

COVER STORY Susan Wellings

When agents get it wrong

Amid accusations of underquoting on price, the industry blames a rising market but buyers are out for blood.

When a group of people went to the Stamford Plaza Hotel last week to bid for a three-bedroom home with fabulous harbour views in Double Bay, most were confidently expecting to pay about \$1.7 million to clinch it.

The estate agent had told them it would sell in a price range of \$1.6 million to \$1.7 million so, give or take \$100,000, there were high hopes of success. They were stunned into silence, however, when the price rose and rose and rose and didn't stop until it hit \$2.11 million.

"OK, at an auction you can expect some margin of error," said one bitterly disappointed hopeful. "But not reasonably by that much!"

With controversy continuing to mount over the incidence of agents perceived to be underquoting on the expected price at auctions to encourage more buyers, there are some agents who are clamming up, refusing to provide price guides at all for potential buyers.

They're not to blame for the difference between the expected and final price, they say. It's the unpredictable and rising auction market, where Australian Property Monitors figures show clearance rates in recent weeks have hit 80 per cent in the east, 72 per cent on the lower North Shore and 74 per cent in the inner west. Averaged out over a month, the figures are substantially better than the same time last year: 75 per cent in the east compared with 61 per cent last year; 70 per cent on the lower North Shore (61 per cent last year) and 75 per cent in the inner west (61 per cent). Demand and prices, in these suburbs at least, are up.

At the same time agents are living in fear, they say, of getting price guides too wrong and subsequently facing disciplinary action from the Office of Fair Trading.

After several allegations of underquoting, the NSW Minister for Fair Trading, Linda Burney, last month launched an inquiry into the industry. She blasted the practice as "a cause of unnecessary heartache for already stressed home-hunters, as well as a waste of time and money".

Her Office of Fair Trading says the inquiry is expected to run between 10 and 12 weeks, so officers can follow the cycle of home sales. "It's a question of transparency in the marketplace," says spokesman Christian Fanker.

But the suggestion that price guides not be given - at either open homes or published in advertising or editorials - is only serving to fuel

the ire of hopeful house-buyers. "That, to me, is a real cop-out," says David Imber, spokesman for the consumer advocacy group, Australians For Affordable Housing.

"Real estate agents and their industry representatives constantly articulate that they're professionals," he says. "They're always underlining the fact that they're the people who understand the market and will help you buy and sell a home. So then they can't just say they've had a bit of criticism and it's all too hard, and they're not going to put price guides up."

"If they're going to put themselves forward as professionals, then they should act like that and provide accurate information and not mislead people."

Refusing to provide price guides at all is simply ridiculous, say many in the industry. Why, then, would anyone ever bother to go inspect a house for sale, having no idea whether they would be able to afford it or not?

Cristine Castle, the president of the Real Estate Institute of NSW, says it's "dreadfully important"

that price guides continue to be published. "I can't overestimate the importance of that," she says.

Price guides have become, rightly or wrongly, a cornerstone of the industry; it's just that truth in pricing is vital.

DILIGENCE NEEDED

"I think agents should quote to buyers what they've advised the owner their property is probably worth," says Dennis Kalofonos, principal of Sydney Property Finders. That is, what's written on the agency agreement.

"The most diligent agents do that, but others don't; they quote less and then the price guide they've given can be 30 per cent below the price a house eventually goes for. My view is that the price they've given the vendor should be made public, we should legislate to have that price advertised and then there's no room for accusations of underquoting."

He is not alone in that opinion. Mortgage broker Justin Doobov of Intelligent Finance also says the note between agent and vendor should

'The market in the eastern suburbs is so strong at the moment, you can be out by as much as 30 per cent.'

Michael Finger, Ray White Double Bay

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FIRST HOME IN RUSHCUTTERS BAY

See apartments, p8

Rentals:

See centre pages



UNDERQUOTING OR OUT OF LUCK?

