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Play the property game properly with professional counsel

Homework is the difference between home pain and home gain, writes **Iain Herriot**

ONE would be forgiven for thinking the four horseman of the apocalypse have been riding down Wall Street and other big financial markets this year.

A lethal cocktail of factors including the subprime crisis and share markets plummeting have combined across the planet to put the world economy on notice.

Here in Australia the Reserve Bank, by raising interest rates, has attempted to slam the brakes on a spendthrift populace. However, the lure of the Great Australian Dream of owning your home remains a strong motivator and many are still throwing their hat into the property ring, despite recent reports that the bubble has burst.

Now here's the warning — with the economy and the market slowing there's a very fine line between home gain and home pain.

Even a small mistake when buying a home could mean decades of deep financial pain. The sad part is most of these mistakes can easily be avoided but, unbelievably, many Australians are not doing their homework when buying a home and are losing out.

By homework, I don't mean one of those real estate reports called Competitive Market Analysis (CMA) or AVM — automated valuation models. CMAs are those reports real estate agents proudly wave around as "proof" of what a property is worth. But if the truth be told, they aren't really worth the paper they're printed on.

CMAs and AVMs put the fox in charge of the hen house and are unreliable at best, shonky at worst. We should not be solely guided by real estate agents or developers when buying a home.

Homework doesn't mean spending $30 and typing a few figures into one of those automated property valuation websites. Hundreds of these websites are popping up all the time. A lot of them are run by real estate agents.

Consumer group Choice recently raised serious questions about these websites. The websites are dangerous and can be wildly inaccurate. The Choice report found out some e-valuations were more than $140,000 off the sale price.

In the good old days of a booming economy, paying above the odds in a rising market may not send you to the brink, but today this could mean quite literally the difference between having a roof over your head or not.

These e-valuations often begin from a flawed base. They are reliant on information coming out of the State Government's Valuer-General's office, where real estate sale prices are recorded.

The problem is, that information is open to manipulation from unscrupulous developers, agents or two-tier marketeers — who these days masquerade as "wealth seminar" advisers.

What they do is pretty simple — for example a house and furniture package may be sold for $400,000 with the promise of getting a $50,000 rebate if settled in 90 days. Now obviously the house is not worth $400,000 but that is how it is reported to the Valuer General's office.

It may cost you a bit more (on average around $250-$300), but anyone looking to invest in property needs to seek independent advice. Seeking pre-purchase property advice can offer people peace of mind about the price they are paying for their home — after all, how do you really know what it's worth unless you have an independent assessment made?

Investors in Queensland need to take advantage of the five-day cooling-off period to enable them to have their property independently assessed and obtain other advice regarding the property they intend to buy.

If you're buying a home and trying to decide between two properties, a good valuer can forecast which property is likely to achieve greater capital appreciation in the short to long term, or provide an unbiased assessment of which property has better access to infrastructure and community facilities. It's a small price to pay to avoid a lifetime of heartache.

Iain Herriot is an independent property valuer and consumer watchdog.