9 SERIOUS BLUNDERS TO AVOID IN PROPERTY NEGOTIATIONS

Industry professionals warn the negotiating landscape can be a minefield. VANESSA DE GROOT

THE FUNDAMENTAL difference between buyers and sellers in property negotiations is simply that the buyer wants the lowest price possible and the seller wants the highest price possible, explains Independent Real Estate Consulting director Rob Williams.

"Sellers generally hire a real estate agent to handle the sale and the negotiation process on their behalf," he says.

"Buyers generally negotiate on their own behalf, although a very small percentage of purchasers hire a buyers agent to purchase on their behalf."

No matter how you go about it there are plenty of pitfalls to avoid if you want to conclude the transaction in your favour.

API asked property professionals to warn investors about the biggest mistakes that can be made when negotiating to buy and sell property.

1. BEING THE FIRST TO NAME A PRICE

"If a property is being advertised as 'offers above' a particular price, or between two figures such as 'between $500,000 and $600,000' or up for sale via auction then don't make the mistake of being the first to name a price," says buyers agent and director of EPS Property Search Patrick Bright.

He notes a big part of negotiation is about strategy; it's a part poker game that impacts the purchase price by tens of thousands of dollars.

"On many occasions if I had caved in and named a price first it would have resulted in a higher purchase price being paid to secure the property," he says.

If you make the mistake of being the first to name a price, says Bright, then the agent and vendor can easily work you up from it rather than you negotiating them down.

"Remember that selling agents are usually skilled negotiators and will often want to find out what you think the property is worth in your initial discussions.

"Stay firm and insist that they start the price conversation."

2. NEGOTIATING BASED ON THE ASKING PRICE RATHER THAN THE PROPERTY'S REAL VALUE

Buyers often base their offer off the asking price instead of conducting the necessary research to determine what the property is really worth, Bright explains.

"This blunder is the most common one that I see property buyers make," he says.

Consider a property with an asking price of $800,000; most people will think that if they can get $50,000 off the asking price then they're going to buy well.

"The problem with this very common approach is that if you manage to get $50,000 off the asking price but the property is really only worth $700,000 then you have still overpaid by $50,000," says Bright.

He recommends property hunters inspect around 100 properties in their desired area over an eight to 10-week period to develop a good understanding of current values.

"After that, you can negotiate with the facts and figures of current comparable sales rather than basing your negotiations off the arbitrary listed price," he says.

Monique Wakelin of Wakelin Property Advisory believes one of the most important mistakes buyers make is failing to understand the correct market value of a property.

That's the root cause of a lot of negotiating mistakes, she says.

"What they'll do is look at the asking price in a private treaty or quote price at auction and think that's what the property is worth today and reset their negotiating limit somewhere in that ballpark.

"Buyers really need to forget about the asking price and quote range and do independent research based on what has actually happened and use that to set a price threshold."

3. DISCLOSING YOUR MOTIVATION TO BUY A PROPERTY

Buyers often tell the selling agent that they've just sold a property and are cashed up, ready to buy.

Without realising it, Bright says, they're giving the selling agent the upper hand straight away.

"The selling agent now knows they are highly motivated to buy given a settlement is pending on their home and, like anyone, they want to avoid the expense, stress and drama of a double move.

"Selling agents can then use this information to drive up the price significantly by using a sense of urgency in their discussions."

Director of Property Planning Australia, Mark Armstrong, suggests buyers often give the agent too much information, for example, telling them what their top capacity is.

"They've got to understand the agent is not working for them, they're working for the vendor," he says.

"It's important that how much you have up your sleeve is your knowledge only and knowledge is power in negotiating."

Buyers should also keep their motivation for buying to themselves – for instance, whether you need to be in that school zone or you own the property next door, says Armstrong.

"An agent, by knowing all these things, can use it against you. They know you definitely have a reason as to why you have to complete this negotiation and they know the longer they drag it out the more pressure you're likely to be under."

4. LETTING YOUR EMOTIONS GET INVOLVED

Armstrong says the most obvious mistake people make is to let their emotions get involved when they're negotiating to buy a property.

"In its purest form negotiation is about achieving the objective and that's securing something at the price point that you're comfortable with.

"Emotion often clouds that – it's a very powerful beast."

According to Armstrong, people often fall in love with a property and lose sight of whether they can afford it.

In order to avoid that, he says you need to be very clear on where your comfortable price limit is before you go into any negotiation.

"If it's a property you've fallen in love with and you know you're going to pay an emotional premium for it, then it's wise to set that emotional premium before you get into the negotiation.

"Set yourself a 10 per cent emotional premium over and above what the property is technically worth."

For example, if comparable sales data suggests that property is worth $400,000 but you just love it for whatever reason, you can set a price limit of $440,000.

"By doing that you're not going into the negotiation letting emotion drive decision making," says Armstrong.

"Negotiation is to some extent the heat of the battle; making decisions in the heat of the battle is often not as thought out or well considered as making decisions outside the heat of the battle."

5. CHASING THE MARKET

A potential buyer might perceive a property to be worth a certain amount and will refuse to pay a penny more for it, even if they can afford it, says Armstrong.

Let's say they think it's worth $400,000 and they miss out on it because it sells for $420,000; the next time a similar property comes onto the market the buyer thinks that's what the next one is worth and isn't prepared to pay any more.

