



HOW TO NEGOTIATE



HomeLoan
experts



MAKE 'EM AN OFFER THEY CAN'T REFUSE

THE TOP 5 NEGOTIATING TIPS EVERY PROPERTY INVESTING PROFESSIONAL USES

Former US President John F Kennedy once said, "Let us never negotiate out of fear, but let us never fear to negotiate". Such is the art of bargaining and never do these words ring more true than when it comes to negotiating on the price of a property. Some people feel like they lack the confidence to negotiate; others are rearing to get stuck in, all guns blazing.

The best strategy for negotiating is one that fits your goals and desires but respects those of the seller as well. Just because your home is likely to be one of the most expensive assets that you will ever own, doesn't mean you can't get a good deal.

KNOWLEDGE IS POWER

There's more to knowing when and how to make an offer than being a steely-eyed Stallone. In fact, most of the hard work in negotiating is undertaken before you even speak to the vendor.

The internet is a massive time-saver and sites like domain.com.au and realestate.com.au are a great place to start searching. Once you've found a handful of potential dream homes, you'll want to dig a little deeper. It's the difference between buying something in a store and buying it online. Our advice is to hop onto RP Data, Residex and Australian Property Monitors (APM). These websites are not here to sell you *anything* so you can rest assured you're getting independent data.

What to look for

Luckily for you, Home Loan Experts has a subscription to APM which means **our brokers can provide you with a free suburb report** for an address of your choosing that details how long

the property has been on the market, how many previous owners/tenants there have been and how much the property has sold for in the past.

APM also shows the sale price of similar properties in the area over the last six months so by comparing sales it can help you better value a property. For more tips on how to value a property, [check out this page](#).

Another tip is to ask the agent for the contract of sale and then **look at the title search which is included in the contract**. If the owners' mortgage is with a specialist lender then they may well be in financial trouble. All of sudden, you've got a really good idea of how desperate the vendor is to sell.

Actually *look* at the property

It sounds obvious but a lot of people make up their mind about a property before they even step in the door! **Start venturing out to these properties and sit outside an open for inspection** to see how many people go through. If you see plenty of people it means you may have a fight on your hands with other potential buyers. You'll need to act fast!

On the flip side, here are 3 reasons why a property may not have much competition at all. These properties *sound* off-putting on paper but more often than not inspecting the property can change your mind completely.

1. **The property is on a main road:** While this may be a deal breaker if you're buying a house, consider this if you're buying an apartment or unit: the unit itself may be at the back of the block meaning it's further away from the noise of the highway. Not much noise means no problem.
2. **Properties for sale that don't show any internal pictures:** Buyers often skim over these properties when web browsing but you could be missing out on a great buy if you don't go out to inspect them. Often it's simply a matter of putting in some new carpet or giving the place a coat of paint. More often than not though, it could simply be because the owners/tenants are messy and haven't bothered to clean up!

3. **Properties that are hard to find online:** For real estate sites, go to the last page of the results list. Few people look at these! Also, ask real estate agents if they have any properties that nobody is inspecting and ask them why not. It may be because they simply haven't gotten around to putting the ads up online yet which means you could be getting on the front foot and beating other potential buyers to the punch.

BAD AGENTS ARE YOUR FRIENDS

A real estate agent that is not very good at his job can be absolutely frustrating and even terrifying when you're a seller but not so much if you're the buyer. Sure, a bad agent may not call you back but you can fix that easily by dealing with someone else in their office. On the bright side, if they aren't you back then they're not calling the other buyers back either.

A bad agent will undersell the property and even tell you how much the vendor is actually willing to sell for. Almost always it's below the advertised price!

When you inspect the property, some agents will even point out the faults in the property *before* you've even noticed them.

If the property hasn't been on the market for long, ask the agent why the owners are selling – a bad agent will give this up pretty easily. Do they need a quick sale? Of course, you can always ask the neighbours.

DON'T PUT ALL OF YOUR EGGS IN ONE BASKET

It's important to have the power to walk away when the price or other conditions aren't right for the sale to happen.

That means:

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- 1. Setting yourself a budget and sticking to it:** Financially, you need to be able to afford to pay off the loan you're being approved for.
- 2. Keeping your options open by making offers on 3 or 4 other potential properties:** This is not only for the benefit of you being fully prepared to jump ship just in case the current deal goes stale but so the vendor knows that you are genuinely looking at other properties. If the property has already been on sale for a while they may be willing to drop the price further so they don't lose you as the buyer.
- 3. Not becoming emotionally attached to the property:** this really goes hand-in-hand with number 2. You have to try to play it cool even if it is the house you want to spend the rest of your life in.

