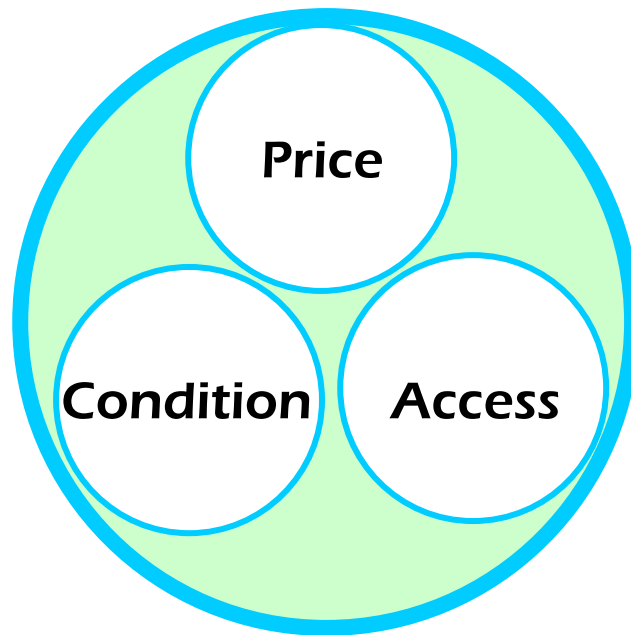




Listing Your Rental Property for Sale Buyers and Tenants in your Sphere of Influence



Over the years and hundreds of rentals bought and sold, we decided to write a guide that distilled the most common pricing practices owners and listing agents apply to selling properties here in Austin. We want to help you make the most money possible when you sell your property. With this guide we are hoping to show potential sellers that a sphere of influence is critical to bringing in buyers, keeping tenants and getting rid of those bottom-feeders in real estate.

Austin is a city where you can sell a home in any condition. There is good demand in all areas with a good balance of local buyers and investors. The job market is strong enough to fulfill demand. If you are holding a property that needs considerable work, it will still sell, and can sometimes sell quickly, but it must be priced accordingly. Buyer's emotions are led by a thousand little things, but the largest factor in most cases is the initial asking price. If the market value in the area is unsupportive of the asking price, the great majority of buyers will not even consider looking at the property much less making an offer.

What exactly is your sphere of influence?

The number of people you are trying to attract defines your sphere of influence. If you want to attract a great number of people, you need to adhere to the factors that create a large sphere. When listing a house, we feel that the owner needs to compel buyers into their sphere by the means of adjusting price, improving condition and keeping tenants happy.

Price is king, the biggest factor:

Price can bring people in kicking and screaming, clawing their way in line to pay more than your asking price! Price can also be an impenetrable barrier to buyers, repelling them for months even though nothing is wrong with the property. Your property can be on a corner lot. It can be in a cul de sac. It can have manicured oak trees that cost hundreds of dollars a month to prune. If your property is overpriced, it can also remain on the market indefinitely. Just taking a listing and “throwing it out there to see who bites” usually backfires, and we’ll explain why.

Condition is critical:

Good curb appeal is extremely helpful to owners and sometimes the deciding factor to many buyers. Bringing up the condition of the property, even just the little things helps increase your range of influence. Landscaping, updated fixtures, recent paint and a few recent appliances can vastly increase the number of people interested in your property. Many homes are not “remodeled”, but many homes have been “touched up” or “upgraded”. These tend to get much more interest. These items probably won’t cost more than a few thousand dollars, but will drastically reduce your time on the market and will convince buyers that your property should be in their top three choices, hopefully number one!

Buyer agent influence:

Many times buyer agents are looking for their buyers, pouring through hundreds of listings. They will pull only properties that have been recently listed with upgraded items; leaving behind properties that have not been touched up or have been on the market for awhile. If your property has absolutely no improvements, you run the risk of being passed up and your influence shrinking. If you can afford it, try to add something to the property. Bonuses and extra money at closing actually don’t help much. Improvements ahead of time help a lot more.

Tenants and Access also affect your sphere:

Selling a rental property is unique since we have to deal with tenants, leases, deposits and sometimes the welfare department (section 8). Owners do not want to disturb their tenants, but buyers want to view the property before placing an offer. Without impromptu and rapid access to the property, the sphere is vastly reduced. If there are tenants, we suggest the owner or owner’s management

company make an agreement with one of the tenants to allow us to place a lockbox on the property. This will allow buyer agents very good access to the property. If we cannot place a lockbox on the unit, the tenants will end up being called for appointments at all hours of the day. This is rarely successful since letting strangers in is usually an inconvenience to them.

