5 Things Other Realtors Won't Tell You. But I Will.

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GOOD BONES PROPERTIES

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1. <u>Your home has a unique Marketability Score</u>

Most realtors rely heavily on a Comparative Market Analysis (CMA) to determine the market value of you home. While this is a good place to start on paper, every home is unique and different with its own **Marketability Score** that takes into account such items as the condition of the home, architecture, updates/upgrades, layout, kitchen & bathroom size relative to the home, and many other factors that greatly affect the value of a home but can't be seen with a simple CMA.

This proprietary tool developed by Good Bones Properties helps homeowners <u>more accurately determine what their home is worth</u> in today's market AND <u>helps identify where improvements can be made to maximize its value</u>. It's invaluable for homeowners thinking about selling their home or contemplating which area of their home to spend money renovating.

So whether you're thinking about selling, considering upgrades, checking your equity, or just curious how your home stacks up vs. Joe's house next door, your Marketability Score will help you make smarter real estate decisions.

2. <u>Be wary of skyrocketing home prices</u>

Most realtors are out celebrating the nearly 20% rise in L.A. home prices over the last 12 months. But guess what? They're about to get splattered by the next bubble – and soon. Sure, low inventory and record-low interest rates are driving bidding wars on many properties today. But real estate is an investment and you must look at the underlying market fundamentals:

- An increasingly sluggish and uncertain economy (don't believe the unemployment numbers)
- An artificially inflated stock market propped up by increased dividends (i.e. Apple) and insider trading rather than business profits
- Tightening credit standards that have seen the 30-year fixed rate mortgage jump up 40% in the last 12 months despite the Fed continuing to buy up billions of mortgage-backed securities every month

- Smart investor money fleeing the housing market for better returns. They were buying up thousands of houses per month for the last two years with a buy-and-hold strategy of 7-10 years. Now they're moving to other investments and selling off their properties they still haven't rented.

So what can you do? Don't wait until the market turns. Let me help you put a personalized plan in place for your home that looks toward tomorrow rather than reacts to the news of today.

3. **To attract the highest offer, price it LOW**

That's right, price it low. Seems counterintuitive, but this is where most realtors get it wrong and most homeowners get fearful.

The TRUTH is that no one can control (manipulate yes, control no) the amount a certain property will sell for. Although as realtors we can do research and make our best guesstimate, but we can't control the ultimate selling price simply by establishing the list price we want. HOWEVER, we can control the number of people interested in a particularly property if the price is right.

Now before you get frightened by price, remember this:

The list price for a property is not a number, but simply a marketing flag waiving in the air to attract buyers. The lower the list price, the bigger the flag that's waiving.

The key to getting the highest price starts with getting the most buyers interested in the property, regardless of price. Price it high and potential buyers will walk and likely not return. Price it low and you will have buyers knocking down the door to purchase the property. Once you have a slew of buyers with a vested interest, you have the open market competing to drive up the price – typically above market value.

The common mistake realtors and homeowners make is pricing the property too high. They do this for two reasons:

1) To create the perception that it's worth a certain number (or close to it), so if the price drops it will still be at market value. (You can't trick the open market)
2) The fear that if they price it at market value or lower, the price will be set in stone (in the mind of buyers) never to increase further

These are irrational perceptions and fears with no real market basis or understanding how an open market system works, yet they are practiced constantly by real estate professionals. And the consequences of pricing a property too high are extremely costly:

- Buyers pass it by, never gaining a vested interest in the property
- It communicates to the market that the seller is not motivated to sell the property
- The listing gets stale – meaning the market has seen it, made a judgment, and buyer's agents are less likely to show it to their clients in the future
- The list price must chase the market downward (continually reducing the price) until it reaches a level near market value – typically having to drop below market value to gain attention. This leaves buyers in a more leveraged negotiating position.
- Longer time period to close the transaction means more mortgage payments, utility fees, insurance costs, maintenance of property, potential vandalism/repair issues, etc. for the seller

So what does pricing a property correctly (low) really mean? It doesn't mean setting a list price that the market thinks is a joke, mistake, or too good to be true. Skepticism keeps people away. It simply means establishing a price that will elicit the attention and offers from all potential buyers currently in the market for the property. In some markets, this may mean listing the property 3-5% lower than market value, while in other markets it may mean up to 7-10% below market value. The key is attracting the vested interest of buyers in the market and then making them compete against each other. When the open market competes, the seller wins.

4. **<u>Real estate investors make the best realtors</u>**

When you've personally bought and sold hundreds of properties in the greater Los Angeles area as a real estate investor, you develop a 360-degree financial view of a real estate transaction. You get a clear understanding of the many inter-dependent entities involved (buyer, seller, listing agent, buyer's agent, escrow, title, insurance, termite, etc.) and how each entity makes money for its specialized role. The reason you learn this is because every last penny being spent is coming from your pocket!

