

**ANDREW  
TRIM**

# **REAL ESTATE DANGERS AND HOW TO AVOID THEM**

**A Guide to Making  
Smarter Decisions as a  
Buyer, Seller and Landlord**



**WILEY**



This book will serve as a great reference to anybody within the real estate market. As a typical real estate owner who neither buys nor sells very often, I believe this very impressive book will no doubt help a great deal of people like me. Very comprehensive in nature, yet not cumbersome with industry jargon. A terrific read from start to finish.

— **John Scattergood**, real estate consumer

Andrew Trim is a real estate expert, a successful business owner and a property investor. Andrew's book, *Real Estate Dangers and How to Avoid Them*, will undoubtedly save property sellers, buyers and investors hundreds of thousands of dollars collectively. Andrew not only points out real estate's greatest dangers, but he also offers advice on how to avoid falling victim to those dangers. This is one book you'll be glad you read!

— **Gary Pittard**, CEO, Pittard, and author of  
*Why Winners Win*

Andrew Trim has written this insightful book to share his extensive knowledge of proven strategies to avoid real estate's most common dangers. In my 25 years as a property manager, I have not seen many written resources for the landlord. The section on property management gives readers practical knowledge with proven strategies on how to protect their investment property. This book is an excellent resource for property sellers and investors alike.

— **Tracey Lake**, property manager for 25 years



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Buyer, Seller and Landlord**

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*For my girls—Bev, Holly, Chloe and  
Alexandra. Thanks.*



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# ABOUT ANDREW TRIM

Andrew Trim began his real estate career in 1992 after competing at the Barcelona Olympics in the sport of kayaking. Although his Olympic career continued through the Atlanta and Sydney games, where he medalled in both, he continued to take an interest and be involved in property.

Combining his athletic training with study and real estate coaching, Andrew continued to grow his expertise in residential property.

Andrew purchased his first real estate business, Johnson Real Estate, soon after the Sydney games. It was a small team of five people, including one who remains as one of his business partners today. In 2007, Andrew led his business to win ‘Office of the Year’ at the Australasian Real Estate Awards.

Since then, Andrew’s company, now called The Johnson Real Estate Group, has thrived and grown to incorporate multiple sales offices and an exceptional property management business that operates across south-east Queensland. In a business known for its high turnover of staff, it is a credit to Andrew’s leadership that many of his staff have been with him for more than 10 years.

Andrew is currently the managing director of The Johnson Real Estate Group. With his passion for high performance and ethical business practices, he is a key speaker at many sales, management and leadership conferences.



# ACKNOWLEDGEMENTS

Writing a book is an onerous task and the inspiration and support come from many places.

Firstly, thanks to my original real estate mentors, Gerald Crowe, Michael Johnston, Kerry Rowley, Neil Jenman and Gary Pittard—without all of you, my life would be very different.

To my leadership team and their partners: nothing happens without your support and energy. Jeff and Peta, Chris and Janelle, Peter and Vi, Tracey and Tony, Adam and Jess: thanks for your faith and belief in what we are endeavouring to achieve. Along with Lisa and Kean I look forward to changing the real estate world with you all.

Some great real estate leaders across Australia have inspired me over the years: Frank Pike, Chris Martin, Andrew Pennisi, Michael Meakin, Paul Kounnas, Adam McMahon, Cate Killiner, Paul Wrigley, Barry McEntee, Michael Kies, Todd Pearce, Sue Pearce, Peter Dunn, Leo Gurney, Ben Price and all the other wonderful real estate people I have learned from over the years. Peter O'Malley, your deep thinking regarding our industry has inspired me for years—thank you.

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Lastly to Bev, thanks for all those years where there was never a complaint as we worked to build this wonderful life of ours.



# INTRODUCTION

Real estate, like many other industries, experienced a digital revolution with the advent of internet advertising. The way buyers researched, enquired and bought property changed rapidly within a couple of years, as did the way landlords searched for tenants.

What haven't changed are the fundamentals of a real estate agent's job. Agents are still responsible for representing their clients—property sellers and investment property owners—and maximising their returns with minimal risk. This is a responsibility that many in the industry take seriously.

Unfortunately, not everyone involved in the real estate industry sees it this way. Plenty of agents and many of the associated businesses that hang off real estate's success see it as an opportunity to make easy money through unnecessary add-on charges and costs. It seems that everybody wants a piece of the real estate pie.

There is also a lamentable lack of investment in staff training and education by real estate agent agency owners, especially considering the value of the asset agents are responsible for selling or managing.

This book attempts to explain why selling, purchasing and managing residential real estate is so fraught with danger,

and answers some key questions about the industry—for example:

- What are the flawed systems and procedures that have survived the digital revolution?
- What are the hidden dangers the internet has created?
- Why is there such a lack of investment in training and education within the industry?