DON'T LET GOOD AGENTS CORNER YOU

So we've talked about bad agents but what about the smooth criminals (no offence to any real estate agents out there!). A good agent will quickly gauge if you're even slightly interested in the property. A raised eyebrow will do it. Think of them as a cheetah spotting an injured buffalo calf on the savannah – I think you can imagine what happens next.

The agent will usually tell you that there are other parties interested in the house. The reason they do this is to scare you into offering to either pay the asking price or into high balling them straight out of the gate.

Sometimes there genuinely are other people interested in buying but you can never be 100% sure. No matter what, you should ask the agent very specific questions including whether the other "interested parties" have made an offer; if so, when and for how much; and what the vendor's response was. Only consider increasing your offer if you're pretty sure there are other buyers.

No matter whether it's a good agent or a bad agent, **it's usually worth mentioning that you are considering making an offer on another property.** In this way you're their own tactic against them! A good agent will usually follow up with a bunch of questions, so if you're bluffing make sure you get your story straight!

Don't let them rush you

Once you've agreed on a price, **a good agent will then often pressure you to sign and pay a deposit right away out of fear that you'll back out of the sale.** They may also want to prevent you from doing proper due diligence because there is actually in fact something currently or potentially wrong with the property.

Reassure the agent/vendor that you are proceeding with the purchase but that you never exchange contracts until you have formal loan approval and have organised for proper building, strata and pest inspections.

Be nice to the agent! A friendly working relationship will make them like you and trust you. It's only then that they'll work *with* you and give you information. So it's a much different approach to dealing with a bad agent.

Above all, relax. If the agent is super keen to close the deal with you it means you're in control of the situation at this point. The cooling off period can almost always be extended which is helpful since the bank can take time processing your formal approval.

KNOW WHEN TO MAKE AN OFFER

Generally speaking, when negotiating, you should never make an offer first. Say to the agent "Sure it's on the market for \$500,000 but we both know that's pretty optimistic. How much are they happy to take for it?" A good agent won't give anything away. A bad agent will tell you the owner's minimum price!

If you find that the property is already competitively priced, is in a tightly held location and there is a lot of competition then getting them to drop their price before you make an offer simply won't work. In this case, the first offer may need to be strong and placed within a day of viewing the property!

Most of the time you can figure out that the vendor is looking at a number of other good offers if they take a long time to get back you.

Can you get creative with your offer?

If you're almost positive that this is the property for you and you understand the needs of the seller, you can tailor the offer to suit them. You may consider:

- ✓ **Settling quickly:** If you know the owner needs to move out immediately or they need the money. Ask your mortgage broker and conveyancer for advice before agreeing.
- ✓ **Settling later:** If the owner is still looking for a new property to buy or needs the house for a celebration coming up such as a birthday. You might give the vendor the option to move the settlement date as long as they give you enough notice.
- ✓ **Renting the property back to the owners:** If it takes them longer than expected to locate a new property to buy.
- ✓ **Agreeing not to knock the property down:** Which appeals to sentimental owners or older people who have put a lot work into property over many years.
- ✓ **Releasing your deposit to the owner:** If they are buying a new property then they may need to use this as a deposit on their purchase. Discuss this with your conveyancer first.

When to go high

Consider making a high offer – at the upper end of how much the vendor is willing to sell for – if there is a lot of competition for the property. Going too low will mean you miss out.

It's common for people to make a high offer if they're planning to improve the property with a rebuild or renovation that will add considerable value to the property.

For example, let's say you plan to add another bedroom or bathroom and, after taking into account building costs, you stand to make around \$100,000 in profit, you wouldn't mind spending another \$10,000, \$20,000 or even \$30,000 on the purchase price.

Another reason to **make a high offer is if you know there are new zoning or infrastructure plans in the works for the suburb.** Things like new train lines and motorways can add a lot of value to the property so check out local council and state government websites for infrastructure plans in the pipeline.

When to go low

Depending on the market, it can be tricky to make a low offer and not offend the vendor. Again, it comes down to careful research.

Ask our brokers to look up the property on APM to find out how much the current owners originally paid for the property.

For example, a house that sold for \$700,000 may be worth \$800,000 a few years later. There's a big chance that the vendors won't sell it for less than what they purchased it for. However, depending on whether the house stays on the market for a while, you can probably offer something around the \$760,000 mark.

If it hasn't been on the market for a while (30 years plus), it's the same as if it is on sale for the first time; you don't really know what it's worth if you compare it to when it was last sold. In this case, **it comes down to whether the property is in a seller's market or a buyer's market and how motivated the vendor is.**

Supply and demand is a key determiner in the offer you make. If you're looking at a suburb and there are 20 or 30 similar properties on sale, you know you're in a position to make a comparatively low offer.

Again, in most cases, you'll be dealing with the real estate agent and they will recommend to the vendor to accept a low offer because the market just isn't in their favour.

