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Some Finding Perils in Online Real Estate

By [KATIE HAFNER](#)

For the last few years, real estate transactions over the Internet — where buyers need never set eyes on the property they purchase — have become increasingly common.

On [eBay](#), the biggest online marketplace, and dozens of other Web sites with names like [Bid4Assets.com](#) and [Realestatesupermarket.com](#), sales involving tens of thousands of dollars can occur entirely online. eBay, for example, may have more than 1,800 residential properties listed on any given day — from multimillion-dollar vacation houses in Florida to thousand-dollar fixer-uppers in the rural Midwest.

But now, with plenty of buyers eager to get in on the real estate boom, such online sites have become perfect places for unscrupulous sellers who have bought dilapidated houses at, say, foreclosure auctions, to resell, or flip, them quickly for inflated prices. Many of the deals sound too good to be true. But the gullible are lured by nice photos and a belief that online transactions on big Web sites are generally safe.

Online flipping is happening in economically distressed cities in New York, Ohio, Michigan and Pennsylvania. The practice, local government leaders say, is destabilizing already weakened urban neighborhoods by displacing legitimate investment.

Buffalo has been particularly hard hit by online flipping, as the city's persistent population decline and high foreclosure rates have created a glut of some 20,000 vacant houses.

"Ninety-nine percent of these online ads have some kind of fraud or lies," said Tracy Krug, a building inspector in Buffalo. "They paint a nice rosy picture: 'on a bus line, near a nice market.' They don't tell you you're going to be across the street from a crack house."

Safeguards that protect buyers, like state laws requiring disclosures about a property's condition, are rarely effective when the transaction is online. Although such laws apply to most transactions, online or not, a long-distance buyer will not necessarily know about them.

This might help explain why Greg Tanner, who says he has a knack for "turning one dollar into two dollars," is now more than \$30,000 in debt.

Three years ago, Mr. Tanner, a pawnbroker in Salida, Colo., hoping to make money in real estate, went to eBay and found low-price houses for sale in Buffalo.

One ad, for a house at 173 Paderewski Drive on the city's East Side, read: "Attractive, warm, two-story home has great potential."

Forty years ago, that might have been true. Through much of the 20th century, the residents of Paderewski Drive, most of them Polish immigrants, took pride in their hard-earned homes.

But since the 1980's, as working families fled the East Side, a neighborhood increasingly vulnerable to crime, many of the houses on Paderewski and the surrounding streets have been abandoned or demolished.

Although Mr. Tanner, 48, had never set foot in Buffalo, he called the seller, a real estate investor named Scott Burton, who had paid \$1,000 for the house a few months earlier. Based on what he learned from Mr. Burton, Mr. Tanner said he believed that the house was in decent shape and needed only minor repairs. Mr. Burton, who has bought and sold dozens of houses in Buffalo, could not be reached for comment.

Mr. Tanner and his business partner paid Mr. Burton \$3,000 for the house on Paderewski Drive, and \$10,000 for two other houses in the same area, on Lombard Street. They paid with a credit card, using PayPal. Eventually, the deeds were transferred and recorded in the Erie County clerk's office.

Two of the houses were considerably run-down, Mr. Tanner said, but it was the 130-year-old two-story house at 173 Paderewski that was to become his albatross.

Over the next few months, he paid nearly \$7,000 to a Buffalo contractor, recommended by Mr. Burton, who told him that all that was needed were a few thousand dollars in repairs. After a while, the contractor reported to him that the work had been completed, Mr. Tanner said, and the house was ready to be rented. The contractor e-mailed photos to Mr. Tanner to show his work.

Counting on a profit, several months after buying the Paderewski Drive house Mr. Tanner advertised it for sale on eBay. He quickly found a buyer in Britain: Claire Fennelly, a residential landlord in West Yorkshire who was looking for investment property in the United States.

Ms. Fennelly paid \$14,900 to Mr. Tanner and his business partner, and \$2,500 more to the same contractor for further repairs.

Then Ms. Fennelly decided to do what Mr. Tanner had not: she and her husband got on a plane and flew to Buffalo in November 2003. When they took a cab to Paderewski Drive and arrived at the house, the cab driver refused to let them out. The neighborhood was just too dangerous, he said. When she saw the house, Ms. Fennelly said, it had missing windows, holes in the roof and the siding was gone.

