

## Negotiation and Price: Can Anyone Win?

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Let us never negotiate out of fear. But let us never fear to negotiate. - John F Kennedy

Because I spend a lot of time with new clients from the moment they start thinking about a purchase inevitably I end up getting asked for an opinion on price.

The question is usually accompanied by a request for my thoughts on how negotiable the vendor might be and at what price point the first offer should be made. To be blunt none of these matters are really any of my business. However, if you put yourself out there as some kind of industry expert then, in my mind, you have an obligation to a client to give what feedback you can.

To me purchasing an asset is all about striking a fair deal without insulting the vendor on the way through. There seems to be a need in some people's minds to have to denigrate the asset being purchased in order to justify a low initial offer. This is often referred to as tyre kicking and in my view it's not a good look.

Buying and selling a management rights, motel or Caravan Park is an emotional process. It's one of the few business transactions that usually includes the sale and purchase of the business operator's home.

For many purchasers it's tempting to try to find fault with the asset under consideration in order to drive down the vendor's expectations. No business is perfect but pointing out the faults to the current operator is not the way to build rapport during the negotiation process. If you are going to use any negatives as a negotiating lever then also acknowledge the positives and keep the emotion out of the process.

There's an old expression that says never negotiate from a position of high emotion or high need. Approach the process in a cool and calm manner with a focus on not insulting the vendor and in many instances the outcome will be to everyone's liking. Of course, if the asking price is wildly out of market, cut to the chase and find out if there is room for negotiation. Use market statistics and recent sales data to justify your position and if the vendor is clearly still living in 2007 move on.

Speaking of market statistics, I'm seeing a growing number of purchasers doing their own real estate valuation research. The Internet provides a plethora of information for the intending purchaser and many seem to think that looking at general unit sales data is the best way to decide on the value of a manager's lot in a strata scheme. It's a start but the process is also flawed. As we know the manager's unit in a scheme is like no other. It will have attached to its ownership the exclusive right to operate a letting business together with other exclusive rights in respect of common property.

In my opinion the only way to truly determine the value of a manager's unit is to have it formally valued. In fact, I am seeing a growing number of vendors and purchasers agreeing to do just this and then contract the sale accordingly. The trick is to ensure the valuation is done by a bank accredited management rights Valuer for mortgagee purposes. Not a difficult process but critical to a successful outcome.

Part of the purchase negotiation process often involves any number of parties taking a view of what the banks will accept. There seems to be an urban myth out there that the banks have certain criteria in terms of multiples and yields that they simply won't go past. This is nonsense. The truth of the matter is that the lenders will have an asset independently valued and will lend against that value.

If a punter wants to pay over the odds that's fine, it's just that the deal will require a higher level of equity as the bank will lend on purchase price or valuation, whichever is the lesser. While on the subject of bank policy don't be tempted to tinker with the unit and business value splits in your management rights sale contracts. These contracts should reflect as near as possible the actual market values of the assets being sold.

To have the right overall price and then play with the value splits is not good enough. In many cases the bank will only value the unit so if it's been overstated in the contract we will have a problem with funding. The bank lends against the valuation of the unit and the contract price of the rights. If the valuation of the unit comes in low because the contract price has been loaded then the overall lending available to the borrower will fall and potentially crash the deal. Not a good outcome for anyone.

Finally, if you think it's a great business but you can't quite get to the asking price then say so. Acknowledge that the asking price seems fair but also acknowledge that you can't pay that price and put forward your best offer. I am surprised at the number of times a vendor will accept a lower offer from someone who acknowledges the value and is honest enough to simply say they can't quite get there.

Even if you are not instantly successful with this approach you may be surprised a couple of months down the track when the property hasn't sold and you have maintained a good relationship with the vendor.

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