The book also provides advice and some simple, effective strategies to avoid real estate's inherent dangers. Examples of real-life scenarios are used to highlight the dangers exposed in the book; however, names have been changed to ensure the privacy of individuals.

*Real Estate Dangers and How to Avoid Them* has been written for the typical Australian residential property owner and investor whose home is their castle and whose investment property is their retirement. Having had the courage to invest in real estate, they deserve to receive every last cent from that investment.

## **The real estate industry**

Australian real estate agents have an approval rating slightly above that of used-car salespeople and slightly below that of politicians. As an industry, real estate is regarded as untrustworthy and dishonest.

What makes this so hard to believe is that most people know, are related to, or know someone who knows an agent. When asked, they say these agents are genuine, honest and reputable.

So why the disparity between the genuine, honest individuals and the industry as a whole?

The disparity lies in the fundamental processes and systems of real estate—in the industry's DNA, if you like.

Two main factors affect the real estate industry's integrity and reputation:

- how salespeople are remunerated
- the methods and strategies used by real estate agencies to sell and manage property.

A real estate business competes for two key clients: the property seller and the property investor.

For sellers, the choice of salesperson, their associated agency and its adopted methods of business are the keys to their real estate experience.

For investors, property managers hold the key to a successful experience. While holding similar accreditation to a sales agent and being regarded as part of the real estate industry, they stand apart. Property managers face vastly different challenges and judgements from those of the sales industry and will be discussed extensively in Part III 'Becoming a smart landlord'.

## Remuneration matters

Unfair remuneration of salespeople is an ongoing issue in the real estate industry. The low base pay and associated commission structures make real estate different from all other sales professions.

### **SMART TIP**

In real estate, the income of salespeople is directly correlated with their results.

In most industries and careers, workers are paid for hours attended and work completed. But in real estate, the income of salespeople is directly correlated with their results.

There are fair and reasonable ways of doing this—it's how salespeople in other professions are mostly remunerated.

But in real estate, most salespeople are paid on commission only—or a close variation—because principals of residential sales offices have no desire to pay salespeople before the sale is made.

### **EXAMPLE**

**Channy recently applied to join a major franchise. She was offered \$650 a week, payable in advance. However, Channy would have to repay this from the commission she received from sales. This is a debit and credit system: the longer she goes without making a sale, the more debt she accumulates.**

Various forms of limiting pay have crept into the industry. A recent example involves paying an hourly rate and then capping the number of hours worked per week. This helps principals limit outgoing wages, while knowing very well the employee will work extra hours without pay to try and make the required sales.

Commission only—that is, zero pay until a property is sold and settled—is generally reserved for the more experienced agents. Some agencies employ salespeople on a subcontract model, paying very high percentages of commission while the salespeople pay all their own expenses.

Regardless of the specific structure, if the base salary is not enough for survival (or worse, is repayable), the salespeople face the same issue: the longer they go without making a sale, the more the bills add up. No income doesn't mean no living expenses! Mortgages must be honoured, school fees paid, families fed and a myriad other expenses met.

After entering the real estate industry, new salespeople must wait a minimum of three months—and, more likely, six to nine months—before they start to see regular income through sales results. And to achieve results in this time frame, they

also need good training and education, and that's rarer than you would imagine. Six to nine months is a long time to live on a minimal income.

So how do real estate salespeople react in these circumstances? They begin to make unethical choices and compromise their integrity in order to survive.

Professional real estate salespeople should have only one consideration when selling a house: 'What is best for my client?' The client—generally the property seller—is the person paying for the service (buyer's agents, who are paid separately, are addressed in chapter 10).

**SMART TIP**

Often the agent's aim is to minimise the risk to themselves, not their client.

Real estate agents have a responsibility towards their clients, and that should never be forgotten or compromised. They are being trusted with, and are responsible for, selling what is often the owner's largest asset. It is the agent's responsibility to work in the best interests of their client, selling the property for the highest possible price in the current market, with as little financial risk as possible and within the owner's time frame.

Often, however, the agent's aim is to minimise the risk to themselves, not their client. Money is getting tight and the bills are adding up, so what does the salesperson with little or no income do?

Like many who end up in this unenviable position, they begin making decisions based on their personal situation. The client is no longer the number one priority: survival is. In Maslow's hierarchy of needs, survival will always come first. It's human nature in its most primal form.

If a portion of the real estate industry is a dog-eat-dog environment, it becomes a fight for survival. Often, it's the hard-nosed individuals who survive, and the fair-minded people (who put their clients' needs first) who get chewed up and decide to leave.

