

# PROPERTY NEWS

*Ideas to help you when you're Buying or Selling*

What is the cost of finding a buyer for your home? \$1,000, \$2,000? Many agents suggest the owner spends up to \$10,000 on advertising to find a buyer. It is common for agents to suggest that you should spend 1% of the respective property's value on marketing and advertising. So on a \$2 million home, you could be asked to give the agent \$20,000 upfront to find a buyer and then another \$30,000 to \$40,000 in commission to negotiate on your behalf.

It begs the question – is this sort of expenditure necessary?

Buyers will look for about 60 to 90 days before signing a contract and buying a property. In that time they will inspect many properties and attend many open inspections. They inspect different properties each week but the agents are generally the same. However, when a new property comes on the market, the buyers generally only find out about it via the internet or the signboard. The agent could have / should have phoned interested buyers on the books about the property but instead they advertised it widely and didn't phone any buyers.

What's more baffling is 90% of the advertising budget is spent in print whilst 90% of the buyers are looking on the net.

The easiest money in the world to spend is another person's money. Agents are indifferent to the lack of efficiency in their current marketing models because the home sellers are the ones usually paying for the ads.

*Buyers buy homes not advertising.*

If agents were forced to fund the advertising campaigns themselves, there would be less advertising, but the same amount of homes would still get sold.

## The **COST** of finding a buyer

### How much should you pay?



*Finding a buyer is easier and cheaper than you may think.*

#### Marketing from an agents perspective

If you think of finding buyers as though you were a real estate agent, it quickly becomes apparent the excessive wastage spent on advertising.

**Example:** An agency with 25 homes for sale receives an average of \$4,000 per property in vendor paid advertising (VPA) to

“find a buyer”. In total, this is \$100,000 to find 25 people. The \$100,000 attracts, on average 5 genuine buyers per property. That's 125 buyers attracted, but only 25 of them end up with a house, leaving 100 buyers still looking.

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#### *In this issue of Property News:*

- The cost of finding a buyer
- Avoiding the stress of property management
- It is not personal
- Recent sales

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# RENTAL MANAGEMENT

## Avoiding the stress of property management

**When you buy a rental property, you're investing in your financial future. This means you want its profits to outweigh its expenses.**

For this reason, some people decide to manage their investment properties themselves, thus avoiding the need to pay rental management fees.

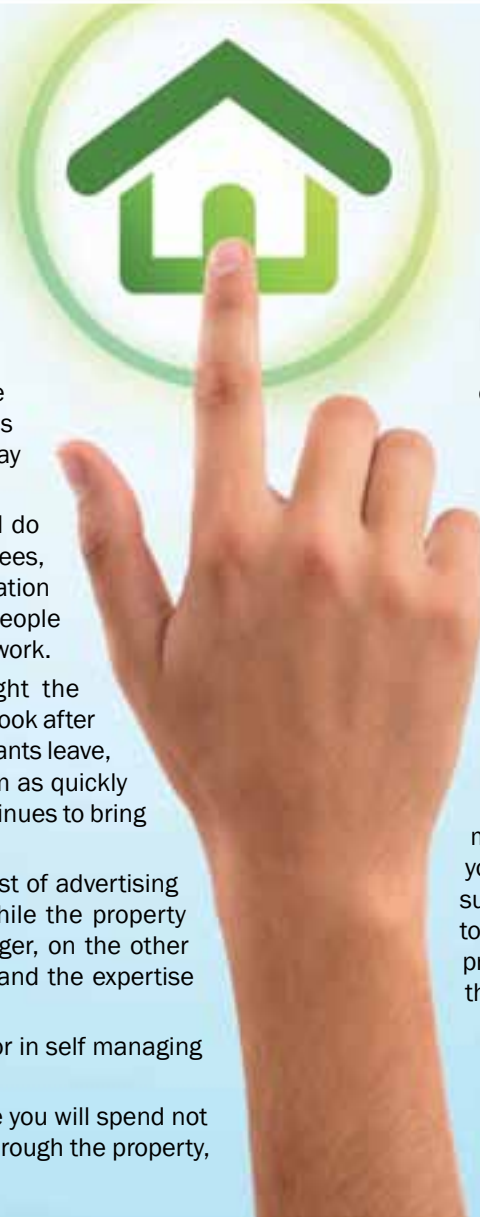
While self management does indeed do away with the expense of management fees, this is probably the only 'pro' in the situation compared with a number of 'cons' for people who elect to do their own management work.