The worst case scenario is a property that is overpriced and has tenants that won't give access to the property. This is a double-whammy that every owner should avoid, but it happens frequently. If the property remains on the market too long, the tenants will actually get frustrated and become uncooperative with the owner, possibly not renewing their leases or possibly leaving. This is why we suggest pricing competitively and also allowing somewhat "unlimited" access to improve every region within your sphere.

The Austin MLS:

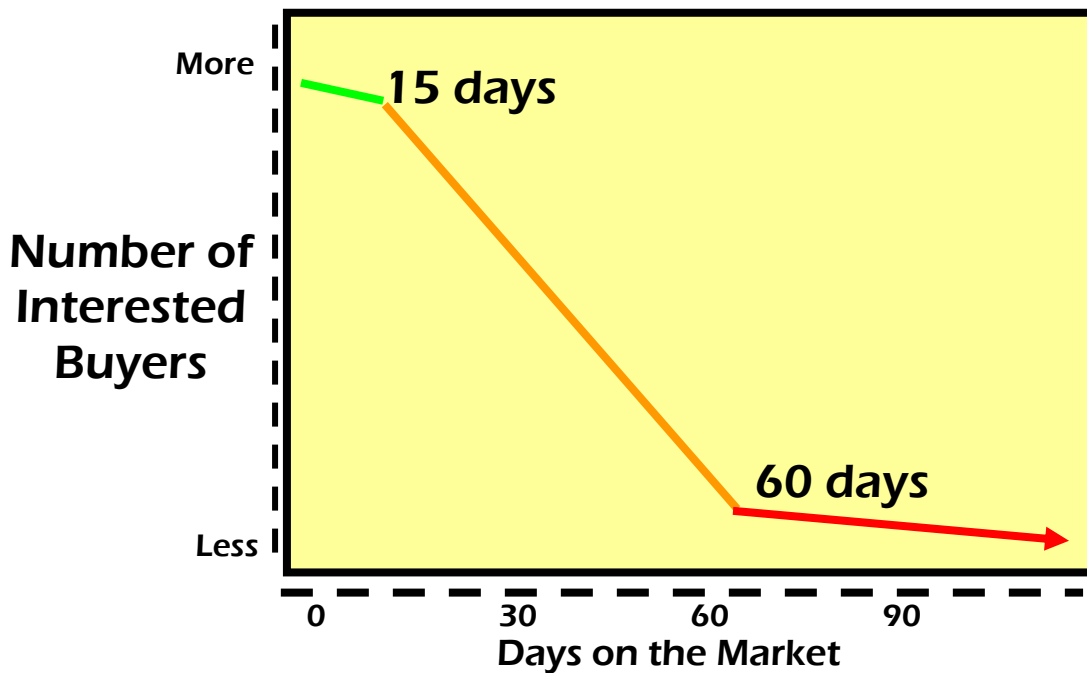
Our "Multiple Listing Service" in Austin is quite robust and extremely active. Each Realtor in Austin pays an enormous amount of money each year to get access to this database. Active listings are public data that anyone can view through Realtor.com or Austinhomesearch.com. However the background data such as sold listings and the ability to place a listing is restricted only to licensed Realtors. Why can't the general public place listings? If the public were allowed to freely place listings, an enormous amount of fraudulent listings and lots of bad practical jokes would occur. Ex-wives, former boyfriends and disgruntled employees could place an enemy's home for sale without the fear of reprimand. Luckily our current system penalizes Realtors with steep fines and sometimes removal of membership if the Realtor makes mistakes on listings. If this goes far enough, the broker of that agent can actually rescind the agent's license. So there is a tremendous amount of trust that properties on the MLS are of good marketable quality backed by the brokerage and the licensed Realtor. This is why we take extreme caution when pricing and listing properties.

Why people trust the MLS and not FSBO's:

The Austin MLS is the only accurate source of sold property data in central Texas. This data is combined with other regional data and eventually sets policy throughout Texas regarding things like property taxes and even school boundaries. Realtors aren't the only ones on it. Inspectors, Appraisers and Surveyors all depend on the data inside it. Even if an owner lists a property privately, the buyer's appraiser still has to check against comparable sales in the area by referring to the MLS to get an accurate opinion of value. Many buyers are discouraged by the high price of FSBO homes compared to other homes in the area. Our brokerage encourages buyers to seek all options in the area they want to buy in, including FSBO homes. After viewing and researching the FSBO homes, 99% of our buyers purchased a property that was on the MLS and not one that was privately listed. In 5 years we've had only 1 client who actually bought a FSBO. Going the FSBO route is definitely something to consider, but the general effect is that of a limiting factor on your total influence.

