

## **The Art of Negotiation**

### **November 10, 2013**

It's amazing how cultural norms take over our minds. Take negotiating a deal, for instance. When I was in Indonesia a few years ago, I needed a taxi cab for a short trip of about 15 miles. No worries! In Indonesia the cab drivers are hitting up on every tourist, offering deals. I was on foot in a shopping center and at least 4 young men offered their highly exaggerated driving skills.

It looked like the lowest bid for my trip was 50,000 Rupiah, but ranged up to 90,000 Rupiah. I eventually negotiated 25,000 Rupiah and my driver walked me to the parking lot, to a beat-up car with a cracked windshield. We had to stop at the first gas station for fuel, but he did throw in a bottle of water for me which he insisted on buying at the local equivalent of a 711 store.

In our more gentele, civilized society in the west we do negotiate, but a lot less aggressively. There is nothing wrong with negotiation. It has been the way of the world since the first cave-man traded his carvings for food. As a child I often traded my toys for candy or marbles. What is a fair trade can only be determined from experience – there are those who would say I lost my marbles in those days. I was not a tough negotiator.

When buying or selling Real Estate there are several areas in which to negotiate. The price is the first and best example. Just because others pay near full price for a listing, it does not mean that you have to follow the statistical average. I am often surprised at the deals that are struck, contrary to common sense, in both buying and selling. This is because you never know the motivation of the other party. Sellers sometimes settle for much less than market value, and buyers often pay more than market value. All these “off-center” trades actually contribute to the net trends in Real Estate values.

A friend of mine lives on a street where an identical house to his just sold for \$277,500. By statistical analysis it was worth no more than \$260,000. However, my friend, whose property is in better condition, now stands a good chance to sell for \$280,000. This is the “free market” and there is nothing wrong with it. I wish Appraisers would take note of this fact.

In addition to price, other monetary considerations can be negotiated. It is amazing to me that buyers and sellers settle for the “normal” split of closing costs when 99% of closing costs are negotiable. These costs can amount to several thousand dollars.

For example, the Appraisal Fee (\$650-\$800) is entirely negotiable. In Alaska, it is a “tradition” for the seller to pay this fee, but in 90% of the United States the buyer pays it! In other words, sellers accept this expense, which incidentally has to be fronted prior to closing, because of business “norms” in Alaska, not because of any legal mandate.

Here is a list of other negotiable fees: loan origination fee, credit report, survey, reserves for taxes and insurance, prepaid interest, recording fees, title insurance (owner's title, and borrower's title), resale certificate, discount points, homeowner's association fees, well and

septic tests, home inspection fees, flood certificate, reconveyance fee, home warranty premium (some of these may depend on loan program limitations).

Furthermore, you should remember that any fees fronted before closing are “risk” money, because you lose the money if closing does not eventuate. Here are the costs incurred in cash prior to closing:-

Survey	\$350
Resale Certificate	\$200
Appraisal	\$700
Home Inspection	\$400
Title Insurance Deposit	<u>\$250</u>
TOTAL	<u>\$1,900</u>

Somebody loses this money if a transaction does not close! Wouldn't you prefer it was the other guy?

**Other ways to negotiate: Personal property:** Appliances such as refrigerator, washer and dryer are not Real Estate, but can often be negotiated as “included” in the deal. There is no reason why televisions, furniture, lawnmowers, and other personal property cannot be negotiated at the same time as the purchase of the home.

Non-Real Estate items must be documented, for lending purposes, on a separate Bill of Sale, but the cash consideration can be nominal so long as it is not so outrageous as to constitute fraud against the lender. The lender can decide this when they see the Bill of Sale.

**Occupancy:** Sellers can negotiate to have time after closing to actually move out, and buyers can negotiate to move in early. Special documentation is drawn up to facilitate early (or late) occupancy, but it is all worth money, and that's what business is about.

**Improvements:** Properties for sale come in many shapes, sizes and condition. If a buyer will accept the “as-is” condition, this is worth money to the seller. If a buyer can negotiate for painting, carpet or any other upgrade at the seller's expense, this is a monetary advantage to the buyer.

**Conclusion:** Tradition has been a shackle on many cultures. Why do we dress a certain way? What is the real basis of our religious activities? Why do we eat dinner at night, and not at mid-day? Tradition is so boring and does not promote growth and development. I would like to encourage you to think “out-of-the-box” in your business dealings. If your Realtor objects to writing your offer in a non-traditional manner, find one that will.