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Property Investing.Com *'Insider'*

Discover proven tips, strategies and techniques
to dramatically increase your property investing profits.

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Your Notes

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Hi and welcome to your October edition of *'Insider'* - the PropertyInvesting.Com e-bulletin for positive cashflow investors seeking a lifetime of passive income through real estate.

This month's topics are:

1. My eighth law of property investing success; and
2. Some exciting community news...

As usual there's plenty of great info available so let's get started.

The 8th Law Of Property Investing Success

In a short while I'll reveal my eighth law of property investing success, but before I do, here's a quick recap of the first seven laws. If you'd like to revisit any of the previous laws then just click on the link and you'll be taken to the back issues area of PropertyInvesting.Com where all the information you require is located.

Law #1 - Choose Your Investing Yardstick
(see March 2002 edition)

Law #2 - What Has To Happen In Order For My Investment To Make Money?
(see April 2002 edition)

Law #3 - Invest In Your Area of Expertise
(see May 2002 edition)

Law #4 - Know Where You Stand In The Profit Pecking Order
(see June 2002 edition)

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Law #5 - Appreciate Your True Cost and Your Nett Sale Proceeds
(see July 2002 edition)

Law #6 - Understand The Difference Between Fact And Opinion
(see August 2002 edition)

Law #7 - The Bigger The Hype, The Bigger The Hoax
(see September 2002 edition)

And now for my eighth law of property investing success...

The Eighth Law Of Property Investing Success: **Always Negotiate With A Win-Win Outcome In Mind**

It's a fact that the majority of buyers and sellers of real estate lack the basic negotiation skills that would enable them to add thousands of dollars of profit to the deal without anyone feeling like they'd been shafted.

The Way Most People Do It

Instead buyers adopt a "low-ball" approach to making offers (like adopting a policy of only ever submitting 60 cents in the dollar offers), which is OK in theory but hopeless in practice.

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Don't get me wrong. You might actually get lucky from time to time and pick up a bargain, but as we'll soon see, you'll actually be shooting yourself in the investing foot because agents won't want to deal with you, which makes building a multiple property portfolio difficult.

The cost associated with submitting low-ball offers that might see 95%+ of them being rejected is a huge investment of your time for little or no return.

So if you have all the time in the world then you may like to try the low-ball approach, but if not, then you need a more certain strategy that will allow you to leverage off your time.

Making offers is a lot more than just a numbers game!

The Winning Way

There's a much better system that'll ensure the majority of your offers are accepted. It requires you to construct <u>the right offer</u> for <u>the right vendor</u> in <u>the right circumstance</u>. Exactly how you can do this is explained within the four possible outcomes of negotiation, which are:

- Win-Lose
- Lose-Win
- Lose-Lose
- Win-Win

<u>Win-Lose / Lose-Win</u>

If one party gets the outcome s/he desires at the expense of the other, then someone will feel like they've lost from the negotiation process.

No one likes to lose so if you're writing win-lose offers then you shouldn't be surprised to see many of them rejected.

You need to understand the game to appreciate how low-ball offers are so hurtful.

By this I mean that real estate agents are paid to get the best price for their vendor. Agents that over-promise and under-deliver have a short lifespan since disgruntled vendors pass on negative feedback to friends and family, which all equates to less business for the agent.

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To illustrate this point, let's image that you're a real estate agent and you're approached by a vendor who'd like to sell her property. After an initial valuation, you advise that her house is worth around $150,000, although you secretly suspect that $140,000 might be more like it.

But you want the listing and $150,000 isn't totally beyond the realms of possibility if you get lucky, so you're comfortable to provide the valuation in writing together with the terms of your sales commission.

A short time later you're approached by an investor who's interested in buying the property but explains that due to budget constraints all he can offer is $90,000.

Now what do you think the vendor's reaction would be if you submitted this low offer straight after telling her that her house is worth $150,000? Not good I'll wager.

When you also bear in mind that most States require agents to submit all offers received, if you only make low offers then it won't be long before agents dismiss you as a novice and won't give you the time of day. In fact some will be openly hostile towards you.

At the last masters seminar this is exactly what one participant told me had happened to him... he just couldn't figure out why agents weren't excited to receive a low offer!

The best you can hope for from a low-ball offer is an outcome that's:

- *lose* (the agent loses because s/he doesn't get the high price for the vendor, and his/her commission depends on the price achieved),
- *lose* (the vendor loses because she isn't getting the price she wants)
- *win* (the investor wins by securing a low price)

Repeat and referral business is the lifeblood of all good estate agents so if you're planning to build an ongoing relationship with estate agents by submitting low crappy offers, then expect a high chance of failure.

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Instead you need to present yourself as someone who's an investor without unlimited resources, but nevertheless writes offers that won't embarrass the agent and will be attractive at some level to the vendor.

In summary, you *might* occasionally pick up the odd bargain from low-balling, but you certainly won't establish a relationship with an agent that'll see you placed at the top of his/her list of people to call when a true bargain appears.

Vendor Conditioning

In the earlier example the price that the agent placed on the property was $150,000, but they really thought it was worth closer to $140,000.

The process of mildly overstating the likely sales price occurs as a normal part of an agent's procedure when trying to secure a listing.

Agents know that most vendors will list with the estate agent who quotes the highest likely sales price. This ensures that the process of signing up new listings becomes a big game where agents have to guess what their opposition might quote on the property and then provide a competitive price that's high without being ridiculous.

Unless the agent gets lucky and property sells quickly for that larger price, a process called **vendor conditioning** is initiated. This is where a range of tactics are used to butter-up a vendor into becoming more flexible about taking a lower offer.

For example, David and I were recently looking to sell one of our blocks of units for $260,000. This was unashamedly top dollar for the property, but we weren't in any hurry to sell and it had been under a silent listing (that is, available for sale but no advertising or boards out the front) for a number of months.

