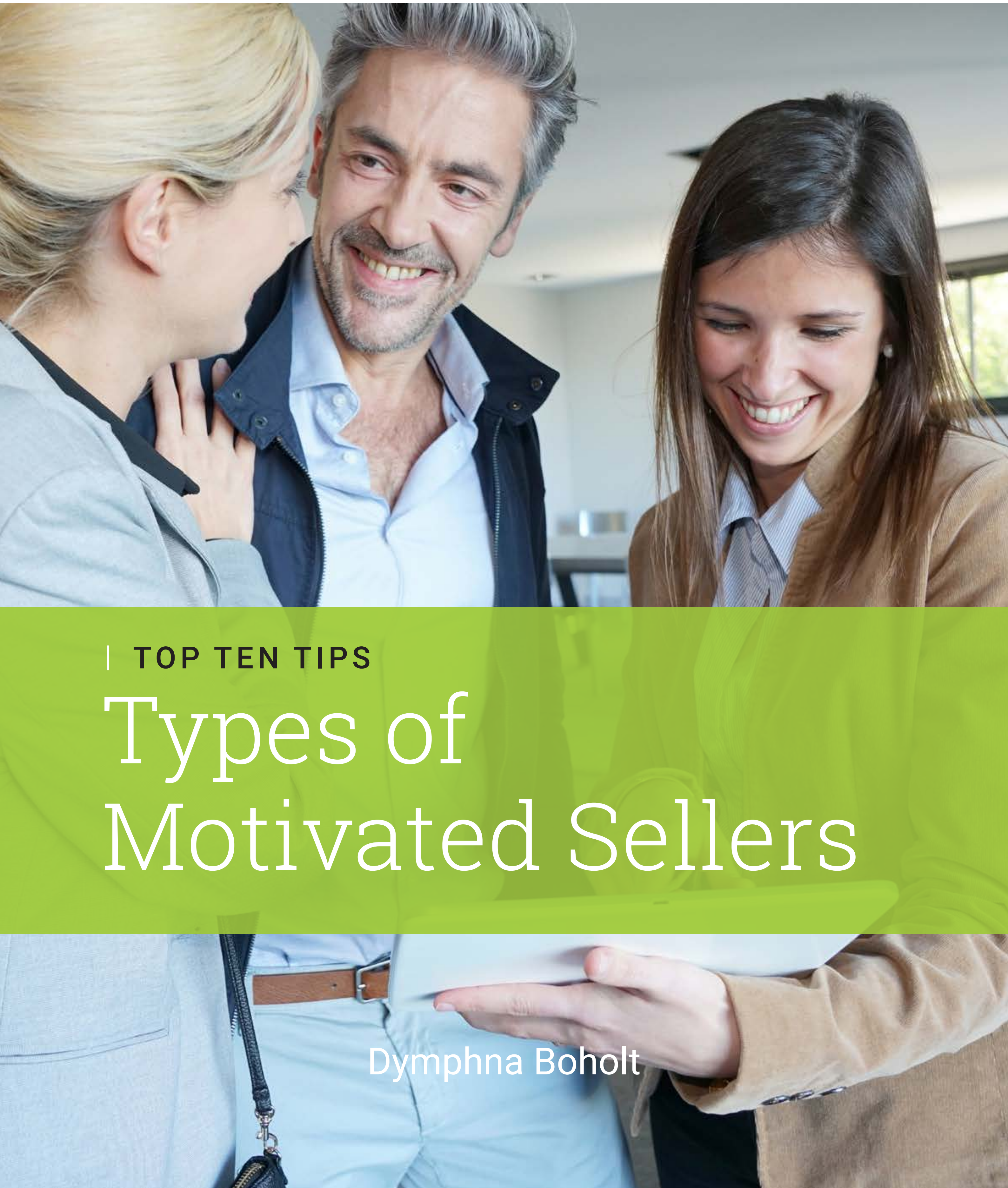
I LOVE REAL ESTATE

INVESTOR SERIES



TOP TEN TIPS

Types of Motivated Sellers

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1. High vacancy rates

If a property has been vacant for some time, an absentee landlord is generally very keen to sell the property. Contacting the seller directly may mean that you can assist the current owner to free themselves of their 'problem asset'. In reality, they may simply have a bad property manager, need for cosmetic renovations, incorrect or poor marketing.

If you can look at a property as a buyer and identify why the property isn't selling or isn't attractive to tenants, you have to ask yourself if you can provide a solution and later a profit. They win because they've 'unloaded the problem asset' and you win because you've picked up a property at below market value.

2. Quick or forced divorce sale

Chances are, if you live in Australia and have seen the light of day in the last 6 months, you know someone that has been divorced. What this means to the property market is that every day, properties are being offered for sale because two individuals want to split the equity which has been built up in a property.

The splits are not always amicable and sometimes sellers make irrational decisions that lead to the property selling far below market value.

I have seen numerous situations where one party is living in the house and the other party has moved out and is renting. They see no perceived benefit in holding the property for any length of time, and are happy to take a lesser monetary split on the house in order to make a quick sale. They then get their share of the property settlement and can get on with their lives. As a property investor looking to buy, unless you directly find out exactly why the seller is selling, then you won't have the chance to take advantage of these deals.

3. Rundown or distressed properties

A property in disrepair is always a good sign of a motivated seller. If there are insufficient funds to keep the property in good order, then usually the seller is in a pressured situation and needs to get rid of the property urgently. Astute investors are able to capitalise on the situation and buy immediate equity.

