



2<sup>nd</sup> Qtr. 2010

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## Negotiating the Highest Price for Your Home is Like Poker, You Must Know the Strength of the Hand you are Playing.

by John Dumke

It takes years of experience to become a good negotiator. Much like a good poker player, a good negotiator is both technically competent, knowing odds and with years of experience, knows which rules to apply and how far they can "push it" for any given situation. In Real Estate, the strength of the hand you have to play is more than just a function of the home you are selling.

The foundation of good negotiating is to know what you have. This assessment needs to be made without bias. This starts with an accurate assessment of the economy, the market, the local market, the specific market, and the home in question.

These factors then need to be taken in context with your goals, as a seller. All combined, this creates an overwhelming number of options. Rules of thumb and generalizations are not appropriate and formulas do not apply. The same strategy that worked in the early 2000's bull market, won't work today. Even the current market is different than the last decline of the early 1990's.

While logic does apply and accurate knowledge of supply and demand is paramount and an accurate assessment of value is critical, it is the application of that knowledge that makes writing about negotiation a daunting task. With this in mind, I will give examples of how today's market requires a different approach.

Let's start off with some specific examples of how the national economic backdrop can effect negotiating style.

### National Economic Landscape

The overall health of the economy greatly affects a buyer psychology. It can either build up a buyer with optimistic enthusiasm, or weigh them down with pessimistic concern. Taking on a 30 year debt obligation requires a leap of faith in future economic stability. The combination of job stability and future anticipated home appreciation greatly affects how aggressive buyers may bid on homes.

From 2002 - 2003 there was an extremely low inventory of homes. During that time there was only a month of supply of homes on the market, and buyers were bidding homes up by as much as \$50,000 to \$75,000. Today, the supply of homes in East Long Beach is also attractively low at around a 1.5 months supply, but the results and the negotiation style will be different.

In 2003 - 2005, I had developed what I called, negotiating "San Francisco Style". I had heard about how list prices didn't matter in Northern California in the late 1990's. Prices would immediately be bid up to fair market value because there was so much money from the Dot.com craze, chasing few homes. Better than fair market value was created thru a bidding frenzy. At the time I could not see how this strategy might work in Long Beach, but when 2003 hit, I could tell we had entered a entirely different market. Demand was so strong that homes were selling for \$50,000 or more than recent sales. There was no telling whether a home would sell for \$10,000 or \$75,000 more than recent sales, because there was no precedent for what was happening.

In response, we developed a negotiation strategy whereby we forced homes on the market for at least 5 days, rather than accepting the first full price offer. We stated in the MLS that offers would be presented on a particular day, usually within 5 days. Within one or two days, full price offers would come in, but only if the other agents and buyers knew their offer would have to stand the test of time would they give us their most aggressive offer. This scenario rewarded the best offer, not just the quickest offer.

Today, we are still in a low inventory environment. Good homes may receive multiple offers but because of the weak national economic backdrop, results are very different, and hence negotiation strategies should be much different.

It is still not unlikely to receive multiple offers on homes, but rarely will these multiple offers result in overbids. In 2003/04 buyers would become more rabid with desire and do whatever it took to be the successful bidder, but today's bidders, in a multiple offer scenario, often loose interest and back away from competition.

Recently, I have seen several listings, both as a buyers agent and as a sellers agent, that received very strong activity immediately. This strong activity gave the seller the impression that they were in the drivers seat. However, in many instances, buyer motivation fizzled. One listing I had last year was very optimistically priced and yet we still received two offers literally within 24 hours. One offer was full price, the other offer slightly below list. However both buyers became very apprehensive and rescinded their offers

within days. We continued to market the property aggressively over the next 4 months fielding a total of 10 offers, but the best final sales price was \$50,000 less than the original optimistic list price.

Just last week I wrote an offer on a listing that had been on the market for 60 days. The listing agent told me that the sellers had received approximately 6 offers the first week and countered them all close to the listing price and ALL the buyers walked away. The property sold for about \$50,000 less than the list price that generated 6 offers. You would think that 6 offers in the first week, could produce a full price sale; results today can be quite different.

While 2003/04 may share a common thread of low inventories and multiple offers with today's market, the back drop of economic uncertainty greatly changes how negotiations should be handled. From 2003 - 2005 buyers risked paying higher prices the longer they waited.

Today buyer motivation is different. There is a general belief that it IS a good time to buy, but if buyers don't get the home they want at the price they want, there will be plenty of other opportunities in the coming year. Low inventories can create multiple offers, but economic uncertainty and a concern about paying too much or cheaper prices in the future can quickly temper a buyers enthusiasm.

