

# Negotiation Concepts Applied to Real Estate Transactions

*Good Negotiations are a Series of Trades.*

*More Trades EQUALS More Satisfaction.*

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Commercial Realtor



**How to**

# Negotiate So Everyone Is Satisfied

Negotiation isn't just a well-honed skill — it's an art. Here are some tips for negotiating so that both buyers and sellers leave the table satisfied.

by Tom Dixon

Real estate brokers and associates are often in the role of negotiator when bringing a transaction together — a daunting task at best. Bringing the parties together isn't always easy. But, it's the ability to help both leave feeling satisfied that separates the top producer from the average associate.

As a commercial broker, I've found that by knowing your product, knowing your customer and learning some simple techniques, you can negotiate like a champ so that everybody is satisfied. The old saying, "knowledge is power," is very true when negotiating. Here are some techniques and tips I find useful:

## 1. Understand your Role

You want to complete the transaction. You want to get the best deal you can for the party you represent without alienating the other party. You want both sides to feel they got exactly what they wanted. Many brokers or associates feel that just because they represent the seller, they need to "side" with the seller if a low offer is made. In fact, many brokers actually get angry with a buyer who makes a lowball offer. But, that attitude will not close the sale. Here's how I usually handle offers when I represent the seller: A buyer comes to me and asks me how much he should offer on one of my listings. After making the appropri-

ate agency disclosures, I tell him I will present any offer to the seller that he wants. I also say, "Tell me what price would make you happy with your purchase." I then bring the offer to the seller. If the offer is too low, I take a moment to counsel the seller, calm him down and offer other options, such as a counteroffer. I then ask the seller, "Well, what price will you accept?" From there, we go back and forth until a price is agreed upon.

## 2. Know Your Product

Does the home have some construction features that make it unique? Does it have original hardwood floors? Your job as a broker is to understand what you are selling. If it is commercial property, know the income it generates, the expenses, the outstanding features, where the elevators are, etc. If it's a residential property, know the builder, whether or not there have been any additions, if it has a fireplace, etc. By knowing these features, you have the power to describe why the property is worth the price. For example, if a fair price is being offered by a seller and the buyer is hesitant, your knowledge about the property can make the difference.

## 3. Familiarize Yourself with the Market

As important as knowing your product, is knowing the market. For example, if you're working with a buyer who is negotiating for a property in an area that is becoming very active, you can relay this message. If you know which markets are active, which are over-built and which are just taking off, you can better serve the person whom you represent and help influence an agreement.

## 4. Understand What's Important

It's easy for parties to get stuck on one particular item or price and lose sight of the big picture. It's your job to

lend perspective. Sellers may not realize, for example, that by taking back financing, they can make a sale at the asking price. A buyer may not know that a quick close before the end of the year can help lower taxes, thus justifying the offered price. Don't let the parties get caught up in price alone.

Another way I move buyers and sellers away from price is to break it down into a smaller component. For example, if a buyer says, "The price is \$20,000 too high," you can break that down into an additional cost of \$2,000 a year for 10 years, or \$167 a month. By breaking it down into manageable bites, buyers can put the numbers into perspective.