Some investors play on the agent's side by saying, **"Look, I'm an investor, I'm looking at a lot of other properties and my intention is to renovate this property and sell it."** Tell them that you'll go through them when it's time to sell. Add that you'll be doing a lot more business so it's up to them if they want to look after you or not.

What if the owner won't budge on price?

Unlike common bargaining, there aren't many material "freebies" that the vendor can promise you if you accept their asking price. For example, if they say they're going to throw

in their 5-year old washing machine, a extra few hundred dollars doesn't really add up when you'll have to pay \$30,000 more than your initial offer!

However, there are concessions you can make so the vendor is more likely to swing your way.

While it's always expected that the buyer will come in with an initial low offer, **sentimental owners may take less if they're assured that you'll love the property as much as they do** and agree not to knock down or renovate. However, there's nothing stopping you from doing this after settlement, other than your conscience, of course.

As previously mentioned, **some vendors want a quick settlement** – two weeks instead of the standard six for instance – but others want to hold off on settling until they find a new place. You can either extend the settlement date or offer to rent the property out to them until they're ready to move.

Sometimes offering a bigger upfront deposit works. For example, you can offer to give them \$100,000 upfront as their deposit for buy another property. Traditionally, the vendor cannot touch this money until settlement. A lot of vendors will value the flexibility you're providing them in relation to the settlement date and the size of the deposit and will be more likely to accept your offer.

When it comes to really stubborn vendors, fear can be a powerful weapon. **Many professional property investors order a building report** in an attempt to highlight to the agent the problems with the property. If the property isn't brand new, there will almost always be something wrong with it!

Show the agent the report and most of the time the agent will tell the vendor that every report will come back the same and that they should accept your offer. Say, for instance, the building report states that it's going to cost \$5,000 to fix the problems; generally speaking, you can shave \$3,000 off your offer. You may also ask them to fix the problems before buying which ultimately saves you money anyway. Ultimately, the vendor is taking the risk

that if they let you walk out the door, the next potential buyer is going to find the same problems.

Countering a counter offer

Whatever the asking price is, **the general rule in negotiating is that a buyer and seller tend to meet in the middle.** For example, if the asking price is \$1,000,000 and your final offer is \$980,000 you might offer \$960,000 as your first offer. Then the vendor may counter with \$990,000 and, so on, until the both of you meet in the middle at \$980,000.

Beware: There's no rule saying that you have to list a property for a reasonable price. If the vendor's house is worth \$980,000 there is nothing to stop them asking \$1,500,000 for it. So don't focus too much on the initial asking price. It's meaningless.

Vendors who happen to be professional property investors don't like to haggle. If you come in with an offer too low, they may feel like you're wasting their time. They may only counter once with a "final offer" at which point they're done haggling with you and you've missed out on the purchase.

In most cases though, don't ever feel like your first offer is your last. There is always room for renegotiation.

NEGOTIATING AT AUCTION

Firstly, get the all clear from your mortgage broker and conveyancer before going to auction. There is no backing out once you win so you want to make sure the contract is ok, you understand how auctions work in your state and that your loan is secure.

Go to as many auctions as possible so you can see how they work. More often than not you'll find they're not as daunting as you think: the hyped-up drama of auction reality shows doesn't help!

Try and be the first one at the auction and see how many people are registering. If there are only 10 to 12 people, the rule of not being the first bidder doesn't always hold water in these situations. You're actually better off bidding first and trying to scare the others off.

There's a lot of advice out there on how to win at auction. Ultimately though, it's whoever bids the most right? So you should see it more as an internal process of knowing your limit and keeping your nerves in check.

You should vary the amounts you are bidding depending on the location of the property. A \$1,000,000 plus property in a prime location will require you to get on the front foot early and make a strong bid. You need to come across as more of a "player" than if you were looking to buy a property that you know you could easily afford.

Occasionally, there'll be somebody with deep pockets at the auction, throwing huge bids out like nobody's business. Remember, know your limit and stay cool. If need be, let them win. There are other properties out there. Don't counter insanity with more insanity.

Some states allow the vendor to place a bid. Guess what? The vendor can't win their own auction. So if you are winning and everyone else has stopped and *then* the agent places a vendor bid, *don't outbid it*. Let the property "pass in" and then negotiate.

Passing in means the property failed to reach the vendor's price which means the highest bidder up until that point has first dibs on negotiating one on one. If this is you then you are in a stronger position than you were during the auction. Good for you!

The agent knows that if they don't sell it that day there's a good chance it will not sell at all. Take this opportunity to be a tough negotiator! Keep asking them to drop their price and don't budge on yours.

Keep saying "Nobody else out there is willing to pay as much as I am, we've seen that today. And that's because the owner has an unrealistic price. So unless they can come down to meet the market then I'll just have to walk away".

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