For a buyer to bid aggressively and not back away from negotiations, the home has to truly be something special that they don't feel they will have another crack at over the course of the next year. If the home does not create an overwhelming emotional attachment, buyers are likely to walk from negotiations if they think they are paying too much.

### **Lending Options**

Another example of a nationwide change that directly affected home sellers was the disappearance of flexible underwriting guidelines. The credit crunch hit in the last quarter of 2007, and many loan programs disappeared. Low down payment programs, "Stated Income" loans and loans for buyers with marginal credit vanished. We knew this was going to significantly affect prices to the downside, we just weren't sure by how much.

At this time, if you were a seller that had to sell, you needed to position your home ahead of this wave. Had you done so, you would have taken a hit, but still been ahead of where home prices are today.

Knowing the national factors that will affect price trends is critical. If the price trend is negative, time is not your friend. If prices are heading up, there is little risk in an optimistic list price, and potentially a benefit.

### **Citywide Trends & Neighborhood Markets.**

In the 4th Quarter of 2008, I wrote an article entitled "The Tale of Two Cities", where I contrasted the devastation in the inland empire, where prices fell 40%+, and yet Long Beach prices had only dropped 20% citywide. Looking further into Long Beach's numbers, zip codes 90808 and 90815, fared better, with only a 15% correction, while neighborhoods in North Long Beach, performed more like inland empire areas with a 35% correction.

A 15% correction after 3 years of 20%+ appreciation certainly wasn't the end of the world for East Long Beach. But a 40%+

drop in value was the end of the world if you lived in the inland empire. Imagine if you bought a home in an inland empire housing tract built during the market peak and all your neighbors owed \$500,000 on homes worth less than \$300,000. An agent or buyer with this experience would assume that the sky is falling everywhere. The media helped promote this view. Nationwide the bursting of the bubble was top headline news.

While the media and some Realtors were panicking, the correct negotiating strategy was "NOT TO PANIC". In the Los Altos area, especially in the lower price points there might be as little as only a one month supply of homes. In these instances, the seller was in the driver seat. Much of the negotiating strategy would be to educate the buying public and certainly the agents as well, that prices were stable and there was very little to choose from. This market wasn't Riverside.

It was important to know where panic was coming from. From a buyers perspective, it was the train wreck the news media continually portrayed. It was understandable that buyers thought every seller would just cave in to their demands, and the media always played into that belief.

A lot of the panic was also coming from agents themselves. Why would an agent tell me one of my listings was overpriced, when I already had several offers at or near full price? They were pessimistic because their industry was changing and their financial future was in dire straits. They were pessimistic because their buyers were pessimistic. Most agents had never seen a down market, never really learned how to work in a down market, and may have incurred debt that was no longer serviceable with their newly adjusted income.

But neither these agents personal financial failings, nor their buyers news headline fears, were my sellers concerns. My concern was to maximize value, and when there are 3 buyers for a given type of listing, the seller often has the upper hand.

It is important to know the neighborhood trend and not fall victim to general news reports. It is also critical for a homeowner to be wary of an agent whose next mortgage payment or meal depends upon your home selling. Advice will not be competent and will clearly be biased towards the agents needs.

### **Assess Your home's strengths and weaknesses relative to the competition.**

As in poker, if you have a good hand you don't need to bluff, you can hold firm or raise the pot. If you have a weak hand, you can still bluff but you need to know that your bluff may be called.

What does this have to do with selling homes? Simple, when you've got a very marketable home you have a great hand. What makes a very marketable home? Strong supply and demand for your type of home, an accurate list price, and "Universal Appeal".

#### **1) Strong Demand for your Type of Home.**

Certain specific markets are stronger than others. As a rule of thumb right now, the entry level price points in quality areas can be significantly stronger than the more expensive homes in the same areas. For instance, in Los Altos, clean appealing 3 bedroom 1 bath homes with the original square footage in good locations are in demand. These homes represent an entry point into a good location at a reasonable price point. There may be 3 times as



many buyers for a home listed at \$475,000 than for larger 3 bedroom, 2 bath home with 1,600+sf listed at \$550,000. The larger homes are worth at least \$75,000 more, there are just a lot less buyers as the price point moves higher.

A 2nd example of a market with extreme strength, my buyers recently bid on a home in "The Hill" section of Seal Beach, where homes start around \$700,000. This particular home was an entry level home listed at \$685,000. Because it was tenant occupied, the seller and listing agent did not allow anybody to see it without first writing an offer "subject to inspection". Without anyone even seeing the home, the property was still able to generate 8 offers, sight unseen. My buyers bid \$35,000 over list price and still weren't the successful bidder; now that is a strong market. Your listing agent should be able to advise you regarding the strength of your specific market.