The main need, once you've bought the property, is to find good tenants who will look after it and pay their rent regularly. If those tenants leave, you also need to be able to replace them as quickly as possible, to ensure your property continues to bring in the money you've budgeted for.

Finding such tenants involves the cost of advertising as well as the loss of rental income while the property is empty. A professional property manager, on the other hand, has a list of prospective tenants and the expertise to find appropriate people quickly.

Time is also a major overlooked factor in self managing an investment property.

It pays to be aware of how much time you will spend not only finding tenants but showing them through the property,



checking their credentials, managing the receipt of rental payments and record-keeping.

You will also be faced with the loss of time involved in carrying out any necessary maintenance and repairs, or organising for this to be done. There is also the possibility that you will sometimes need to deal with tenants in relation to issues such as late rent and damage to the property. If you already have a full-time job, it can be difficult to find the time to do all these things with the speed and efficiency required to keep your investment property functioning on a sustainable and profitable basis.

Before taking on property management yourself, consider whether you will have the time and expertise for such matters or whether you would prefer to have them handled by a professional property manager who has experience in all those areas.

**For a free copy of 'The 10 Mistakes Landlords Make', contact Harris Partners on 02 9818 2133.**

## Letter from the Editor

Dear Readers,

Happy New Year. Welcome to the first edition of Property News for 2012, in what promises to be an interesting year. Half the pundits expect it to be a buyers market and half expect prices to rebound putting buyers under pressure. The 2 interest rate cuts of late 2011 will begin to flow through to the economy in the first quarter of 2012, hopefully creating more positive sentiment.

In this edition we look at the cost of finding a buyer. A real estate agent has two roles, find interested buyers and

negotiate the best possible price. It is our view that agents overspend (with the home sellers money) looking for buyers and then use poor selling strategies such as auction that undersell the property.

On page 4 we look at some tips to help you keep calm and focussed through the negotiation process. As the gap between sellers expectations and buyers offers widens, negotiations can become personal win/lose games if emotions dominant discussions.

Good luck in 2012.

Best wishes,

**Peter O'Malley  
and the team  
at Harris Partners**



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# The cost of finding a buyer

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The agency signs up another 25 properties for sale, and takes another \$100,000 gross in upfront VPA. These 25 homes are similar in location, price and offering to the previous 25 homes that were sold. Instead of phoning the previous 100 buyers to see if they may be interested in any of the new properties, the agent spends \$4,000 per property advertising for “buyers”.

### 3 Reasons

Month after month, year after year, this same model rolls over and over. When it comes to this VPA model, the bigger the agency, the bigger the wastage. A larger agency with more property for sale attracts more buyers, so why advertise more to attract the same people?

There are 3 answers to this question.

Firstly, the agents receive volume discounts or rebates from outlets with whom they frequently advertise. Some would call this a kickback, you can make up your own mind as to what it is or isn't.

One point that cannot be overlooked is the money is given to media companies as Vendor Paid Advertising and a proportion is given back to the agents in the form of a financial thank you. The money goes in as sellers money to find a buyer and comes out the other end as the agents reward for having lots of properties and doing lots of advertising.

For brevity, we will leave the agent's profit margins on inhouse property magazines out of the discussion.



