

Is Buying Sight Unseen Properties Worth The Risk?

For most people, the process of purchasing a house starts with finding what you can afford, finding a lender, finding a real estate agent, making a list of your requirements, checking out properties - a lot of them, making an offer, securing your mortgage and sealing the deal. Visiting and inspecting properties is time-consuming but a very important part of the process. Most people are keen about checking out the houses that no matter how busy they are, they do not want to skip this process. Unfortunately, not all buyers think this way.

Believe it or not, there is an increase in sight-unseen real estate purchases. Some buyers just look up properties in the MLS (multiple listing service) or look at the pictures, descriptions and virtual tours online. Some investors are in a hurry to close what they see as great deals online and are willing to skip inspecting the property. Some properties are also worth the risk to some buyers because they are in a suitable location that if they wait longer, it might not be on the market. This type of deal is very risky. You may get lucky but it can also be a big problem. You need to study all the risks involved before going into this kind of transaction.

- **Distressed Properties**

Distressed properties are properties that are damaged, in poor condition, about to be foreclosed on, or advertised for sale "as is". Banks are in a hurry to get rid of them because they cost so much for them to keep. They would need to pay property taxes, maintenance and legal fees. It can cost them \$1,000 per day. So banks often try to sell them for a lot less. Buyers and sellers have an opportunity to make a transaction below market rates.

- **Tight Market**

In areas with limited properties, buyers are often driven to buy properties even if they haven't seen them yet. Though they are sight unseen, prices of such properties are based on market value or even higher. In areas like Boston or New York City, bids can be very competitive and this drives prices high. Investors who bid for properties in tight markets usually have not seen the property but are willing to take the risk because they know that the market value of properties in that area is promising.

- **Pre-construction Properties**

Some properties are sold on the market even before the project is done or even started. This allows buyers to purchase them for significantly lower rates than they will be when it has been completed. It also works to the advantage of the seller because they can use the money from the buyers to complete the project. Buyers who invested before the construction can sell the property at a much higher value in the near future.



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- **Competition**

Buyers' toughest competition in landing a great deal are flippers. Flippers are big-time investors, wholesalers or large companies that buy prime lots for as low as possible and later sell them at a premium price. Flippers look for low-priced properties, make necessary repairs and sell them after a short period of time for a much higher price. When they see a distressed property, they assess the property's After Repair Value (ARV). This means the market value of the property after the cost of repair has been taken out. They estimate their profit by subtracting the purchase price and other fees from the ARV. Other fees include carrying costs or the cost while keeping the property such as property taxes, insurance and utilities. Some flippers do not purchase sight unseen properties when there seems to be more risk than profit. Others like purchasing properties they can get at very low rates despite the damage and odds involved. They bank on auctions or other opportunities where they could resell the property to buyers who cannot view it prior to the sale.

Real estate wholesalers also buy properties and sell them in a short period of time. Unlike flippers, they don't spend time fixing or improving the property. They buy properties and draft a contract with contingencies so they could cancel the contract if necessary. Then they sell the property to other investors. They profit by selling the property at a higher rate than they originally got it. Wholesalers are like middlemen that scout good deals and hand over the properties to other investors.

Institutional investors have the capacity to buy many distressed properties all at the same time and sell them with the most profit. They are the toughest competition out there, especially when it comes to good deals. Many times, they can get all the good deals in their target market.

Some individuals are compelled to purchase sight unseen properties usually out of necessity. Oftentimes, it's because they need to move to a new location, making it difficult for them to scout for a new place. They usually contact a local agent and trust them to find a good property that matches their requirements. They settle for the pictures, virtual tours and information that are sent to them or which they can access on the internet. If you're looking to buy sight unseen properties, it is important to be specific about what you want. It should not be limited to the house but the area or neighborhood you want as well.

- **Risks**

Buying sight unseen properties is very risky. There are many things you cannot see on the surface and cannot be captured by cameras. Structural damage, infestation, mold and water damage (among others) can be hidden from cameras. Some of these damages were caused by the previous owner's neglect. They probably didn't have the time, knowledge and/or resources to take care of the house. Unfortunately in some cases, the damages were intentionally made. Some people resort to damaging the property so the bank will have a hard time finding a new buyer for it. Or the sale value will be a lot less. In other cases, it's a matter of practicality. They bring with them all that they could from the structure so they could still use it. Appliances and fixtures are usually among the things that they take with them.



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Another important aspect of the property that you cannot see from pictures or virtual tours is the environment in the neighborhood like the noise, pollution, traffic, unpleasant odor or a troublesome neighbor. Unless you actually visit the property, you won't be able to see these things and decide if you are okay with them.

Time is another risk that flippers, wholesalers and institutional investors face. The longer they hold on to a property, the more money they lose. While they keep a property, they incur carrying costs. Their objective is to buy and sell the properties in the shortest time possible. Aside from carrying costs, they can also end up paying for more necessary repairs.

- **Protect Yourself**

Adding a contingency clause is the best way to protect yourself in buying sight unseen properties. A contingency is a condition that needs to be honored so the deal can push through. An **inspection contingency** allows the buyer a certain period of time, like 5 to 7 days to inspect the property. A professional home inspector checks the home's internal and external structure including the electrical, plumbing and ventilation. The buyer can still make negotiations or cancel the deal if necessary. This contingency allows the buyer to:

- Accept the report of the professional home inspector and push through with the deal
- Back out of the deal based on the report
- Ask for more time to make further inspection
- Request for repairs or concessions

Buyers can also include a walkthrough contingency. This clause allows you to do a walkthrough before pushing through with the contract. Keep in mind though that sellers are not obliged to accept any contingency that the buyer sets. They can also increase the price because of the risk that a contingency brings. The deal cannot push through because of a contingency.

Hiring a professional real estate agent can give both buyer and seller extra protection. It should be clear that your agent is on your side, protecting your interest. Your agent has a fiduciary responsibility to you and should protect your property and money. It's important that you can find a reputable agent whom you can trust.

Buying sight unseen properties is very risky. You might get a property that's not actually worth your investment. What's important is to protect yourself with a good real estate agent and make use of contingency clauses. Having a good real estate agent can help you with this.



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