“MLS snobs” abound in Austin.

If there is a property that sits over 30 days, many buyers will simply cut it out of the search assuming that the property needs work, is overpriced or has some hidden pitfall. If the property sits over 60 days on the market, it is closer to expiring than actually selling. Qualified buyers will not even pay attention to this property; the offers that creep in will most likely come from investors seeking to “relieve” the owner of the property since it hasn’t sold yet. If it actually does expire, or is withdrawn, there is an entire corps of listing agents who market to those owners and will send a barrage of postcards explaining how they can sell your property better than the last guy.



Holding costs while selling:

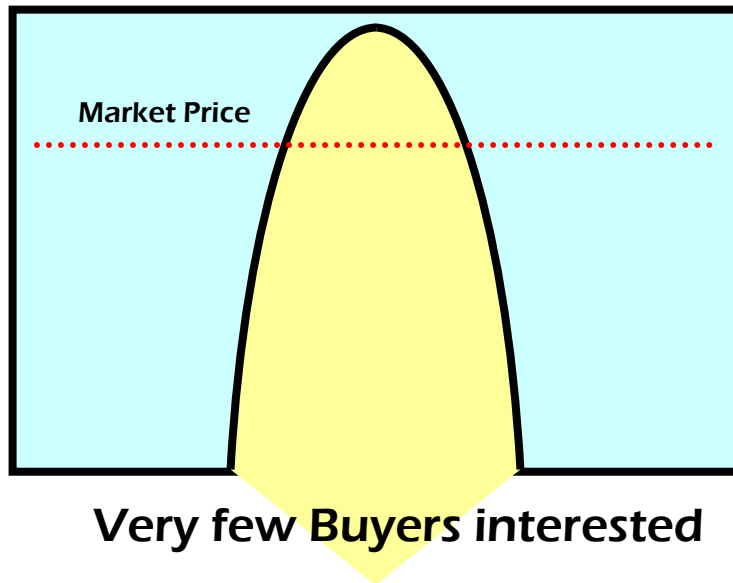
Getting the property under contract within the first 30 days is crucial, the longer it sits on the market, the longer it will continue to sit. Considering the cost of holding a property should also be a factor in your decision of setting price. If the price is far over market, you will most likely have to hold onto the property for several months. You’ll be responsible for the normal monthly mortgage payments, taxes, insurance, repairs and any other tenant drama that pops up before closing. You’ll need to ask yourself, is the list price going to hinder or help you reduce your holding costs and increase your profits at closing.

Three Ways to Price Your Property

1) Over market price – the “Wait and See” approach

Best for: Owners attempting to test the waters with the market

High price, short range



Listing method:

Due to higher than market price, more marketing dollars will need to be spent in more varied media to convince buyers that this property is worth the extra money. Listing agreement is set for 90 days. Every 30 days the price should be reconsidered and possibly adjusted.

Pros:

- Allows owners the ability to get into the market and “go fish” for more discerning Buyers.

Cons:

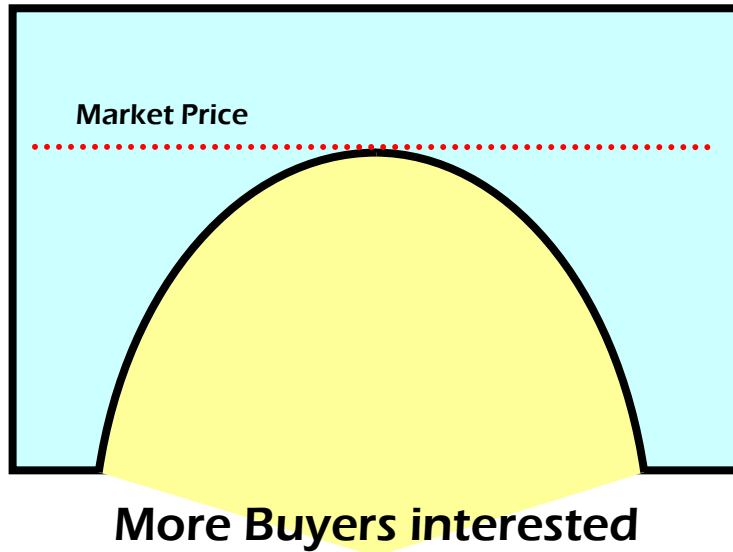
- Greatly reduced sphere of influence. Leads to the least competitive offers and attracts the most lowball offers.
- Being on the market for over 30 days can lead to tenant “revolt” due to untimely showings and unplanned realtor calls.
- Longer time spent on the market, fewer and fewer people consider the property to be worth buying.