**On average, buyers look for about 90 days before making a purchase.**

Secondly, agents use mass advertising as a mass listing tool. The Real Estate Institute used to run courses for agents titled “Increase your profile with VPA”. In these courses agents were told things such as “the more ads you have in the local paper, the more successful you will appear”.

The third reason real estate advertising is so inefficient is most firms are businesses within businesses. The sales people work totally independent of each other. They don't cross share contacts, they don't get paid for selling a colleague's property. So when a buyer could be interested in one of their colleague's properties they don't care, because they won't get paid for selling the property. Unbelievably, you can list with a firm that has 20 agents and only one or maybe two agents within the firm have any financial incentive to sell

your home. Every agent then needs to get VPA to advertise their respective client's home to their colleague's buyers. If you are thinking to yourself, “this is crazy” - you are right.

These 3 reasons are why naïve home sellers collectively waste millions of dollars every year in needless real estate advertising.

How much should you pay to find a buyer for your home? Given the reach and cost efficiency of the internet, nothing. A real estate agent without buyers is like a butcher without sausages or a baker without bread.

**When you are asked to fork out your hard earned money on an expensive print advertising campaign, ask yourself – is this a real estate salesperson or an advertising salesperson?**

**IF...**

If you can keep your head when all about you  
Are losing theirs and blaming it on you,  
If you can trust yourself when all men doubt you,  
But make allowance for their doubting too;  
If you can wait and not be tired by waiting,  
Or being lied about, don't deal in lies,  
Or being hated, don't give way to hating,  
And yet don't look too good, nor talk too wise:  
If you can dream - and not make dreams your master;  
If you can think - and not make thoughts your aim;  
If you can meet with Triumph and Disaster  
And treat those two impostors just the same;  
If you can bear to hear the truth you've spoken  
Twisted by knaves to make a trap for fools,  
Or watch the things you gave your life to, broken,  
And stoop and build 'em up with worn-out tools:

If you can make one heap of all your winnings  
And risk it on one turn of pitch-and-toss,  
And lose, and start again at your beginnings  
And never breathe a word about your loss;  
If you can force your heart and nerve and sinew  
To serve your turn long after they are gone,  
And so hold on when there is nothing in you  
Except the Will which says to them: 'Hold on!'  
If you can talk with crowds and keep your virtue,  
Or walk with Kings - nor lose the common touch,  
If neither foes nor loving friends can hurt you,  
If all men count with you, but none too much;  
If you can fill the unforgetting minute  
With sixty seconds' worth of distance run,  
Yours is the Earth and everything that's in it,  
And - which is more - you'll be a Man, my son!

*Rudyard Kipling*

**“IF you can keep your head when all about you are losing theirs and blaming it on you,” Rudyard Kipling**

Residential real estate is highly emotive by its very nature. It is where our dreams, future, wealth and memories are kept. So when it comes to transacting this most precious of assets, we tend to overvalue it when selling and worry about overpaying when buying. Neither position necessarily comes from logic, stats or clinical data, but a fear of getting the transaction wrong.

Emotionally, transacting real estate in a strong or rising market is far easier. The seller gets the price they desire and the buyer knows they have secured an appreciating asset. It is the classic win/win.

In a weak or falling market, an uncomfortable gap begins to appear between the seller’s bottom price and the buyer’s top price.

In such circumstances, the sellers can feel as though the buyer is a bargain hunter and the buyer can feel as though the seller is greedy. In some cases, either of these assumptions may even be correct.