This explains the exodus of good people from the real estate industry after a short stint. They don't like the person they need to become to make it in the traditional, commission-based models.

Is it any wonder that, according to the REIQ, the real estate industry loses around 90 per cent of its new salespeople within 12 months?<sup>1</sup>

If the traditional real estate pay structure creates such a volatile workforce, why do agencies continue to use it? Any human-resource expert will tell you that workforce stability is a prerequisite for a successful business.

The industry persists with this clearly flawed model of pay because a vicious cycle has been created—a cycle that starts with the 90 per cent. Nine out of 10 people who start today in real estate will not be in the industry this time next year. There are very few, if any, careers matching this churn rate.

Real estate business owners rely completely on their salespeople to generate cash flow for their sales business. When new salespeople have a 90 per cent chance of failing over their first 12 months, owners believe they can't pay them reasonable salaries and survive.

As a result, the commission-based model of pay for real estate salespeople survives in its various guises. The theory is, 'If I only pay you when you generate a commission, you are costing my business nothing'. It's important to note, even with the raised minimum wage from the 2018 Fair Work review, the debit/credit system of pay remains untouched.

Many people entertain the thought of selling houses as a profession. They watch the TV shows, have dealings with agents and think, 'I can do better than this'. Friends and family tell them they would be great—so they decide to give it a go.

However, even with newly-legislated increases in the minimum wage, the first thing they discover is how much effort is required for the low base salary. 'Forget the salary', they are told. 'Good money can be made through commission.'

Deciding to continue, they complete their licensing commitments. Although this is more difficult in some states than others, becoming qualified to sell houses is a relatively simple process. You complete a basic course on legislation and learn some rudimentary skills, and then—shazam! Like magic, you are supposed to be a fully fledged real estate salesperson, ready to enter the heady world of selling houses.

#### **SMART TIP**

There are many new salespeople within the industry ... working incredibly hard and getting little or no support.

New recruits quickly realise there isn't much ongoing training or support. Often, their first day involves getting a desk, a phone and best wishes. They may have corporate sales programs thrown in if they're lucky, but that's about it.

Left to fend for themselves, they struggle to make headway in a tough, competitive industry.

Why isn't there more support?

The business owner, aware of the 90 per cent dropout rate, doesn't want to invest any resources until the new salesperson has proven themselves. Money, time and energy spent on training, guiding and mentoring are wasted (so they think). After all, if they won't be there next year, why bother?

Consequently, there are many new salespeople within the industry with little to no training, remunerated on a commission-based model (or a close variation), working incredibly hard and getting little or no support.

### **EXAMPLE**

**Channy, who works for a major franchise, is a classic example. After six months in the industry, she was moved into a commission-only model. She doorknocked for new clients every day for the next six months and earned a total of \$3000. That's \$500 a month.**

**Earning a little more than \$100 a week, her options for survival were limited. She could embrace the 'get business at any cost' culture or leave the industry, joining the other 90 per cent of now-disillusioned starters.**

Over a long period, this has become one of the systemic problems within the real estate industry. New, unskilled and untrained people are paid very little and must compete in an industry over-supplied with agents.

Over time, systems and methods have developed within the real estate industry to help unskilled and untrained agents survive. Two classic examples (which are discussed in chapter 2) are the lies agents tell sellers—or facts they omit to tell sellers—about the likely sales price they will achieve.

There are countless good people in real estate working within defective and dysfunctional systems. Once they become aware of these flaws and deficiencies, many of them leave.

That's why, according to a 2017 Roy Morgan poll,<sup>2</sup> for the past 15 years the real estate industry has sat unchanged at a



9 per cent approval rate. In other words, fewer than one in 10 Australians think real estate agents are honest and ethical.

Nevertheless, some real estate businesses trading in Australia offer their salespeople genuine salaries (not held against future commission) with bonus structures. These businesses believe in their people. They invest in great training and provide daily support and mentoring. They are often independent agencies—but not always, with many individual businesses from within major franchises adopting this strategy.

Quality, stable teams are a hallmark of a good real estate company.

## **The franchise dilemma**

Most real estate principals are owners of a small business with low margins. They are no different from the thousands of other small business owners driving the Australian economy. Although they may trade under a large, recognised franchise name, the franchisors don't pay the bills. In fact, they add a layer of costs that can significantly cut into the business profits.

Many of these owners must pay a percentage of their gross turnover to a franchise, regardless of their profit margin, even if the business trades at a loss. Business owners are even encouraged to take out insurance to ensure the franchisor is paid. This is a terrific model for the franchisor, but pretty tough on the small business owner!

It makes sense that any organisation will maximise its revenue wherever possible. If a franchise is paid on the turnover of its clients, its methods and systems will be designed to increase revenue, not necessarily profits.