

How Can Buyers Win a Bidding War? Here's What Golden Real Estate's Agents Do

Going on three years now, the current seller's market has allowed agents to hone their bidding war skills – something the agents at Golden Real Estate have come to do quite well. In this week's column, I'll share some of ways we find success for buyers in this challenging market.

Of course, agents from other brokerages use many of the techniques I'll describe here, and occasionally we learn from them, as they do from us. In our weekly sales meeting at Golden Real Estate, we share what works and doesn't work, cognizant of the fact that what is effective in one situation might be ineffective in another.

The more contingencies buyers waive, the stronger their offer will be. The first and biggest contingency is the sale of an existing home. A buyer may **want** to sell his current home in order to purchase the replacement home, but if he can demonstrate he doesn't **need** to do so, his offer can omit this contingency. If the contract includes a loan, his lender can provide a letter indicating he is qualified or pre-approved for a loan without selling his current home. Even better is when a buyer can show liquid assets that can be sold in order to pay cash at closing. If he goes under contract with, say, a 45-day close, and prices his current home correctly, it's entire-

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ly possible that we can negotiate an earlier closing on his current home than on the new home. Under such a scenario, although the assets are in place to complete the purchase without selling his current home, the buyer is able complete the transaction without having to deploy those assets or close on a new loan. We have accomplished this for many buyers.

Waiving inspection and appraisal contingencies are common practices when competing with other buyers, but my preference is to leave those deadlines in the contract and include additional provisions that 1) the buyer will use the inspection deadline only to terminate, not to demand any repairs, and 2) the buyer will not demand a price reduction if the home doesn't appraise for at least the contract price. Note, however, that if you inform the listing agent you are going to terminate because, say, the furnace needs replacing, the seller is prone to make that repair, knowing that they'd have to disclose that condition to the next buyer and they don't want to start over. A similar scenario can often work if there's a major appraisal problem. Perhaps the seller will compromise with a minor price adjustment, if not lower the price all the way to the appraised value.

"Love letters" written by the buyer to the seller can

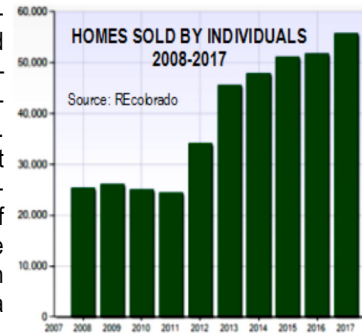
pose Fair Housing problems but are still a common practice — and they can be effective. Just this week I saw my first one in the form of a video clip showing the cute couple standing next to their wedding picture on the wall. (The seller accepted their offer.) In composing the buyer's message, it helps if you know something about the seller. I recently submitted a buyer's offer that was \$20,000 below the listing price, despite being told there were two other offers. We didn't submit a "love letter" but I did say in the cover message that my elderly buyers loved the home because they'd be close to their daughter who lives in that subdivision. To my surprise, the listing agent said that if we could raise our offer by \$10,000, the seller would accept it.

At Golden Real Estate, we do have one "ace up our sleeve" when the sellers still live in their home and are moving locally. We offer free moving using our own trucks, moving boxes, packing materials, and even, on occasion, the labor. This has won the bidding war for our buyers more than once!

Homeowners Are Selling Homes in Record Numbers

Conventional wisdom suggests that the low inventory of homes for sale is due to homeowners not putting their homes on the market. For months I've been pointing out that this is not true, and this chart proves my point. In creating it, I excluded all sales by builders, banks, corporations trusts, and government—all sellers except individuals. To the extent that an increasing number of individuals have their homes in the name of a trust or corporation, the numbers are understated.

Homes are being put on the market in record numbers. The only reason that active inventory is low is that homes are going under contract more quickly than ever. Median time on market was 64 days in 2008, 11 days in 2014, and only 8 days in 2017. That's why acting quickly on new listings and knowing how to compete successfully in a bidding war is so important, as discussed in the above article.



Follow-up On Last Week's Column About Off-Market Real Estate Sales

In last week's column, I demonstrated statistically that when sellers allow their listing agent to sell their home without putting it on the MLS, they could lose 2% or more on the sales price of their home. A reader pointed out that I ignored one way in which sellers can save even bigger — by not employing a listing agent at all.

That reader's email betrayed two misunderstandings that lead many sellers to try for-sale-by-owner (FSBO). First, that the typical listing commission is 6 or 7%, when it really averages about 5.5% according to the National Association of Realtors; Second, that a FSBO seller can sell their home for as much as they could if they employed a listing agent.

Selling without an agent **might** be somewhat effective in ordinary market conditions, but it makes little sense in a seller's market. That may sound counter-intuitive, but it is absolutely true. It's one thing to manage your own negotiation with a single buyer, but do you really have the time (not to mention the skill-set) to negotiate with, potentially, multiple buyers? How do you vet prospective buyers, safely handle showings, and properly analyze the strengths and weaknesses of competing offers? Even if you've sold your own homes in the past, it's pretty unlikely you've done so in the type of market we're in now. Indeed, I've even had licensed real estate agents hire me to sell their own property. Why? Because they recognized that I had more tools and was better suited to navigate the tricky waters of our current market than they would have been.

In addition to overestimating what they'd pay to a real estate professional, FSBO sellers often overlook the fact that most buyers are represented by their own agent who will be expecting to earn 2.8%. Because of that, smart FSBO sellers will offer to pay a co-op commission, reducing their savings from, say, 5.6% to 2.8%. With MLS listings selling for more, as I demonstrated last week, what is the gain? Do you want to be the only party without professional representation?

With such evidence that a FSBO seller will sell their home for less than they would have if they'd had professional representation, chances are good they will ultimately net less money. So, by going it alone, they get to deal with all the pitfalls and difficulties that can accompany a real estate transaction, they get to do more work than they expected, and they end up with less money – all to avoid paying a commission.

Call us, and we'd be happy to address other concerns and considerations and show you how Golden Real Estate's agents earn what sellers pay them.



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