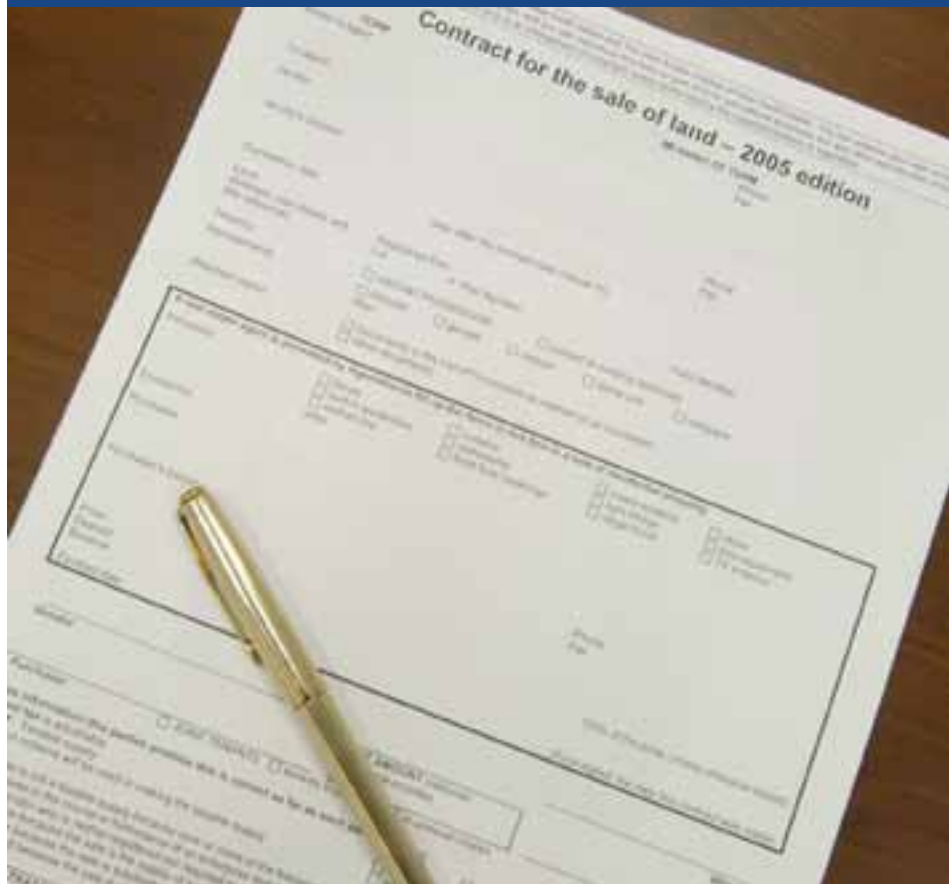
The most important thing to remember as a buyer and/or a seller is the negotiation is not personal. Play the situation but don’t get caught playing the person otherwise the goodwill in your negotiation will evaporate in an instant.

Stockbrokers always say that fear and greed drive markets. In real estate, sometimes the buyers will factor in too much fear into their offer. Other times the seller will factor too much greed into their expectations.

The buyer’s low offer may genuinely be the highest they can pay. Alternatively

# It is not personal

## The emotion of real estate negotiation



the seller’s desired price may be the least they can genuinely afford to sell for. The parties may be able to find value and agreement on points other than price, but only if all parties accept it is not personal, it’s a negotiation.

**Maintain courtesy, composure, respect and decency throughout and you may be surprised at what can be agreed upon. These crucial elements are why the auction system is the worst selling process in a flat market, because it flaunts everyone of them.**



## Recent Sales

136 Mullens St, Rozelle ..... \$750,000  
 31 Theodore St, Balmain ..... \$Undisclosed  
 15/150 Bellevue Rd, Bellevue Hill ..... \$660,000  
 6 Ferdinand St, Birchgrove..... \$950,000  
 4 Merton St, Rozelle..... \$755,000  
 5/1 Woids Ave, Hurstville ..... \$431,750

50 James St, Leichhardt ..... \$690,000  
 16 Davies St, Leichhardt ..... \$750,000  
 53 Russell St, Russell Lea ..... \$935,000  
 14 Water St, Annandale ..... \$730,500  
 101 Cecily St, Lilyfield..... \$1,000,000  
 9 Commercial Rd, Lilyfield..... \$795,000