

Module 10 : Buying with an Estate Agent

- Estate agents as buying agents
- Who pays and for what?
- Is this really necessary?
- How buying agents operate

Topics covered in this module:

- Estate agents as buying agents
- Who pays and for what?
- Is this really necessary?
- How buying agents operate
- Is it worthwhile?
- Complexity requires information and skills

Buying with an Estate Agent - 4m 49s

10.1 Introduction

Since estate agents as we know them came into being, they have always represented the vendors or sellers of the properties they market.

There has been no legal reason for this, it is just the way the industry developed.

In other industries, the concept of a buying agent has been long established. They have probably gone by different titles, but essentially they are brokers of various commodities ranging from agricultural products to minerals and military hardware.

The concept of a property buying agent has been, for a long time, associated with the ultra-rich and the investment property market. At that level, the wealthy and the companies investing in property on behalf of their shareholders can afford the fees that buying agents charge to seek out and secure properties on behalf of their principals.

The image of exclusivity was enhanced by the trimmings that the property buying agents attached to their services. Where a person with loads of money, living in New York, wants to buy a property in the UK, they appoint a buying agent to seek out a property in an area they stipulate.

Acting on his or her brief, the agent researches until they find several properties that might fit. They send prices and pictures to their principal and then book viewings for the places selected.

Because the principal is coming in from New York, they need a place to stay in London or in the closest place to where they are looking for property. To save them the bother of making their own bookings, the property buying agent will usually do all that for them. The same thing extends to car hire and peripheral things like restaurant bookings and movie tickets.

There are several firms that now offer these services and some of them are big companies employing many people.

The buying agent's reputation as being only accessible to the rich and famous, was justifiably fuelled by the fact that you had to be incredibly rich to attract their attention.

The agents excluded themselves from having to deal with smaller properties and usually set a limit on the values of the homes they would deal with. With a minimum house property value of £700,000, an upfront fee of £2,300 and a commission of 2.7% of the buying price, there was no way that people of ordinary means could afford their services.

At that level, the ancillary services offered by the agents extend to chartered aircraft for trips around the country, concierge services, arrangement of complete itineraries and viewings of the

properties by helicopter.

10.2 Large and Small

In the last few years, the property market has become remarkably active and in places like London, finding a home to buy has become a very real challenge.

The market has become highly competitive at all levels. In many cases, a well-priced property will be on the market for a few days before it is snapped up. This makes it incredibly difficult for people who want to buy a house to compete, especially when they have jobs and families to look after as well. The change in the market has led to the rapid growth of the buying agent sector of the property industry with more and more of them servicing the middle to lower end of the market.

Now, if you are a busy single person who only has time at the weekends for property hunting, you can hire a property buying agent.

The fees are far more affordable than those of the upmarket agents. On average, you can expect to pay a deposit of about £500 for a three month search contract. The fee is to sort the serious buyers from the people who are just testing the market and not likely to eventually put in a serious offer. However, if the client has not bought a home within the stipulated contract period, the deposit will be lost.

Because their main source of revenue comes from the commission they receive on the properties that their clients buy, most agents have a minimum value for the properties they will deal in. On average this is in the region of £250,000 to £300,000.

The commission they charge is in the region of 1% to 3% of the property value with a refund of the deposit.

In some cases, the agents charge a percentage of the amount of money they save you on the property price. In this instance, they operate off the contention that, as skilled property agents, they will be able to negotiate a better price for a property than you, as an unskilled negotiator, will.

This method is seen as ensuring that the buying agent does not have any undisclosed link or inter-agency connection to the selling agent. Where the client is charged say 15% of the amount that the buying agent managed to negotiate off the asking price, the agent has to resort to their negotiating skills. They have a great incentive to get the best reductions on the purchase that they can.

FACT

The London-based agency Foxtons is estimated to charge an average £12,000

Source: telegraph.co.uk

10.3 The Future

As the buying public become used to the idea that they are able to hire the services of a buying agent, it is highly likely that the agents will work on progressively lower and lower valued properties.