"You've never seen anything like it," she said. "We sat there in the cab thinking, 'What have we done.' "

Ms. Fennelly called Mr. Tanner immediately. He said hers was the first true description of the house he had heard. He promised to pay her back and called the county clerk's office to make sure that the title would not be transferred to her. Ms. Fennelly said she was still waiting for a refund and had not taken legal action against him.

A few months later, Mr. Tanner received a Housing Court summons for a lengthy list of code violations, so he drove the 1,600 miles from Colorado to Buffalo. He said he received little sympathy from the Housing Court judge. Mr. Tanner called Mr. Burton to demand his money back, but could reach only Mr. Burton's business partner, Stephen Fox, who, Mr. Tanner said, hung up on him.

Calls placed to Mr. Burton's home in Gulfport, Miss., seeking comment about his real estate transactions, were not returned. Mr. Fox, reached in Roseburg, Ore., said Mr. Burton had no interest in commenting. (Mr. Tanner said recently that he was not pursuing any legal action against Mr. Burton or the contractor. "I'm already too drained, financially," he said.)

Sam Hoyt, a Democratic state assemblyman and co-chairman of the Buffalo mayor's task force on real estate flipping, whose aim is to educate consumers on the destructive effects of the practice, blames eBay, saying it enables dishonest flippers to lure buyers.

Mr. Hoyt said he had repeatedly appealed to eBay officials, asking the company to make specific changes, like informing sellers that they must comply with New York State disclosure laws and requiring a copy of written sales contracts. But Mr. Hoyt said he had received little cooperation from the company.

"What eBay is doing, in my opinion, is immoral," he said. "They have a responsibility to not facilitate activity like this."

Representatives of eBay say the company has few legal obligations to buyers of real estate on the site. "The people responsible for house flipping," an eBay spokesman, Hani Durzy, said, "are the people selling these houses and the people buying them sight unseen. How these sellers and buyers are connecting is not as important as the fact that the buyers are not doing the proper due diligence when buying a property."

(Although eBay holds real estate licenses in many states, it does not act as a real estate agent and does not charge a commission. Instead, it charges a flat listing fee of \$100 to \$300 for residential property, depending on the duration and the type of listing.)

Joe Tseng, a real estate investor from San Marino in Los Angeles County, also saw what looked like a great deal on eBay — in his case, an apartment building in Youngstown, Ohio. Mr. Tseng did fly to Ohio to inspect the property, which turned out to be a run-down and nearly vacant 11-unit building.

He withdrew from the deal, lost his \$5,000 deposit, and learned a hard lesson about buying real estate online. "It's very dangerous," Mr. Tseng said.

Richard W. Hayman, president of Bid4Assets in Silver Spring, Md., agreed with Mr. Durzy that buyers needed to be cautious. "Some of this actually amazes me," he said. "People seem to think 'caveat emptor' doesn't apply when you're sitting at your computer."

Yet Ms. Fennelly, who has been shopping on eBay for years without a problem, said it was the feeling of safety she got from eBay that made her buy property before setting eyes on it. "You get lulled into a false sense of security with the name eBay, then get scammed in a big way," she said. "If it wasn't eBay, I wouldn't have gone ahead with it."

She is not alone. Mr. Krug, who has been a building inspector in Buffalo for 18 years, said he was now dealing with online buyers as far away as Australia and Israel. "You're talking all over the world, people buying stuff in Buffalo, saying, 'Nine thousand dollars. I can't beat that.' "

Michele Johnson, a resident of Buffalo's East Side and one of the founders of the task force on flipping, said she had reported hundreds of misleading real estate listings to eBay, with little effect. Still, Ms. Johnson said: "It's hard to say that taking the listings off eBay would fix the problem. These sellers are just going to find another avenue."

The house at 173 Paderewski, which was claimed by the city for back taxes Mr. Tanner had not paid, was deemed a safety hazard and razed several weeks ago. The cost of the demolition, which Buffalo expects Mr. Tanner to pay, is \$9,000.

Mr. Tanner's two houses on Lombard Street were also taken by the city. They, too, are in line for demolition. Mr. Tanner, whose business partner has declared bankruptcy, said he lay in bed at night, wondering where he went wrong.

Mr. Krug said Mr. Tanner had asked him the same question. "I told him the first thing he did wrong was buy a computer," Mr. Krug said.

David Staba contributed reporting for this article.