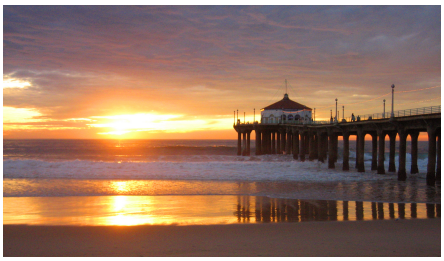
Realtors, on the other hand, typically only know two sides of a real estate transaction – the listing commission and buying commission. They never develop this 360-degree financial view because they are not paying for any services (or delays) from their own honest money. Although realtors (by the

Realtor Ethics Code) have a fiduciary responsibility to serve and protect their clients' financial interests, they often don't have the knowledge or investing experience necessary to see where dollars are won and lost in between the real estate transaction lines.

For example, one of my favorite strategies as a listing agent is to contractually obligate the buyer to close the transaction in 30 days (standard timeframe) or pay a substantial penalty every day thereafter. Most buyers' agents gripe and complain that this practice is unfair and that their buyer shouldn't pay anything as long as the transaction closes in a "reasonable" amount of time (over 30 days). Because they lack a 360-degree financial view, these realtors don't realize that every day the transaction is delayed by the buyer costs the seller money (i.e. mortgage payments, insurance costs, utility fees, risk of vandalism to the property, risk that the seller will not perform, etc.). Is it fair that the seller incur costs for the buyer's delays? I think not.

In our business, we treat every client's money as if it was our own so a penny is not left on the bargaining table. Whether it's helping a seller maximize the value of their home to get ready for sale or helping buyers locate off-market properties at bargain basement prices, working with a real estate investor (who is also a realtor) gives you a leg up on the market and the edge when completing a transaction.

5. **The #1 rule in real estate "Location, location, location" is DEAD WRONG. Location, timing, circumstance & leverage are equally important in determining value.**



"Location, location, location" is often thought to be the number one (yet most overlooked) rule in real estate. Buy in the wrong location and all the structural, design and layout changes you make won't move the property. As they say, the value of the real estate is very much tied to its location. While an interesting and popular premise, it is a very shortsighted view of real estate and possibly only 1/4 accurate.

For instance, I have a friend who owns a property in one of the most sought after locations in Southern California: on the Strand in Manhattan Beach. The fantastic sunsets, blue water, clean white sand, and beautiful people make Manhattan Beach one of the places to be and be seen. Property values along the Strand are in the multi-millions and hold their value or appreciate faster than almost anywhere else in the Los Angeles area.

But what if I told you that my friend bought his Manhattan Beach property in May of 2007 at the absolute height of the market? Even with market prices increasing dramatically this past year, his $5MM investment only five years ago is currently worth only $3.5MM. Ouch! And what if I told you that the previous owner bought the property for $1.5MM in 1990 before selling it to my friend? The property never moved from the Strand but the timing of the transactions played a HUGE role in the property's value. Pretty obvious, right?

But now what if I told you that my same friend was very successful and making plenty of money, even in this economy. He and his family can easily make the mortgage payments, have no plans to sell their house and plan on living there for the next 10-15 years. All of a sudden, his circumstance doesn't seem as bad as first thought. But his neighbor, on the other hand, is nursing a failed business and is forced to short sale his similar $3.5MM home for $3MM to avoid a foreclosure. Again, the particular circumstance of this homeowner has significantly impacted the value of the property.

Finally, what if I bought the Manhattan Beach short sale above to hold as rental property. If I'm able to use leverage by getting a conventional loan (therefore only put 25% down) at today's low rates, the value of the property goes up dramatically because my cash-on-cash return is very attractive. However, if I can't get a loan and have to buy the property with all cash, the property's value decreases because my cash-on-cash return is so much lower without leverage.

While the factors of timing, circumstance and leverage may seem very straightforward now that I've provided concrete examples, they are constantly overlooked or ignored by realtors, appraisers and consumers when determining the value of a property. So the next time your buddy brags about "location, location, location" when talking about his Manhattan Beach villa on the Strand, congratulate him for being a real estate mogul as you crack a knowing smile and think about the property at a different time, under different circumstances and with different financing. Manhattan Beach sunsets may always be spectacular, but the value can change with the tide.

ONE LAST THING!

I hope you enjoyed the report and got a sense of how I add value to my client's real estate transactions. In fact, I'm so confident that scheduling some time to meet with me and discuss your home will be worth your while, that I'll immediately write you a check for $250 if I've wasted your time in any way. Sound fair? What other realtor would do this?

If you'd like to schedule some time to talk, please give me a call at 626.744.2700. I look forward to meeting you.

Best,

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Paying It Forward: My business is 100% based on referrals so I can devote my time and energy to meeting the needs of my clients. Please let me know if you have a family member or friend who would appreciate the services I provide. Thank you!