What Are Buying Agents Actually Offering?

Although property agents have traditionally represented the seller in any property deal, it has been a glaring omission that buyers were not easily able to work through an agent who would then receive a commission commensurate with the value of the property traded.

Until recently, if a buyer wanted someone to represent them in a property deal, they had to hire a solicitor or ask an estate agent who usually sold property to make an exception and represent them.

This phenomenon probably arose because of the way houses have been sold in the past. It has been usual for people to go house hunting by searching the internet, driving around the neighbourhoods that they would like to live in, or by visiting an estate agent's office.

These paths always led them to the doors of the selling agent and because of the law of agency, the agent has a duty of care towards the seller. Added to that, it is human nature that the agent would not suggest that the buyer go off and hire a skilled person to represent them in the negotiations that were to follow. That would have meant harder work in the negotiations and the distinct likelihood that the buyer's representative would manage to lower the price quite a bit.

It has clearly been to a selling agent's benefit that a buyer's agent hasn't been available to people in the mid and entry level sectors of the property market.

Now, with the expansion of the buyer's agent sector, one has to ask what these agents are offering their clients.

Essentially, buying agents take a brief from the buyer and then use their networks to source houses that fit what the client is hunting for.

What happens after that and the level of client service the agent offers will differ from agent to agent.

The Process

The skills, experience and credibility that a buyer's agent requires are similar to those of a seller's agent with a few variations.

To start with client facing skills, the buyer's agent will probably have to be a better listener than a seller's agent. The difference is this: The person selling the house may want a certain price for their property. The agent will need to listen to that and then go about estimating the value of the home.

If the price requested by the seller and the price estimated by the agent are close, the agent can suggest that the seller looks for a higher price, or that they might have to take a reduction if they need to move the property quickly.

In the case of the buyer's agent, there is no property to work with. The agent is working with the client's ambitions and dreams, to a certain extent. There is nothing concrete until there is either the cash on hand or a guarantee that a financial institution will give the client access to a mortgage bond to the value that the buyer says he is looking to buy for.

To extract the information they need before they can start looking for a home for a new client, the agent has to ask many questions and listen very carefully.

Added to this, if the buyer is a first time home owner, their credit and background checks will be that much harder to do. It is unlikely that they have incurred a debt that would be equal to buying a house, so their track record will be for far smaller amounts.

The buyer's agent will also have to probe why the buyer wants to buy in a certain area and maybe make suggestions that they try another area if it seems that prices are beyond their means. The seller's agent has none of these worries as their client is leaving the territory.

The next thing that the agent is going to have to be good at is finding out what the buyer's requirements are and why they are requesting those particular facilities.

For instance, the buyer may request a flat with three bedrooms. If the agent knows that the buyer is a single parent with one child, they will probably query this specification. It might turn out that the third room will be used as a study, which changes the brief and makes the agent's job possibly a little easier to fulfil as they will be able to suggest houses with two bedrooms and a small study or an area that could be converted into a study.

10.4 Stage One of the Search

Once the brief is suitably detailed, the agent goes to their sources and probably onto the internet to track stock in the required neighbourhoods.

One of the major advantages that the buying agent brings to the buyer is that they will have the inside track on many properties that are about to be listed, or they might have knowledge of properties that are not up for sale, but will be able to talk to the owners and see if they are willing to sell.

The agents with a longer track record in the industry will be far more connected and have far bigger networks to tap into than a person who is just starting out.

Some buying agents estimate that they have access to about 98% of the market while the man in the street has only about 30% access. That's a huge difference, especially when you add the buyer's time restrictions to the mix. It changes the odds of finding a house for the buyer from virtually impossible to very likely.

The agents have this access because they have personal contact with many of the sales agents, which the client can't possibly have. They are in touch with building contractors, other agents and property developers and they have the skills and contacts to know what is happening in their neighbourhoods. The private individual has no chance of being more efficient than an agent. When properties are sold without being put on the market, the transaction is referred to as being "off-market". It is estimated that as much as 30% of the properties sourced by buyer agents for their clients are off-market sales.