A few weeks ago our agent rang to say that he had a buyer at $255,000. He also knew that there'd be loan break costs of about $7,000 on top of his commission of about $12,000, which all added up to a significant reduction in our profit. He knew that we'd be reluctant to sell for less than top dollar so he needed an angle to condition us.

When he told me about the offer he also framed it within the perspective that the property would soon need about $15,000 of repairs, such as resurfacing the driveways, painting etc. This was all true, but the way he presented the offer it was clear that he was conditioning me to accept something less than what he had originally said and make it seem like it is perfectly reasonable at the same time.

In the end we rejected the offer and decided to allocate the break costs and commission into a maintenance fund to improve the property when needed. It was positive cashflow already anyway, so we weren't desperate to sell.

<u>Lose-Lose Outcome</u>

A lose-lose outcome simply means that both parties lose.

Most lose-lose outcomes result in the deal being rejected early in the negotiation process.

Our earlier example of an offer of $90,000 on a property worth $150,000 is very likely to be rejected and as such a lose-lose outcome.

This is because the vendor doesn't get a sale and the investor has invested his/her time for no return.

If you're making a lot of offers that are all being flatly rejected, then the problem is with the way you're framing your offers.

<u>Win-Win Outcome</u>

Your aim should always to be to negotiate a win-win outcome. If you can do this then your offers:acceptance ratio will dramatically increase and you will become more time efficient.

This is because you're focusing on providing an offer that meets one or more of the needs of the vendor. That is, you're not just focusing on yourself - rather you're considering the needs of the vendor and then building a solution to those needs into your offer.

A win-win outcome isn't necessarily negotiated on price. Rather it's a matter of matching <u>the right offer</u> to <u>the right circumstance</u>.

It's about being flexible to tailor an outcome that meets the requirements of the vendor while also providing a result that meets your investment objective.

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Both parties may need to give something to the process so that everyone feels like they're contributing something to get the deal across the line.

In creating a win-win outcome look to be flexible on the price or the terms, but not both.

A good example is a block of flats that I purchased early on in the year for $530,000. This was actually very close to full price, but I was happy paying this because I wanted a six-month settlement period (we didn't have the money to buy it at the time, but it looked like such a good deal that I didn't want to pass it by!).

It was a win for the vendor because they not only received close to top dollar, but they had an issue with a failed relationship and business that needed to be sorted out and the additional time suited them too.

We only settled on the property a few weeks ago and because the market had boomed during the six month settlement period, it's now valued at $800,000+. Bonus!

<u>Tips For Making Your Getting Your Offers Accepted</u>

I'd like to finish off by providing some guidelines as to how you can ensure your offers stand the best chance of being accepted.

1. Focus on matching the needs of the vendor with your needs as an investor

Most win-lose and lose-lose outcomes occur because the purchaser is only worried about his/her desires and cares little for the needs of the vendor.

You're going to have to discover the needs of the vendor, but this is easy enough to accomplish by just:

- asking straight-forward and honest questions
- listening to the response
- taking action to find a solution to the problem

1. Be flexible

   Sometimes you need to prompt the negotiation process by being the first to give ground. You can do this by being flexible on price or terms, but not both.

   For example, if you find a vendor that needs a quick sale then changing your terms from 60 to 30 days is being flexible. In return it's reasonable to expect that the vendor will be flexible with the purchase price too or else you'll have a win-lose outcome.

   Or if the vendor isn't willing to budge on price, ask for extended terms if you feel you can earn a profit in a similar way to me in the earlier example.

2. Build a relationship

   Just as the best jobs aren't usually advertised, the best property deals are snapped up well before they ever hit the retail market.

   If you want to be in the "insider's circle" for these great deals then you'll need to build a win-win relationship with real estate agents who'll call you first because they know that you're a player in the market and not some tyre-kicker wasting their time with low offers.

3. Never force a deal

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If you come across an inflexible vendor who rejects all the win-win offers you submit then don't waste your time trying to convince him/her how reasonable your offer really is.

If the vendor doesn't want to accept your offer and you have no other options left to explore then move on; don't waste any more time or else you risk missing out on the next deal.

Your offer might make perfect sense to you, but the vendor could have extenuating circumstances you don't know about that prevents them from accepting.

Final Words

This was just an introduction to the art of negotiating. If you want to know more then I strongly suggest you

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secure a seat at the Australian Property Masters Event in Sydney. An exceptional opportunity has arisen due to some last minute cancellations. I have three tickets that I'm happy to offer at the low price of $2,195 (remembering that one ticket allows entry for two people).

But when these seats are gone then that's it! The event is on the 9th and 10th of November in Sydney. To find out more visit... http://www.propertyinvesting.com/files/content.asp?cid=mpi

3,000 Members and Growing!

This month we've reached a great milestone in that the 3,000th member joined the PropertyInvesting.Com community.

That's an awesome effort since the site has been live for less than twelve months!

So thank you for being a part of Australia's biggest and best positive cashflow property investing network.

Summary

You now know eight of my ten laws for property investing success. This month we analysed the concept of how to dramatically improve an offer's chance of acceptance by focusing on the needs of the vendor rather than the needs of the investor.

This outward-focus approach allows you to consider the needs of everyone in the deal which will then empower you to write an offer that is a win for everyone.

While you don't know what the vendor needs you won't be able to tailor an offer, so it becomes vital to ask questions, listen to what is said and then draft up an appropriate solution to any problems you feel you can fix.

Well, that's it for this month. Until next time I wish you the best of success with your property deals and remember to only invest in things that make money.

May God bless you with good health and happiness,

Steve McKnight

P.S. Remember to check out the latest forum news at: http://www.propertyinvesting.com/forum

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