

WHAT AGENTS CAN REALLY COST YOU

Beware of the two fee trap!

by Neil Jenman

Reading time: 8 minutes

A COMMON QUESTION THAT HOME-SELLERS ASK AGENTS IS: "What do you charge?"

If you're about to sell your home and you're interviewing agents, you should be aware of a very important point that can mean the difference of tens of thousands of dollars to you. It's not what agents *charge* you that's most important; it's what they *cost* you.

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Most sellers don't realise that many agents actually cost far more than the amount of their commission.

I often say to sellers that most agents have two charges. Their first charge is their selling fee (the commission) which can be as low as half a percent or as high as five per cent (The average in Australia is about two per cent. In New Zealand, four per cent is common while in America, agents like to charge six per cent. And no, Kiwi agents are not twice as good as Aussie agents and American agents are not three times as good. Most are equally bad and charge what they can get away with.)

The second charge that agents impose on sellers is far more expensive and it's a charge that few sellers ever consider – until it's too late. I call it "**The INCOMPETENT fee**". Read carefully because I am about to show you how you can save yourself tens, perhaps hundreds, of thousands of dollars when you sell your home. Seriously. This is great information.

If you're selling your home, what's the most important quality that you need in a real estate agent? Is it knowledge of the local area? Is it being able to devise an advertising campaign? Is it having a data base of cashed-up buyers? Is it knowing how to get finance for buyers? Is it being a good tour guide to show your home in the best light to buyers?

No, it's none of the above.

The most important quality that you need in an agent is **the ability to negotiate the HIGHEST POSSIBLE PRICE**. You need to find an agent who is a highly

skilled negotiator. If not, then the cost of their incompetency when it comes to negotiating can easily cost you tens of thousands of dollars.

Here's a frightening fact: Most real estate agents are hopeless negotiators. In a recent survey of more than one hundred real estate salespeople *not one* had read a book on the topic of negotiation!

And yet, incredibly, all claimed to be "a good negotiator". On what basis did they make such a claim? Well, they had been "facilitating offers". But running back and forth between a seller and a buyer informing each about the latest offer is *not* negotiating – that's being a "messenger". You don't want a messenger to sell your home, you want a negotiator.

Negotiating is being able to get you, the seller, *the absolute highest price* for your home. But it rarely happens. According to my research, most homes are massively under-sold. And here's the sad part: Most sellers never know that their homes were undersold. Which means they never know how much money they lost – usually tens of thousands of dollars.

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Take what typically happens at public auctions as a classic example of the incompetence of most agents. Because all the buyers at the auction get to see what all the other buyers are offering, this means buyers make their offers (bids) based on what they see other buyers offering instead of what they are willing to pay.

For example, if one buyer bids, say, \$800,000 then the next buyer will bid, say, \$810,000. And then another bidder will bid \$820,000. And so on. The agents say to the sellers, "*Isn't this great, the price is going up?*"

And yes, of course the price *is* going up. But it's where it **STOPS** that's the problem and it's also the reason why thousands of home-sellers collectively lose millions of dollars at public auctions.

Why does this happen?

Well, quite simply, at auctions, the agents break one of the most important rules of negotiation. Instead of focusing on the highest price the buyers are able to pay, the agents focus on the lowest price the sellers are prepared to accept.

At an auction, the sellers' lowest price is called "the reserve". But what about the buyers' highest price? What's that called? Agents don't even have a name for it, that's how much they care about the highest price!

As anyone who has ever sold at auction will know, the day before the auction, the agent will arrange a meeting with the sellers to discuss the reserve (lowest) price. The agents will want to know absolute minimum amount that the sellers will accept. And they will trot out their standard clichés to persuade the sellers to set a reserve as low as possible. "*You need to be realistic,*" and "*You need to meet the market,*" and "*Your home is only worth what a buyer is prepared to pay,*" and on and on and on, ad nauseum. All designed to focus on your lowest price while totally ignoring the buyers' highest price! Talk about incompetence!

To most agents, the most important factor is "the sale", not the price. The difference in commission on a sale at \$900,000 or a sale at \$950,000 is very small as far as the agent is concerned. But the lower the price, the easier it is to make a sale and that's what agents want most – an easy and sure sale.

Not only do most agents not have the negotiating skills to get, say, an extra \$50,000 for the sellers, they don't want to risk losing the sale by trying to get a better price. Just sell it, pocket the commission and find another seller. That's the standard M.O. of typical agents who can easily "cost" their sellers as much as one hundred thousand dollars.

Paying an agent a fee of just one per cent is NOT good value if the agent "costs" you a hundred thousand dollars by under-selling your home.

And, please don't think that under-selling doesn't happen often. As I have said, it happens in most sales

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with most agents who are not skilled (or qualified) negotiators.

Watch what happens.

Let's say that you are going to an auction. You are a buyer and you've worked out that the highest price you are willing to pay is, say, \$1.25 million. No one, except you, knows your highest price because no one has even asked you.

The bidding starts at, say, \$700,000 and quickly jumps up in \$50,000 amounts until it reaches \$900,000. Then it slows.