Beyond the fact that the agent is connected to the property market and peripheral industries, he is working on property matters all day. The average buyer will be trying to cover what ground they can after hours and at the weekend.

Another advantage that buyer agents have is that they know where to go to find out if there are any planned projects that would affect the future value of the properties that they are going to introduce to their clients. This could have an impact on the value of the home and therefore warrant a healthy price reduction or it could mean that the buyer is not interested in even looking at the premises.

Take a Quick Recap Test

[viralQuiz id=209]

10.5 After the Find

The agent will line up several properties before getting back to the buyer with a list of properties that are closest to the brief.

In some instances, agents offer the service of going to see the properties before drawing up their shortlist. This will be to check that there are not any major issues that might preclude an otherwise eligible property.

The buyer may have stipulated that they wanted a flat in a fairly quiet area and on the face of it a listed property might seem to fit the bill. On visiting the area the agent might find that the flat faces a quiet street, but there is a major shopping centre close by. This may exclude the flat from consideration, or the agent may think the client would still like to consider the place.

With an agent previewing flats that initially fit the brief, the client is saved an immense amount of time and effort. Further culling of premises might take place online with the help of facilities like Google Streetview or something similar.

In the list the agent draws up, there could well be some places that have not appeared on the market. The client is therefore not under the usual pressure of having to put an offer in before many other people who have also seen the flat and who might be able to make a higher offer.

Once the shortlist has been finalised, the agent then makes appointments for the client to visit the premises and possibly make a decision or narrow the hunt down to two places to be considered.

If the agent is a qualified surveyor, they will be able to give the premises a thorough going over before the client settles on a flat to place an offer on.

If the agent is not qualified to make a finding of the structural integrity of the property under consideration, but feels that an expert opinion is required, they will have the correct contacts to get the job done. The advantage of this is that, without a representative, the average buyer might hesitate or be convinced by the seller's agent that there is no need for an inspection. It is the buyer's duty to see that the property is sound and in good condition. They cannot take the word of the seller or their agent.

10.6 I Want That One

With the hunt narrowed to one flat with a possible alternative, the client is ready to put in an offer.

Once again, the agent will be earning their keep by acting on the client's behalf. Regardless of the fee structure, the agent should be negotiating for the lowest price they can manage. With the ability and insight they have in the property market, they will know when to stop pushing. They should be able to identify the seller's reservation point and not jeopardise their client's chances of having the offer accepted.

10.7 Beyond the Offer

If the offer is accepted, there begins a legal process that can take a fair amount of time, even when all the papers and finances are in order.

After the offer has been accepted, the buyer's agent must make sure that the property is taken off the market so that the seller will not be able to entertain any more offers on it. The first step after acceptance is for the agents to get together and compile the details that must go into the contract. These were probably discussed in detail during the negotiations, so it is more a matter of compiling and agreeing on them so that the solicitors can draw up the appropriate agreement.

With the major part of the job done, the buyer's agent will stay with the deal to keep their client informed of progress and to let them know when any payments have to be made or when the contracts are to be exchanged and when the transfer of the property has been finalised.

Summary

In today's ever faster moving world, buyer's agents are a welcome addition to the mix for people who already have full-time professional careers and, more often than not, a family to manage.

They are able to take a lot of the pressure and stress out of the process and avert problems that the independent buyer would not pick up on.

If you decide to operate as a buyer's agent, you will find an already established section of the real estate business that is growing in areas that it has not traditionally been operating in.

The expansion of this form of representation will probably accelerate in the near future, even if the property market calms down to previous levels.

The buyer's agent is of use beyond trying to get the edge on the masses who seem to arrive at open houses before the average buyer even knows about the property. The process of buying a property is complex, and buyers need assistance that was not available before, other than to the extremely well-heeled.

As the sector grows, the fees they charge will probably become standardised, but even in their present form they are offering a well-priced, valuable service.

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