was in worse condition than we had anticipated. The backyard had become home to a stockpile of beer cans and mechanical spare parts. The tenant obviously had not maintained the property and it wasn't in the good condition I had seen in the photos sent to me by the real estate agent. Had we seen the property before buying, we may not have bought it. In this instance buying sight unseen worked in our favour because of the high capital growth the area was experiencing at the time.

### How to make it work

Buying sight unseen can work but you need to put certain processes in place to ensure there are no nasty surprises. As for our little property, we've now decided to bulldoze it and build three units on it which will provide us with a wonderful return. I am grateful there was the opportunity to do that, otherwise, well who knows – it could have become the white elephant of our portfolio.

I learnt a lot from this experience and have especially learnt how to do it right next time round. I have now created a buying strategy and process that I go through religiously when buying sight unseen.

Here's my tip: there are five different people who need to view your property before you buy.

**1 Sales agent:** the sales agent needs to have viewed and valued the property for sale and know what it looks like, what the best features

are and what the concerns are. We start off by obtaining as many photos from the sales agent as possible, especially the kitchen and bathrooms. These rooms are the most expensive to repair/replace so it's best to obtain photos that are close up and clear so you can see if any repairs are required. Photos of walls and doors give you an indication of whether they need to be repaired and/or repainted. You should also get photos of the streetscape and what the property next door is like. I had a client who looked at buying a little house which had appeal in the photos, however the building next door was an industrial laundromat with trucks coming and going all day. The photos saved my client from a potential disaster.

**2 Building inspector:** a building inspector should be employed to assess and identify any building issues. They too will usually take photos and highlight any concerns with the property. Building inspections are great in that they are usually thorough and give a clear indication of the structural and aesthetic condition of the property. This should be done prior to settlement and a satisfactory report should be a pre-condition to purchasing the property.

**3 Pest inspector:** a pest inspector assesses the property to ensure there are no creepy crawlies present that could cause potential damage to the building. The pest inspector's report also contains photos and gives an overview of the general condition of the property. This should be done prior to settlement and a satisfactory report should be a pre-condition of purchasing the property.

**4 Property manager's inspection:** the best person to give you impartial advice on the condition of the property is the property manager, and their inspection is to check whether the property is in a liveable condition for a tenant to occupy. To ensure the property manager is not impacted by the selling agent, we usually get a property manager from another real estate agency to review the property. That way there's no

conflict of interest. The property manager is fantastic for assessing how rentable the property is, as well as the general condition of it. The last thing a property manager wants is a property that has been neglected and requires continuous attention. Properties like that are usually a great deal of work for property managers and hence when inspecting our potential property purchases, they give us a great indication of its condition. They also

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provide us with a number of photos and a general inspection report. A property manager can become your eyes and ears when purchasing sight unseen. This should be done prior to settlement and a satisfactory report should be a pre-condition to purchasing the property.

**5 Bank valuer inspection:** the bank valuer who is commissioned by the lender will assess the property for its value and provide a valuation which confirms that you have paid fair market value for that property. The fact that he/she has entered the property demonstrates the property exists and its value is accurate. The lender will insist this is done prior to settlement.

To ensure your investment purchase is a real living asset, it's important that the above steps are undertaken prior to settling the purchase of the property. In this way, if you purchase sight unseen and have five different people go through the property, it must exist and there is a good chance that the condition of the property is reasonable and you won't have to spend squillions of dollars fixing it up.

It would be very difficult for five independent people to fudge the results. Making a decision to purchase a property sight unseen is a lot easier if you have all the photos, reports, feedback and assessments. If you ask enough questions, buying sight unseen can be a very successful and



easy way to buy property without having to leave the comfort of your home.

**Another important tip!** Don't stop asking questions. Talk to other locals, council members, local businesses etc and obtain their feedback on the area or street you're buying in. Contact the pastor at the local church who has probably lived there most of their life – you'll be amazed how much they know about the area. Or try contacting the senior citizens club and ask to speak to the longest standing member. They too are a wealth of information about what has gone on over the years. Often they'll be more than happy to fill you in on all the local history – all 50 years of it! One more thing: make sure you get comfortable when having this conversation as you could be there for a while.

At the end of the day, no matter how well you apply this strategy, nothing will replace the information you get by physically viewing a property. It's a great way to buy but your level of knowledge increases ten-fold when you 'check it out' for yourself.

Until next time, happy investing. ■

*Helen Collier-Kogtevs is an investor and author of '47 Biggest Mistakes made by Property Investors and How to Avoid Them'.*

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