## 5. Practice Your Approach

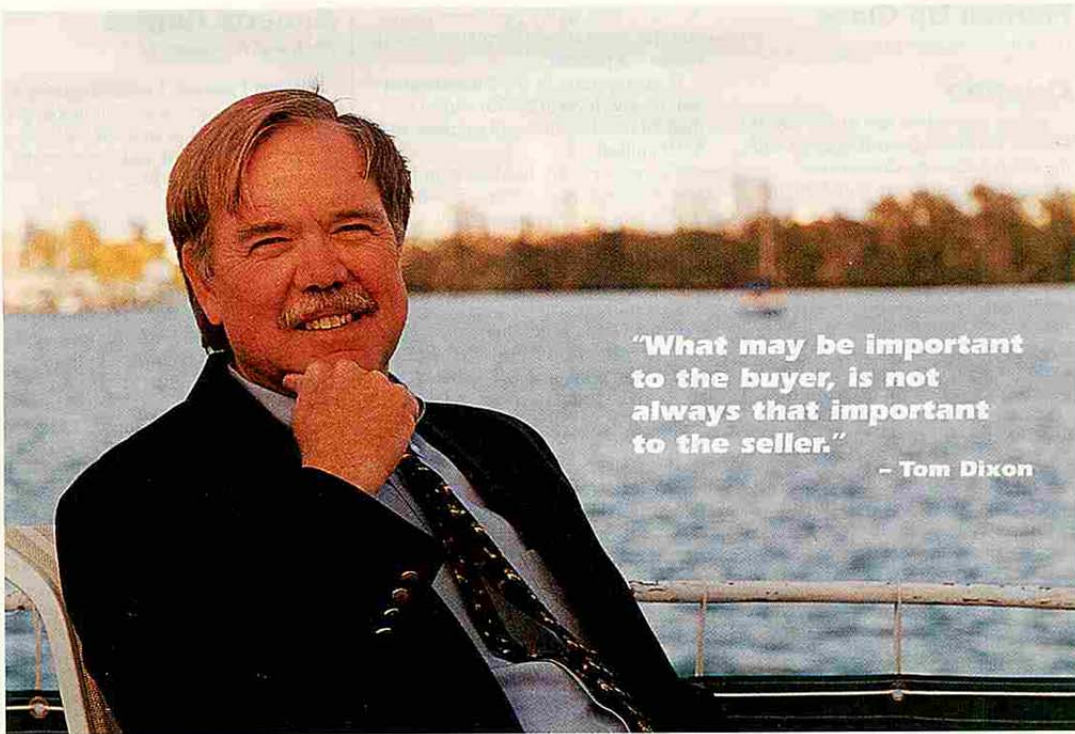
In our society, brokers and sellers sometimes get offended when an offer comes in too low. So, instead of counteroffering, the seller may give up, deciding that the buyer is unmotivated. Or, the seller may just refuse to work with a buyer who "makes such a ridiculous offer." In many cultures, a lowball offer is expected. It's part of the game. If you're working with a seller and a lowball offer is given, try this: Tell the seller you understand the offer may be unreasonable, but have the seller tell you at what price they would be happy selling the home. In some cases, you'll have a seller who won't sell for anything less than the asking price. That's where my next suggestion concerning giveaways comes into play. But, many times you'll find that once the initial anger wears off, the sellers are willing to sit down and make a counteroffer. Your job as a broker is to get the buyer and seller to this point. Help them play the game.

## 6. Offer Giveaways

Many people focus on negotiating price without thinking of offering other items in the mix. For example, if negotiations seem to come to a halt, you may convince the seller to offer



Candace West photograph



**"What may be important to the buyer, is not always that important to the seller."**

**- Tom Dixon**

furniture or appliances. In commercial cases, machinery or delayed closings work well as giveaways. Many times, the seller will be happy that they don't have to move the furniture and the buyer will think he or she is getting a great deal. What may be important to the buyer, is not always that important to the seller.

### **7. Pay Attention to Perception**

Remember, perception is everything when negotiating so everyone is satisfied. For example, a woman walked into a computer store and saw the exact computer she wanted for \$2,000. But, that price was too high. After thinking about it, the woman went to the owner, told him how much she would like to pay for the computer and offered \$1,500. The owner immediately accepted the offer. However, when the woman got home, she wondered why he gave her the computer so cheap. Was it defective? What was wrong with it? Now, let's say that instead of agreeing to the \$1,500 price so quickly, the owner thought about it for a second, then said, "Well, because

I haven't met my monthly quota and because you want the computer so much, I can afford to take \$1,500 for it." With that one sentence, the whole transaction mood changed. The woman went away thinking, "What a nice guy, I got a steal," rather than wondering if she had been taken.

Here's another example of where perspective plays a role: A seller has a property listed for \$1.3 million. A buyer makes an offer of \$900,000 which the seller declines. The seller makes a counteroffer at \$1.1 million. The real estate associate presents the counteroffer and says, "Sorry, he

wouldn't accept the \$900,000 offer, I feel really badly." The buyer then remarks, "What do you feel so badly about, I just saved \$200,000!"

By focusing on your job, you can work to negotiate better sales and have more satisfied buyers and sellers.

*Tom Dixon is the broker/owner of Dixon Commercial Real Estate. Negotiating real estate sales since 1970, Dixon specializes in commercial properties and representing owners in property tax assessment appeals.*

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“In business as in life, you don’t get what you deserve, you get what you NEGOTIATE.” -Dr. Chester L Karrass

## Preparation | Action | Agreement

# Preparation

### Know the difference between:

Position vs. Interest

### Gather Information and Knowledge to Find:

Their Position and Why?

Their Interest and Why?

Your position and why?

Your interest or needs?

### Set high goals.

### Think about how you can agree.

### Write down ways your proposal benefits the other party’s interests.

### Time Constraints

Are you or the other side under time constraints to complete the transaction?

Make time constraints be a benefit to your position.

### Power

The more options you have the greater your power.

Write down your options

Write down their options

### Options or Alternatives

Does the other side have alternatives or are we the only option?

Compare your options to theirs?

Information/Market Knowledge

How much market knowledge do you have compared to the other side?

What have they considered or accepted in the past?

### Range of Negotiation for Pricing

Opening

Target-Acceptable

Maximum or Bottom Line (Walk away amount)

### Prior to Meeting

Create printed support.

Practice a dry run.

Search for alternatives, yours and theirs.

Prepare information on comparables.

