THE REAL DEAL

July 2014

http://therealdeal.com/issues_articles/buyers-look-down-to-bid-up/

Brokers show clients properties that leave room for bidding up

Warburg Realty's Lisa Larson scoured the East Side for more than a year with clients looking to buy a two-bedroom for less than $1.3 million.

Ten months ago, they lost an apartment on East 78th Street that was listed for $1.25 million, and which later sold for $100,000 more than the asking price —and $50,000 more than Larson's clients had offered. In March, Larson and her clients tried a different tactic: They found an apartment on East 90th Street listed at $1.09 million — well within budget, and with ample room to bid up.

"We were able to go up easily to 10 percent," over the asking price, said Larson, whose clients will be paying just under $1.2 million for the Carnegie Hill co-op. A week after seeing the apartment, she said, her clients presented their "best and final" offer, which was accepted, and they are set to close the first week in July. "They were comfortable with that price and were not going to back out," she said.

In today's über-competitive market, when even qualified buyers are losing apartments to competing bids or all-cash offers, Larson and other brokers say one way to ensure their clients present the best offer is to look slightly under their budget, leaving room to negotiate.

"If you have a buyer that's looking in the two-bedroom category, if they have a budget of $1.8 million, I wouldn't even look at anything above $1.7 million realistically," Larson said. "No matter how prepared you are, if someone can bid 10 percent over you and it's all cash, it's hard to beat that."

To be sure, low inventory levels are so well documented that serious buyers should expect to fight hard for desirable units.

In the first quarter of 2014, the listing inventory in Manhattan was relatively unchanged at 4,968 units compared with 4,960 units a year earlier, according to a report by appraisal firm Miller Samuel. Meanwhile, the average number of days a property was on the market dropped to 115 from 132 last year.

Miller Samuel's data show 45.9 percent of Manhattan condos and co-ops sold at or above the listing price during the second quarter, up from 38.1 percent in the first three months of the year.

"If it's a well-priced property, you're not the only one seeing it," said Dovanna Pagowski, an agent at Rutenberg Realty.

Douglas Elliman's Jessica Cohen said the so-called average buyer, who is qualified but needs financing, often suffers some kind of heartbreak. "If you can't afford to be all-cash or non-financing-contingent, if you find yourself in a multiple-bidding situation, you almost always lose," she said.

How much over asking price?

Larson said in the last four months, she's done three deals — in Carnegie Hill, Turtle Bay and NoHo — and in each case, the buyer paid 10 percent to 12 percent over the listing price. She said neighborhoods like the West Village can command even higher premiums, around 15 percent to 20 percent over the asking price.

“To feel confident you can win, you need to be 10 percent over the ask on a renovated, triple-mint apartment,” Larson said. “If it needs work and it’s overpriced, there are nuances. You have to do your homework as a broker obviously.”

Benjamin Benalloul of Piquet Realty, who frequently works with clients from Brazil, said when buyers come to him with a budget of $1.7 million, he directs them to property in the $1.5 million range. “If it was listed three days ago and the [average] price is $1,200 per square foot, and this is asking $1,250 or $1,350 per square foot, you have to know you’re going to pay a market price and you should put in an offer that will be accepted,” he said. “You’re standing in line with three or four other people.”

Similarly, Gea Elika, the principal broker at Elika Associates, said he no longer shows clients a range of properties priced at, below, and above their budget, which he might have done in years past. “Above their budget in today’s market doesn’t make a lot of sense unless they really can go above,” he said. “If it’s priced fair to the market, it’s going to trade up.”

On the seller’s side, listing agents can also set prices on the low side to escalate competing bids.

Rutenberg’s Pagowski said she recently listed a two-bedroom co-op on lower Fifth Avenue at $1.65 million. After competing cash buyers duked it out, the seller accepted an offer for $1.72 million and closed within six weeks. “We did price it almost slightly under market,” Pagowski said. “It worked to [the seller’s] advantage. She got a lot of interest.”

Likewise, Elliman’s Cohen said she’s noticed that small price drops bring in more interested parties.

This spring, Cohen represented the seller of an apartment on West 63rd Street that didn’t get any offers when listed at $2.35 million. After the seller lowered the price to $2.195, he got multiple bids. The same was true, Cohen said, for an apartment on West 70th Street.

That apartment sat on the market for a year listed at $3.15 million until Cohen lowered the price to $2.995 million. Then, she said, “We had multiple offers. We got the asking price.”

Daniel Hedaya, president of Platinum Properties, said he wouldn’t necessarily advise a client to look in a lower price range. But he said in a bidding war, he advises buyers not to bid their highest number right away. “You want to approach it with an incremental increase,” he said. “If you go to your ‘best and highest’ offer, in a bidding war typically it will go even higher.”