"In a property market that's growing that property may now well be worth $430,000 so they miss out on it again," says Armstrong.

He says that pattern can continue over and over again.

"They chase the market – it's a very, very common mistake we see people make."

They're not prepared to concede any more money because they're not seeing its true value; the market value is what someone else is prepared to pay.

"They consistently miss out and don't secure the property and then they end up paying more anyway because they chase the market as it grows," says Armstrong.

BRIGHT SAYS BUYERS OFTEN BASE THEIR OFFER OFF THE ASKING PRICE INSTEAD OF CONDUCTING THE NECESSARY RESEARCH TO DETERMINE WHAT THE PROPERTY IS REALLY WORTH.

"In a soft market it doesn't present too much of a problem but in a strong market it can cost people tens, if not hundreds of thousands of dollars."

Similarly, Wakelin notes that people can make big blunders in negotiations as a result of digging their heels in over price.

"Lots and lots of times vendors and buyers can disagree over transactions over just a few thousand dollars," she says.

Being stubborn can rob buyers of great investment opportunities and leave vendors stuck trying to sell a house on the market for months, notes Wakelin.

"If it's a good asset, if you pay $3000 or $4000 or even $5000 more, if you look at the long term that becomes utterly meaningless in light of the wonderful capital growth you will achieve over that time."

Armstrong also points out that people can procrastinate too much when negotiating to buy a property.

They see an opportunity but something holds them back – maybe a lack of confidence – and they don't move and miss the property.

"They procrastinate and property prices begin to move and they say 'I've missed the boat, it's not the right time now'."

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6. FAILING TO TAKE ALL COSTS INTO CONSIDERATION

Many people overestimate how much profit they're going to make from a property because they haven't taken into account all the associated costs.

This particularly happens when the site is planned for redevelopment, says Armstrong.

He says negotiating is like painting – the most important part is the preparation you do.

"It's the preparation and doing due diligence around how much it's going to cost to complete this development or renovation and having a very clear understanding of what the actual profitability is going to be before you go into negotiating.

"People often overestimate how much profit they're going to make when they sell."

When you definitively know how much it will cost you in total to do the development or renovation, then you can determine what the purchase price should be and the maximum amount you should be paying, according to Armstrong.

"People determine the purchase price based on the perception of how much profit they're going to make," he says.

"It's really important to work out our numbers on profitability very accurately before you determine at what price point the property shows value for redevelopment or renovation opportunities."

Williams says it's important to do your homework before entering into negotiations because it ensures you can follow through with your offer if it's accepted.

He says any attempt at back peddling on a price offered will almost certainly bring negotiations to an end, never to restart due to the ill feeling created in that sort of situation.

7. BEING TRANSPARENT WHEN BIDDING AT AUCTIONS

Armstrong points out that bidding at auction is a form of negotiation; a very public form of negotiation, but a negotiation nonetheless.

"At auction you're not negotiating with a vendor, you're negotiating against other purchasers," he says.

According to Armstrong buyers can often reveal too much when they're bidding – for instance, being too obvious that they're getting close to their price limit.

The indicators can be that they're uncertain about their bids, entering into longer and more discussions about them, and their bids also start to get smaller.

"I've heard people at auction say out loud 'ok, this is my last bid'," says Armstrong. "That defies logic – you've just told everyone else that if you put in one more bid it's yours."

In a way, he says, it's like a poker game. You need to act like you've got more up your sleeve even if you don't.

"Your first bid needs to be as confident as your last bid."

8. CALLING A REAL ESTATE AGENT'S BLUFF

Prospective buyers should understand the difference between a definite statement made by a selling agent – like the deadline for offers is at four o'clock – and a positioning statement such as 'I'll take all offers to the vendor today', says Wakelin. "Buyers need to listen carefully to what's being said to them; a lot of buyers hear one thing and interpret it as something else.

"When buyers hear 'highest and best offers' today, they don't understand that today means close of business today and once deadline is reached the negotiating table is over; they cannot submit an offer after the closing deadline."

Wakelin notes that many buyers get put out, for example, when they put in an offer half an hour past the deadline and the agent tells them it can't be accepted.

"They scream unfair, but it's not unfair," she says. "They're not listening and not understanding."

9. FAILING TO RELY ON THE AGENT'S SKILL

Mistakes can also be made during the negotiating process on behalf of the seller.

Firstly, Williams warns sellers to be careful with offers during the negotiating process.

"Sellers frequently reject offers that happen early on when the property is new to the market, only to discover later that in a lot of cases they never get a better offer and sometimes have to settle for a lesser offer," he says.

"Counter offers can also damage your final sale price because the buyer is finding out what the seller will accept when really the seller should be finding out the maximum the buyer is prepared to pay."

As long as they've hired well, he says the seller needs to listen to their agent's advice that's backed up by facts and evidence and they'll come out on top.

Williams notes some sellers like to be home during inspections and many even try to 'help' the agent show the property by pointing out features. But he says this is not a good idea.

"This can come across to the buyer as the seller being a little desperate for a sale and may result in a low offer."

He says it also allows the buyer to gain information directly from the seller about their particular situation, for example, about why they are selling.

"The seller responds, unaware that what they reveal may then be used against them later in the negotiating process." api