

Going, Going, Gone!

low tide
[feature]

CRSs who know how to navigate through low-inventory markets can turn minimal supply into maximum returns

By Matt Alderton

Because of its elevation—5,280 feet above sea level—people call Denver the “Mile High City.” Its altitude isn’t the only thing that’s high, however. Home prices also are steep, having increased 44.3 percent since the Great Recession, according to an analysis by personal finance website SmartAsset.

Michael Marcus, CRS, bears witness to Denver’s hot market every day. “Like large swathes of the country, we’re operating under record low inventory,” says Marcus, who heads the Marcus Team, a Denver-based real estate team of Coldwell Banker Residential Brokerage. “It’s not that homes aren’t coming on the market. But if the agent has done a good job addressing the three basic components of real estate—location, condition and price—they don’t last long.”

Denver isn’t the exception. According to the National Association of REALTORS®, it’s the rule: In December 2017, it reports, total U.S. housing inventory dropped 11.4 percent, marking the 31st consecutive month of year-over-year inventory contraction. At the current sales pace, NAR says, unsold inventory is at a 3.2-month supply, down from 3.6 months a year earlier and the lowest level since it began tracking total inventory in 1999.

“It makes it more challenging to be an agent on either side of the transaction,” Marcus says. “As real estate agents, it’s our job to help our clients make decisions that are good for them. In a low-inventory situation, sometimes you have to fight a little bit more with clients to help them understand that what you’re recommending is the best decision.”

Fortunately, the challenges aren’t insurmountable. When you know how to strategize effectively, low inventory can be just as fruitful as it is frustrating.

BY THE NUMBERS

In December 2017, housing inventory was down

10.3%

from a year earlier. It has declined for 31 consecutive months on a year-on-year basis.

Source: Reuters

Perfect pricing

One of the most difficult aspects of selling homes in low-inventory markets is pricing them correctly.

Gee Dunsten, CRS, of Long & Foster Real Estate in Salisbury, Maryland, gives clients a choice of three different pricing strategies:

The market-based approach derives a price based on comparable sales. Pricing is fast, simple and easy to justify because it's based on market evidence. However, it doesn't account for homes' unique attributes and might not reflect their potential in an appreciating market.

The 'less is more' approach prices a home slightly under its market value with the goal of generating enough interest to catalyze a bidding war. If it works, the home could sell for more than it's worth—and possibly faster, which could reduce the seller's carrying costs. If it doesn't work, the home could sell for less.

The retail approach treats homes like merchandise in stores: When listings are new, they're at their highest possible price. Like retailers, however, sellers agree to reduce the price if their home doesn't initially sell, and may have to apply several discounts before it does. The upside is a bigger profit when homes sell quickly; the downside is that it may take longer to sell at what becomes true market value, and may increase the cost of carrying the home until it sells.

Whatever path they choose, "the goal is to form a partnership," Dunsten says, who adds that sellers in high-octane markets are more likely to trust and embrace a pricing strategy when they feel like they've co-created it.

Marcus uses a market-based approach, but with a twist. "Most agents doing a comparative

analysis put the most weight behind 'sold' properties," he explains. "I tend to give more weight to 'under contract' properties because they're more recent. Although you don't know how much they've sold for, you can usually guess whether it's sold for over or under asking based on the number of days between listing and contract."

Because the wrong price can cause listings to fester, Maura Neill, CRS, recommends a pre-listing appraisal. "The pre-listing appraisal does a couple things for us," says Neill, founder of Buy Sell Live Atlanta, her team with RE/MAX Around Atlanta in Alpharetta, Georgia. "It's great ammunition to use with a buyer to be able to justify how we priced the home. Also, it's a great marketing tool; if the appraisal comes in at \$550,000, we can price the house at \$549,900 and say in our advertising that it's priced below its appraised value."

Marketing still matters

Because people buy homes, not prices, marketing remains critical, according to Marcus. "People have to like the house in order to buy it," he says. "So you have to approach every listing as if it's going to be difficult and do a full-blown marketing program around it."

Two of the most important marketing elements for Marcus are listing photographs and descriptions. The former, he says, should be professionally done and completed before listings appear on the MLS. The latter, meanwhile, should emphasize benefits over features.

"Instead of, 'Open floor plan,' say, 'Family time is easy with an open floor plan.' That gets people to say, 'Oh yeah, that's important to me,'" Marcus says, who also advocates staging and virtual tours.

Maintenance is marketing, too. "Buyers are hungry, but they aren't any less picky," Neill says. "They still have expectations that a house is going to be in good condition. If it isn't, it's going to sit on the market longer."