Among the cases being investigated by the NSW Office of Fair Trading in Sydney and Consumer Affairs, Victoria, are:

- A two-bedroom terrace in Edgecliff was advertised for more than \$1.2 million; it was passed in at auction for \$1.42 million.
- A property in Woollahra was quoted as "above \$800,000"; it sold at \$1,475,000.
- A one-bedroom apartment in Bondi was tagged for more than \$800,000; it sold for \$1.6 million.
- In Melbourne, a property in Hawthorn was advertised for \$2.25 million-plus; it sold for \$3.2 million.
- A two-bedroom Dover Heights house had a price guide of "more than \$1 million"; it sold for \$1,345,000.

be disclosed after the auction to make sure nothing shady has taken place. "A house is the biggest purchase most people make and it's an emotional rollercoaster with your life on hold for weeks," he says.

"Then if you have 10 people bidding, that's the expense of 10 reports on everything, but only one person will walk away successful. If the price guide had been more accurate, half that expense could have been spared."

Too often, it's still a case at auctions of "bid them low and watch them go", says Peter Kelaher, managing director of PK Property Search.

"All agents have to do is quote within a 10 per cent range of what they've put on the agency agreement," he says. "We need price guides, but we need them to be accurate."

That's something House Search Australia's Jacque Parker has long believed. She even went to an auction a couple of weeks ago at which the auctioneer announced the reserve at the beginning of the process. "I thought that was a really good move," she says.

"Price guides are extremely important; you can't work without them. Without them, the market would grind to a halt.

"But they have to be reasonable. It's no good an agent quoting a price as \$600,000-plus, and that ending up meaning \$600,000 plus \$200,000."

POLICE THE PRICES

Since September 2003, underquoting can be an offence under the Property, Stock and Business Agents Act 2002, which prohibits estate agents from misrepresenting or falsely understating the estimated selling price of a property.

Since the legislation was introduced, however, action has been taken against only one agency, Sandra Peach Real Estate Pty Ltd - trading as Ray White, Lane Cove - and Sandra Peach, a director of the company, who were ordered to pay \$9900 and \$4400 respectively for offences under the Act.

Many, like Doobov, have welcomed the more recent investigation. He has lost count of the times hopeful buyers arrange finance with him, pay for all their building and pest inspections, and then watch helplessly as the price of their chosen property rises inexorably beyond their reach - and far above what the agent told them it would fetch. "It's happening more and more," says Doobov, who now routinely adds 15 per cent

to an agent's price guide. Often, we'll attend an auction for a client and bid on their behalf and, for a property with a quote of \$1 million, it still hasn't reached the reserve at \$1.15 million.

[Agents are] basically low-balling the price."

It particularly angered him when he offered \$1.4 million for a property with a price guide of \$1.3 million to \$1.35 million and was turned down. "It's obvious then that they're underquoting," he says.

HEAT OF THE MOMENT

Estate agents protest, however, that sometimes it's impossible to judge the market accurately, particularly when it's a booming one.

One time, GoodyerDonnelley agent Debbie Donnelley says, a valuer gave her a price on a deceased estate in the eastern suburbs of \$2.7 million. As a result, she gave a price guide of "over \$2.6 million". It eventually sold for \$3.41 million and she was accused of underquoting.

"But you can't always predict what's going to happen," she says.

"You can only value a property in terms of recent sales of comparable properties and the area or what a valuer tells you.

"What do you do when two people fall in love with a property and bid against each other or someone loves a view and goes much higher? Or when people get excited about a deceased estate with peeling paint and crumbling walls? Some are hard to predict."

Castle says it's important to give buyers the same advice as vendors. "But if it goes a bit better on the day, that's not the fault of anyone; that's to do with a shortage of property in that area, well-attended open for inspections and a particularly attractive property," she says.

Michael Finger of Ray White Double Bay says much the same. He was the agent who, on July 10, said the Ocean Avenue property that fetched \$2.11 million would sell for \$1.6 million to \$1.7 million.

"The market in the eastern suburbs is so strong at the moment, you can be out by as much as 30 per cent," Finger says.

"The market determines the value and it's out of your control. Price guides or giving results of similar properties in the same area are important, but when the market is hot, you just can't tell."