## 2) Accurate List Price with Confirming Feedback

If you know that your home is the best on the market, then hold tight and be patient. But how do you know? An accurate assessment of the market is critical up front, then this original assessment needs to be revisited based upon feedback from buyers and their agents.

What am I looking for in feedback? I am looking for a buyer that is actively looking with their agent, and has aggressively looked at most of the competing homes. Let's say that a buyer and their agent looked at 10 homes. If they rank us in the top 10% of what they have seen, then we can usually negotiate offers very close to full price. If we consistently hear that we are their second choice then maybe a little flexibility is in order, and if we are not in the top 3 or 30% then we may not see offers without an adjustment. This rule of thumb changes with the strength of the market. When the market is weak and there are a lot of homes for sale we need to rate higher with buyers than when the market is strong and there are few homes for sale.

While gathering feedback, if I find out that we have lost buyers to more expensive homes, different homes or areas, that is fine. But I don't want to lose buyers to similar homes for less money, or have them choose similar homes at the same price point.

## 3) Universal Appeal

Universal appeal is a term that I have coined to describe what percentage of the buyers may be interested in a particular home. This also has a direct bearing on how long a home may take to sell, otherwise known as liquidity.

The end result of Universal Appeal is that if 10 buyers were to walk into a home, 9 or 10 would walk out and say they liked it, and might consider writing an offer. What are the components of universal appeal? Here is a quick list:

Good location within the track - not on a busy street or backing or siding a busy street.

Contemporary upgrades that have a youthful and broad appeal.

A correct floor plan; if the price range is appropriate, a family room that opens to a back yard, a master bedroom with a private bathroom. In general a home that flows well, makes use of the outdoor living space, and doesn't confuse buyers or have oddities.

Good presentation and staging. Even a good home can benefit

from a quick spit shine and advice from a professional stager. We pay for this service because we realize how critical it can be.

The combination of strong market demand, accurate list price and universal appeal will affect how easy, or difficult, it will be to sell your home. The key in negotiating is to know how strong "your hand" is. When all three conditions are right, you can hold firm.

There is a huge variation between some homes which sell in less than a week with multiple offers while other listings remain on the market indefinitely. The difference in the time required and flexibility in price can be staggering.

## Negotiating with specific buyers.

Like good poker players we now know how to assess our hand, but what can we glean from the buyers hand?

When you get right down to negotiating with a particular buyer, it can be helpful to know the buyers motivation. Sometimes the other agent can tip their buyers hand, such as how badly they want your home, and what other choices are available to them.

Simple questions can reveal valuable information. Questions like; Why does the buyer like the home? What is their motivation?

When I get a low offer from a buyer, and find out that their home is in escrow, they have looked at 20 homes and like our the best. I know that this buyer is likely just fishing and will come up to my sellers prices. On the hand, if the same buyer has been looking for 9 months, and is driving their agent wacky, then we likely won't have any success with a buyer that has already demonstrated little motivation.

Sometimes the buyers agent mentions the reason why the buyer likes the home. Statements like the ones below, definitely are a

strong indicator that the buyer will be committed to purchasing the home, even if they have to come up to the sellers price.

Statements I like to hear; "The wife loves the home", "The buyer likes the home because it has RV access.", "They want to get their child into this school district.", "Their best friend lives right around the corner."

These statements are indications that the buyer wants this specific home or area. This is likely an indication that they will be committed to the negotiation process.

Only if they feel they can get a better deal somewhere else will they walk from the table. But if we have done our homework in confirming the feedback from other agents and buyers, we know we can call their bluff.

## Summary

While there are many different strategies for negotiating, the goal should be to achieve the highest possible sales price the market will bare. The basis for achieving this goal is to be an expert on every facet of the market. The second cornerstone is to have a strategy for increasing the appeal of your home, one variable within your control. When you have combined a deep understanding of the market and proper home preparation, you don't have to take a penny less than what your home is worth.

If you have any questions regarding your homes value or any fix up strategies to maximize your homes value, we invite your call or mail in the attached reply card. As always consultations are free with no obligation.



# REAL ESTATE NEWS



College Park - 1012 Stevely

3 bedroom, 1.75 bath, 1,419sf., quality S&S built home, large private back yard.  
\$499,000 [More photos online](#)



Los Altos - 2041 Snowden

3 bedroom, 1.75 bath, 1,650sf, great condition, extensively remodeled, great street.  
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## Inside.....

Negotiation, Like Poker, You Must Know the Strength of Your Hand.

## Save the Date:

La Marina Garage Sale  
Saturday, July 24th



Los Altos - 2163 Charlemagne

2 bedroom, 1 bath, plus a 1 bedroom, 1 bath guest house & RV parking.  
\$469,000 [More photos online](#)



Los Altos - 1821 Conquista

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