Example: A duplex on Bagdad located in Leander is in extremely good shape. It is a recently built 3/2 each side property with stable tenants who have lived there for 3 years. The Seller heard that the property down the street was listed at 225k and called us hoping to sell his for a very similar price. We researched the neighborhood and found that the neighbor’s property has been on the market for over 100 days. The neighbor’s 225k price tag was the highest ever in the area for a duplex but it had no improvements to support that price. It simply wouldn’t sell. We tried our best to tell our seller that the comparable sales in the area only yielded a sales price of around 200k for his duplex. He decided to have us list his property at 217k. It sounds like a discount compared to the 225k neighbor, but it’s still way over the market price and unrealistic. It has remained on the market for over 60 days with absolutely no offers.

2) At market price – the “Let em’ in” approach

Best for: Owners who want to get under contract within 30 days, but are not in a tremendous rush.

Market price, moderate range



Listing method:

Moderate advertising dollars need be spent to market something that is in comparable condition to others that sold for a similar price. Many people will consider this as a reasonable deal. We will try very hard to have tenants agree to access, since you agree to a market price, good access will greatly accelerate your time to close.

Pros:

- Gets owners a large sphere of influence
- Reduces tenant headaches
- Tells the general public that you are serious about selling

Cons:

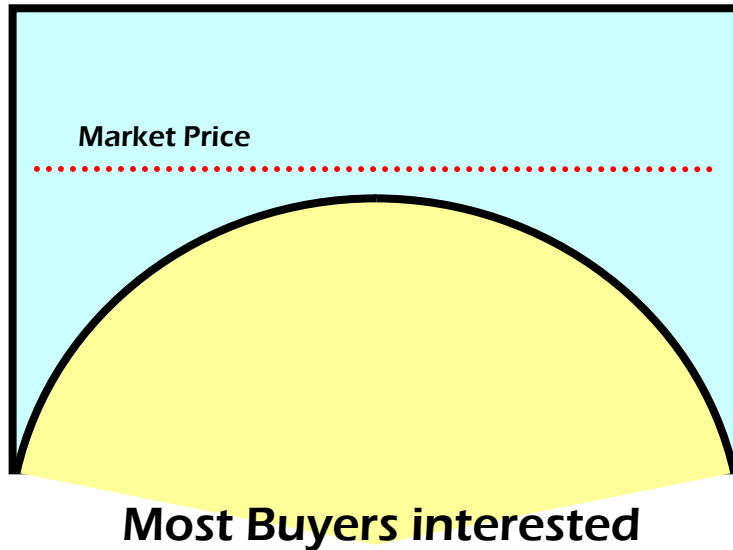
- Since price is inline with the market, buyers will scrutinize the condition
- If condition is poor or the inspection yields too many major items, market price may actually be too high.

Example: A duplex on Topperwien was a duplex listed at 157k. The market average for the area yielded a price of around 158k. One unit was recently remodeled with new paint and carpet. The other unit had been recently vacated and was a bit of a mess, but just needed a paint job and nothing really serious. The price was in line with market and with the condition. It was under contract in 23 days and closed smoothly.

3) Slightly under market price – the “Let’s Go Get em” approach

Best for: Owners who want to get under contract within 10 days, owners who want to increase their chances of having a multiple offer situation.

Slightly under market, large range



Listing method:

Very few marketing dollars need to be spent on this type of listing, assuming it is in good shape. Many people will consider this as a great deal. More people like the deal, more people will make offers. Having good access to this is essential, but in some cases not even necessary if it is priced low enough.

Pros:

- Gets owners the largest sphere of influence
- Greatly reduces tenant headaches
- Tells the general public that you are very serious about selling
- Give the seller the upper hand if we go into a multiple offer situation
- Allows the seller to pick the very best buyer and best offer

Cons:

- We don't see any... This method is most often the best for a quick, no hassle closing.

Example: A duplex on Fuzz Fairway was listed at 188k. It was in terrific condition and in a fantastic area with great schools. The average price for something similar was around 192k. The property had 7 offers on it within 48 hours. The sellers returned to all the potential buyers with a counter of 193k AS-IS. Three competing offers came out of this counter! The final buyer ended up paying 195k for the property and taking it AS-IS.