The auctioneer is now asking for bids of \$10,000 each. You bid \$910,000. Someone else bids \$920,000 and then you bid again - \$930,000. It goes on like this for a few minutes until the bids reach \$950,000 and the auctioneer suddenly yells, "It's ON THE MARKET! It's going to be sold." You rightly reason that \$950,000 must have been the reserve price (the sellers' lowest price).

You decide to stop bidding for a while. Two other bidders push the price up to one million dollars.

And then it all stops.

The auctioneer yells again, "It's going to be sold." He then says, "Going once..."

And this is where you jump in and offer another ten thousand dollars. The bidding is now at \$1,010,000 and you are the highest bidder. The auctioneer yells at the crowd. Your heart is racing furiously. Come on, hurry up, you are thinking.

And then you hear that wonderful word – "SOLD!". The home is yours.

You hear people clapping (agents always like to get the clapping going at the end of an auction; it makes people think that something good has happened). And for you something "good" did happen. You just bought a home for \$240,000 LESS than you were quite willing to pay. That's right; the hapless sellers – thanks to their incompetent agent – just undersold their home by \$240,000.

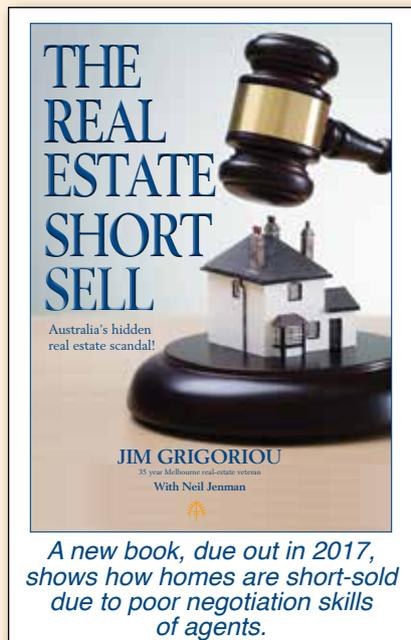
As I said earlier, the sad part is that most sellers never realise what happened to them. On the contrary, because their reserve (their lowest price) was \$950,000, the agent is telling them –

and they are believing it – that they got an EXTRA \$60,000. "The home sold for \$60,000 above its reserve price," is what will be reported by the media.

But a good negotiator knows a fundamentally important point about selling real estate that most agents don't know: It's not how much above reserve that matters, what matters is how far below the buyers' highest price.

Good negotiators never focus on the sellers' lowest price; they focus on the buyers' highest price.

There is a well-known truth in selling real estate: "If you tell the agent the lowest you're prepared to accept, that'll be the highest you ever get!"



If you are selling a home, *never tell anyone the lowest you're prepared to accept.* As I said, skilled negotiators won't even ask your lowest price. It's irrelevant. A skilled negotiator knows that the most important price is the maximum price that any buyer will pay for your home.

The losses at auction – which are all caused because the focus at an auction is on the sellers' lowest price – can be massive.

Recently a home in Victoria sold at auction for \$1,360,000. The agent

whooped with joy. The reserve price (yes, again, the lowest the sellers were prepared to accept) was apparently \$1.25 million, so the agent said, "You got \$110,000 EXTRA." Yes, they did. But now you know the question that was never asked, don't you? *How much was the buyer prepared to pay?* The answer – TWO MILLION DOLLARS!

Yes, that's right; the buyers were quite willing to pay *another* \$640,000! The home was **undersold by \$640,000!** And the sellers never knew it.

The agent apparently gave them a really good deal on the commission, charging them just one per cent which meant they paid the agent \$13,600. A cheap fee. But when you add the fee to the amount by which this home was undersold you soon realise that the true cost of selling this home – the fee PLUS the incompetence – was a massive \$653,600. This is what I mean by "the two fee trap" – commission PLUS incompetence; very costly!

Okay, so now you know something that most home-sellers don't know: Most agents are hopeless negotiators which means that most homes are undersold.

How do you stop your home from being undersold?

How do you make sure that your agent discovers the highest price that the buyers are willing to pay instead of pushing you constantly to know the lowest price you're willing to take?

Well, it's really quite simple: Make sure you hire a skilled negotiator. Choose an agent who can clearly and simply explain how and they always get the buyers to offer you the highest they are willing to pay.

I have devised '7 QUESTIONS that you can ask an agent to test their ability to get you the highest price when you sell'.

To receive these 7 Questions (and an explanation booklet), please call your local Jenman Approved agent, Hayden Real Estate on 1800 012 444.

It probably took you years to save and pay off your home; it's likely to be the biggest financial asset of your life. Treat it seriously. Make sure you get the HIGHEST PRICE when you sell.

FOOTNOTE: An agent you *can* trust to negotiate the highest price when you are selling is **KNOX FAMILY REAL ESTATE** in Gordon.

Their team members have completed courses in Real Estate Negotiation.
Most are 'Jenman Approved **Certified Real Estate Negotiators**'.
They proudly claim to be the "best value" agent in Gordon
and strongly believe that **NO ONE CAN GET YOU A BETTER PRICE!** Try them.