You might look at run down or distressed properties – buying a property that is distressed or ugly and in a state of disrepair can often mean that you are able to buy it at a price that is under real market value. What this means is that usually a very basic fix up or cosmetic renovation will significantly increase the value of the property.

The owner might be older and simply cannot keep the maintenance of the property up, or they may just be busy (or too lazy) and can't find the time. In all these circumstances you have a motivated seller that will take a progressive role in the sale process.

4. Mortgagee-in-possession

When a company goes broke, it gets sold up by a liquidator. Those liquidators sell up any assets that the company might have. If that company happens to own real estate, then that real estate gets sold as well. Now, provided they get the fire sale value, which is under current controlled market value, they will be happy to sell that property either directly to an individual or via an auction, provided they can justify that they sold it at a fair price to them, under their criteria.

When an individual has their property taken back or repossessed by a bank, the bank does a very similar thing. It onsells the property, normally through an auction, sometimes just through a real estate agency and very occasionally directly, provided they get their fire sale valuation price. So buying a property in a mortgagee situation or 'mortgagee-in-possession' means that there is a financial urgency to selling the property.

You need to understand the mindset of the banking institutions. When a financier has properties that they have on their books that they have foreclosed on, they are bad debts. Until such time as that property is then sold, particularly if the property is sold for enough to cover their costs, then they no longer have bad debts on their books. This obviously makes them look better to their shareholders and helps maintain their share price.

If at the end of a reporting period – usually at financial year end - the property is still on the bank's books as a bad debt it has to be reported in their shareholder's reports. They don't like that, particularly coming up and close to reporting dates for AGM's. If you study this, you find that there are often a rash of properties that are dumped, sometimes at below mortgage value on the property because of the timing, where as in other circumstances they are prepared to hold them for a much longer period of time.

Timing, if you understand what's actually going on, can be a valuable tool in negotiating on mortgagee sales particularly with smaller banks and building societies and particularly in the U.S. where there are hundreds of banks and financiers.

5. Death

When an owner dies, their property can be disposed of in a number of ways.

If the owner dies with a legal Will in place, and they nominate someone as their executor of the Will, it is this person’s responsibility to actually sell that property. Sometimes they are a relative, sometimes it is the solicitor or accountant or a friend. Quite often those people are not very advanced in the art of selling a property and they make mistakes in that selling process and quite often you are able to buy a property that has still got a chunk of equity in there.

Now, if the owner dies without a legal Will, then what happens? It has to go through the intestacy state law process, which is different for each state. For instance, if someone dies in Queensland without a Will, the estate will automatically be apportioned to that person’s wife or husband 50% and 50% will be divided amongst their children. But who actually manages the process? Well, normally the public trustees.

These properties are often put to auction and when they go to auction there are only a limited number of investors that actually bother to turn up. There are only limited timeframes when the property can be inspected and they are usually midmorning or mid-afternoon on a week day when the majority of people are working. Then, when the property does actually go to auction, it is during the day on a weekday when it is most difficult for people to attend.

6. Non-payment of rates

When a property owner doesn't pay their rates in Australia or New Zealand, the local councils, after a period of time that varies from council to council, will sell the property up to recoup their outstanding rates.

Buying properties at rates default auctions is a great way to buy immediate equity as most of the properties that actually make it to auction are sold significantly under market values.

7. Economic changes

Economic changes are things such as:

- **An abattoir opening up in the area (obviously here we would be talking about regional areas)**
- **The shunting for a railway station is being built opposite**
- **A nuclear plant that has just been announced is going to be built in the area**

What do you think is going to happen to the prices?

These economic changes in an area can either have a favourable or adverse effect on property prices. Quite often the property market prices are sluggish to move and an astute investor can capitalise and pick up immediate equity in their purchases.

8. Signs of mismanagement

Some investors opt to save the agent management commissions and manage their own properties for rental. Quite often these investors are ill-equipped to perform management duties.

These could be things like:

- **Inadequate checks are done on tenants**
- **Mishandling unpleasant duties like evictions**
- **Mishandling tenants who cause major damage**

The amateur investor often doesn't look after the property very well. They will get disgruntled with the property market and quite often short sell a property at under market value, when the property might simply need a makeover and a good active managing agent.

9. Old property listings

Properties may be on the market for a long period of time for a number of reasons:

- **They might have a useless agent**
- **It could be because the property is not particularly appealing**
- **Poor presentation**
- **The property may be overpriced**
- **Or it could be that the right buyer hasn't come along**

There are many reasons why some properties sit around for a long period of time and most times it does not mean that there is anything wrong with the property. So actually buying a property from an old listing can mean that you are picking up a bargain The owners are sick of trying to sell the property and may accept a particularly low offer or because the property prices may have increased during the listing period and you may be able to buy a big chunk of equity that is already in the property.

10. Long distance owners or managers

Owners and managers and/or agents of a property who are not in touch with the local market don't make fair assessments of the property's current value. I love buying property where either the owner or the property manager, or the selling real estate agent doesn't live in the local area, because quite often they are out of touch with the current market prices for both the selling price and market rentals.

You can use all of these situations to capitalise on picking up a property at a price under where it should be.

To find out more **call (03) 9490 8888** now or go to **www.iloverealestate.tv** to register for our next **FREE Webcast** where you'll discover the strategies, techniques, structures and support you need to successfully invest and prosper from Australian real estate.

Yours in success,

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