**90-10 Rule** Spend 90% of time on matters of little importance (go slow).

**Hot Buttons** “I have to have”

# Tactics

## Authority:

Keep your authority limited; negotiate with people with the authority to make decision.

Take negotiations back to your higher authority.

## Limited Authority

"I would like to but I'm not authorized."

## Good Guy/Bad Guy

"I would like to but *they* won't approve"

## Legitimacy

"I can't it's a policy."

## The Flinch

"You are asking .....how much?!!"

## The Krunch

"But that is more than I want to spend.

"Can't you do better on the price?"

"What more can we do?"

"There must be some flexibility in your price."

## Response to Krunch

"Exactly how much better than that do I have to do?"

"What are you prepared to pay"?

## Bogey Tactic

"But, this is all I've got."

## Hairy Hand

"Diversionary"

## Straw Issues

"Ask for more than you want."

## The Nibble

After everything has been agreed and you are ready to sign....Oh!

"Just one more thing."

## The Nibble Defense:

"Yes if"

## Funny money

Measure money in other terms.

Measure price over time.

Measure price per item.

Measure price if paid over time.

# Action

## First Step

Have the other side make the first offer.

Start with a high goal, aim higher and you will come out better.

Don't say "yes" or accept too soon.

A buyer who talks price first has already mentally agreed to buy.

## Opening Questions on Price

How did you arrive at that price?

Would you accept \$?

Is that the best you can do?

What else does that include?

## To Avoid Disagreements Use:

**Feel**, "I know how you feel."

**Felt**, "...others have felt the same."

**Found**, "I have found..."

## Rule of Halves

"Each concession moves you half way from you present position to your target."

## Movement

Find high-value / low cost concessions to trade.

Settle multiple issues as a package at the end.

Agree in writing.

Give big concessions in the beginning then smaller ones.

Discuss the small things first.

Find areas of agreement.

Interested Buyers will express reasons to reject the property.

Usually, non-buyers love everything about the property. Or say nothing.

# Agreement

## Overcoming a Deadlock

Overcoming "Take it or leave it"  
Broaden the problem to smaller or larger quantity.  
Quality level.  
Offer or accept more or less services.  
Change delivery period.  
Shut up.  
Be ready to walk away and walk back.

## Issues

What issues have been agreed to?  
What issues are still open and un-discussed?  
What issues are in disagreement?

## Alternatives

Find common ground at a personal level.  
Introduce new information  
Change negotiator.  
Change the element of risk.  
Change the element of money.  
Caucus - take a break.  
Offer minor concessions.  
Present "What If".  
Walk away "If you change your mind call me."

## Changes after agreement

Acceptance, subject to higher authority.  
Counter-offer is higher.  
Counter-offer has more conditions.

# Real Estate Questions

How did you acquire the property?  
How long have you owned the property?  
How long has the property been for sale?  
How many offers have been made for the property?  
What do you plan to do with the money from the sale?  
How much do you owe on the property?  
Are you under any pressure to sell?  
Why do you want to sell?  
Are there any hidden problems with the property?  
Are there any nearby problems that affect the value of the property?  
Are there any hidden problems with the property?  
Are there any nearby problems that affect the value of the property?  
Have you signed other leases?  
How does your rental rate compare to the market?

## Real Estate Purchase Trade-offs

### Contract Issues / Concessions

Price – Deposit  
Terms – Conditions to Close  
Time Line – Approval, inspections, due diligence, closing  
Seller Financing  
Contract Extension  
Repairs and Renovations  
Warranties  
Remedies  
Inspections  
Contingencies  
Who prepares contract?  
Who holds deposits?  
Who pays costs and fees?  
Place and date of closing?  
Furniture and Fixtures  
Personal Property  
Equipment  
Inventory

### How to Handle Contingencies

Verbally explain impact  
Continue to offer the property  
Place a time limit



# Real Estate Lease Trade-offs

Rental Rate  
Term - Length of Lease  
Time Line -  
    Occupancy  
    Rent Commencement  
Services  
Utilities  
Real Estate Taxes  
Parking  
Renovations/Upgrades  
Free Rent  
Security Deposit  
Sublease or Assignment  
Escalations  
Options to Renew  
Option Period Rental Rate  
Base Rent  
Percentage or Overage Rent  
Option to Purchase

# Final Thoughts

Don't make a concession without getting something in return.

If you *give ...get*.

Avoid saying No,  
Yes, if is always better.

It's not what can I get them to give me. It's what I can give them that would not take away from my position that may be of value to them.

When you give people what they want, they'll give you what you want.

## Further Learning Books and Video

Secret of Power Negotiating: by Roger Dawson  
Tips and Traps When Negotiating Real Estate: by Robert Irwin  
Negotiate to Win: By Jim Thomas  
[www.Youtube.com](http://www.Youtube.com): Videos on Negotiations