

# Self-service transactions: penny wise, pound foolish?

Saving on agent fees today may mean more expenses later due to unforeseen circumstances, potential disputes

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SELF-SERVICE property websites lure property buyers, sellers, landlords and tenants – let us collectively address all of them as “clients” – with the bait of substantial savings in agents’ fees.

The proliferation of self-service portals and mobile applications has resulted in an increasing number of clients who help themselves in transacting properties, particularly those who have more time and are a bit more tech- and legal-savvy.

The results are apparently rather positive in the more price-sensitive HDB segment, where it is claimed that approximately one in four transactions in early 2016 were concluded without an agent representing either the buyer, or the seller.

Such publicity in the media encourages more clients to go down the path of self-service, only for many to trip into potholes in the midst of their property transactions. Those botched transactions have generally gone unreported as the cases are somewhat embarrassing for clients to admit.

As property agents who are familiar with the intricacies of rentals and investment transactions, we are saddened to find out that most of these issues could have been avoided

if professional advice was sought from the beginning. Here are some of the common pitfalls that clients face when they self-serve.

## Buyers

A negative sale takes place when the transacted price is below the outstanding bank loan of the seller.

For example, a buyer is attracted by a property which the seller has purchased for S\$4 million during the 2007 peak and is now available at a bargain price of S\$2.8 million.

However, the property has an outstanding bank loan of S\$3 million and the bank will need to recover S\$200,000 from the seller before the bank releases the caveat to the buyer.

With no prior knowledge of the seller’s background, and in a rush to secure the seemingly attractive deal, this self-service buyer quickly hands over a cheque of S\$28,000 (i.e. the option money which is one per cent of the S\$2.8 million price).

The seller banks in the cheque. If bankruptcy charges were brought upon the seller by his creditors, the end point of this transaction will be a failure to grab the attractively priced property and a potential loss of S\$28,000 for the buyer. However, if the buyer had appointed an agent, the situation could be different.

Based on the large drop from the



More are opting for DIY (do-it-yourself) in transacting properties, particularly those who have more time and are a bit more tech- and legal-savvy. The results appear rather positive in the more price-sensitive HDB segment.

S\$4 million purchase price to the S\$2.8 million selling price, any agent worth his salt would do a thorough check on the seller’s financial position.

To reduce the risks that the buyer would face, the agent could recommend that the one per cent option money be held by the buyer’s appointed lawyer. No one should purchase a property without first checking if the seller, or one of the named owners, is fighting a case of bankruptcy.

Furthermore, buyers purchasing properties also face substantial difficulty trying to look into the background and condition of the properties due to “information asymmetry”.

Not all properties are constructed to the same standards, and some have a reputation for cutting corners during construction.

Investors and buyers who self-serve will not get advice from experienced agents and industry players who would have heard the whispers (for example, of defects or the use of inferior materials).

A note about fees for agents: The general industry practice is for the seller’s agent to receive a success fee

from the seller upon the closing of the transaction.

The seller’s agent then shares the fee with the buyer’s agent, if any. We would like to propose another approach for buyers to consider – buyers could appoint a “buyer’s representative agent” and offer to pay the agent a success fee too.

Given that this will be a novel practice, we are certain that it will be a great motivator for the agent to represent the buyer’s best interests instead of being compromised on the fee sharing arrangement when negotiating with the seller’s agent.

## Sellers

When divesting their properties, sellers who opt for self-service may face a whole lot of challenges too. Marketing a property is not as easy as just posting a “property for sale” on the various property websites and waiting for calls from buyers or buyers’ agents. It involves setting a reasonable asking price, screening the calls for genuine cases, arranging viewings and negotiating the sale.

Setting a reasonable price is critical because if the property is priced appropriately from the start, the seller will be able to attract genuine prospective buyers who have that budget, such that the property can be sold within a reasonable time on the market.

On the other hand, if the property is priced at a premium in anticipation of hard bargaining, it deters prospective buyers and buyers’ agents from making enquiries. Not only will the property be listed for a considerably longer time, it will simply be assisting other lower-priced listings to sell as buyers are motivated to call the low-priced listings first. However, if a seller engages an experienced property agent, the agent will advise the optimal asking price and a target closing price, potentially leading to a smoother and faster transaction.

Secondly, there are the viewings

and negotiation process to consider. DIY (do-it-yourself) sellers will have to manage enquiries and negotiations with the buyers or buyers’ agents on their own.

Are these sellers ready to handle the enquiries? Some calls are merely for market comparison while others may result in viewing appointments.

Having an appointed agent will simplify the screening of enquiries, the arrangement of viewings and the discussion of the terms of sale because the agent will represent sellers’ best interests and diligently assist in negotiating for the ideal price.

Finally, when a reasonable offer has been accepted, sellers may want to take caution especially in granting the Option to Purchase (OTP) to the buyers. The buyer and his agent may have requested for variation to the terms of the OTP or stipulated certain conditions regarding the final handover of the property.

A DIY seller is not likely to be experienced enough to handle the closing process and the paperwork required.

Every term in the contract has to be properly considered to avoid legal consequences and other inconveniences relating to the handover of the property.

## Landlords and tenants

In Singapore, dual representation under the Council for Estate Agencies’ regulation is not allowed. This means that a property agent should not represent both the landlord and the tenant who are in a leasing transaction.

A landlord’s agent assists the landlord in listing the property for rent and checking the eligibility of the prospective tenant.

This is especially important since most tenants are foreigners holding work passes. If the tenant stays beyond the expiry of the work pass, the landlord can be charged with harbouring an illegal immigrant.

A landlord’s agent will verify the tenant’s passes with the relevant au-

thorities and ensure that the tenancy agreement is in line with the expiry dates of the passes.

A good agent will also check on the prospective tenant’s ability to pay rent on the agreed schedule as stated in the tenancy agreement.

On the other hand, a tenant’s agent assists a tenant in sourcing for the most comfortable home to live in.

A good agent will also highlight the properties that the tenant should avoid and perform background checks to verify that the landlord has the authority to let out the property on behalf of all the named owners.

Both the landlord’s agent and the tenant’s agent will negotiate and settle on a reasonable set of conditions in the tenancy agreement with appropriate terms that are in line with standard market practices.

The tenancy agreement is a critical document for both parties as it represents their respective rights to the property.

Should either one party or both decide to DIY, they should be mindful of several possible areas of friction that may arise, such as:

- Advance termination of lease;
- Delayed rental payment or non-payment;
- Damage or wear-and-tear to the property during tenancy; and
- In the case of room rentals, what happens if the tenant and landlord are not able to live amicably under the same roof?

In any of the above cases where either one of the parties deviates from the contract, it is difficult for the unrepresented party to assert his rights because the DIY contract may not have sufficiently covered that party’s interests. However, if both landlord and tenant are represented by agents, each of the appointed agents can play the role of an adviser or a mediator to bridge the differences between the landlord and the tenant.

## Conclusion

In a nutshell, saving on agent fees today may mean more expenses in future due to unforeseen circumstances and potential disputes. A good property agent will help to smooth out the many kinks that arise in the buy, sell or lease transaction, managing the buyer-seller negotiations and the landlord-tenant relationships.

New technological platforms may appear to have the potential to disrupt the market and cut out the middlemen, seducing clients into thinking that they can self-serve to save money. However, we believe that self-help should be reserved for the accredited and savvy property investors. Clients should be mindful about falling into potholes scattered on the DIY roads and instead seek professional assistance.

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