And sell for less. "People don't want to fool with stuff like replacing the carpet or hiring a painter," Dunsten says. "They'll justify paying a little bit more if everything's pristine."



GENERATION GAP

According to U.S. Census data, there were 83.1 million millennials born between 1982 and 2000. Meanwhile, the number of baby boomers, those born between 1946 and 1964, is 75.4 million. When it comes to housing, the two groups are on a collision course. "What it comes down to is we have two very large generations butting heads," says Svenga Gudell,

Zillow's Chief Economist. "You have millennials who are just entering the market, who are even a larger generation than the baby boomers, and you really just need more homes," she says. "We're currently dealing with '1994-level' inventory, despite having 63 million more people in the country."

So at this point we have to build some more homes in order to accommodate all those people."



And the winner is ...

Ultimately, the goal isn't just generating interest—it's generating a sale. Which brings agents to what can often be the biggest challenge of listing in a low-inventory market: getting sellers to choose the right offer when it comes in.

"Sellers start to dream of bags of money falling on their heads, and they get greedy," Marcus says, adding that sellers in low-inventory markets like tempting fate by waiting for bigger, better offers.

Because those offers don't always materialize, Marcus determines upfront with sellers how they'll handle offers. For example, they agree in advance whether they'll evaluate them individually as they come in or as a group after collecting them over a period of days. Likewise, they agree on what the process will be in case of multiple offers, how long they'll take to respond and what their non-negotiable conditions (e.g., closing date, choice of attorney, inspection terms) will be, all of which helps sellers act rationally.

Just in case that's not enough, however, Marcus also sends initial contracts as read-only PDFs so his clients don't sign them prematurely, and withholds "love letters" from prospective buyers seeking to bias his sellers. In the case of multiple offers, Marcus uses a spreadsheet to help sellers choose an offer based on all its merits, including not only price, but also closing date, earnest money and other variables that indicate the offer is serious and will actually reach the closing table. "I want my sellers to treat this as a business decision," Marcus says.

That approach doesn't just yield better outcomes for sellers, it also creates more business for agents, according to Dunsten, who says that the key to thriving in a low-inventory market is positioning oneself as a business consultant instead of a salesperson. "In a low-inventory market, there are multiple agents competing for the same properties," he says. "If you want to be the one who's selected, you have to approach your business in a different way. People don't want to talk about listing a house; they want to know how fast you can sell it and how much you can get them. That's the bottom line." ■

Matt Alderton is a freelance writer based in Chicago.

5 TIPS FOR REPRESENTING BUYERS IN A LOW-INVENTORY MARKET

You've heard the phrase "buyer beware." When it comes to inventory-challenged real estate markets, however, more apt phrasing might be "buyer's agent beware." Not only is it harder to find the perfect home, it's also harder to secure it thanks to increased competition, which can breed fast sales and fierce bidding wars. Fortunately, the "buyer's-agent

blues" isn't a terminal condition. It can be treated with the following tips:

1 Insist on a **buyer consultation and signed buyer brokerage agreement**, says Maura Neill, CRS, founder of Buy Sell Live Atlanta, her team with RE/MAX Around Atlanta in Alpharetta, Georgia.

In low-inventory situations, she says, agents must be certain that buyers are serious and fully understand the rough real estate waters ahead.

2 Encourage buyers to **seek loan approval** prior to commencing their home search, suggests Tim Burroughs, CRS, of eXp Realty in Boise, Idaho. Being

approved through underwriting affords buyers a competitive advantage, he says, by giving sellers confidence that the deal will close. Extra earnest money can have a similar effect.

3 Be flexible with **fewer demands and concessions**. Neill, for example, suggests allowing sellers to choose the closing date, waiving home warranties or—with the lenders' blessing—offering shorter contingency periods for inspections, appraisals and

financing. You also could self-pay closing costs, which according to Burroughs, can be paid either by buyers or their lenders, who sometimes will agree to "premium" price loan interest rates to cover closing costs.

4 Use **escalation clauses**—which state that buyers will beat competing offers by a given dollar amount, up to a stated maximum—to give buyers an edge during bidding wars, says Michael Marcus, CRS, who heads

the Marcus Team, a Denver, Colorado-based real estate team of Coldwell Banker Residential Brokerage.

Consider having buyers **5 send thank-you notes or video messages** in which they make an emotional appeal to the sellers, says Gee Dunsten, CRS, of Long & Foster Real Estate in Salisbury, Maryland. Although most sellers sell to the highest bidder, he says, some will sell to the most likable one.

For more information, download the recording **Dominating Your Low-Inventory Listing Market**, presented by Gee Dunsten in the Education Catalog at CRS.com.