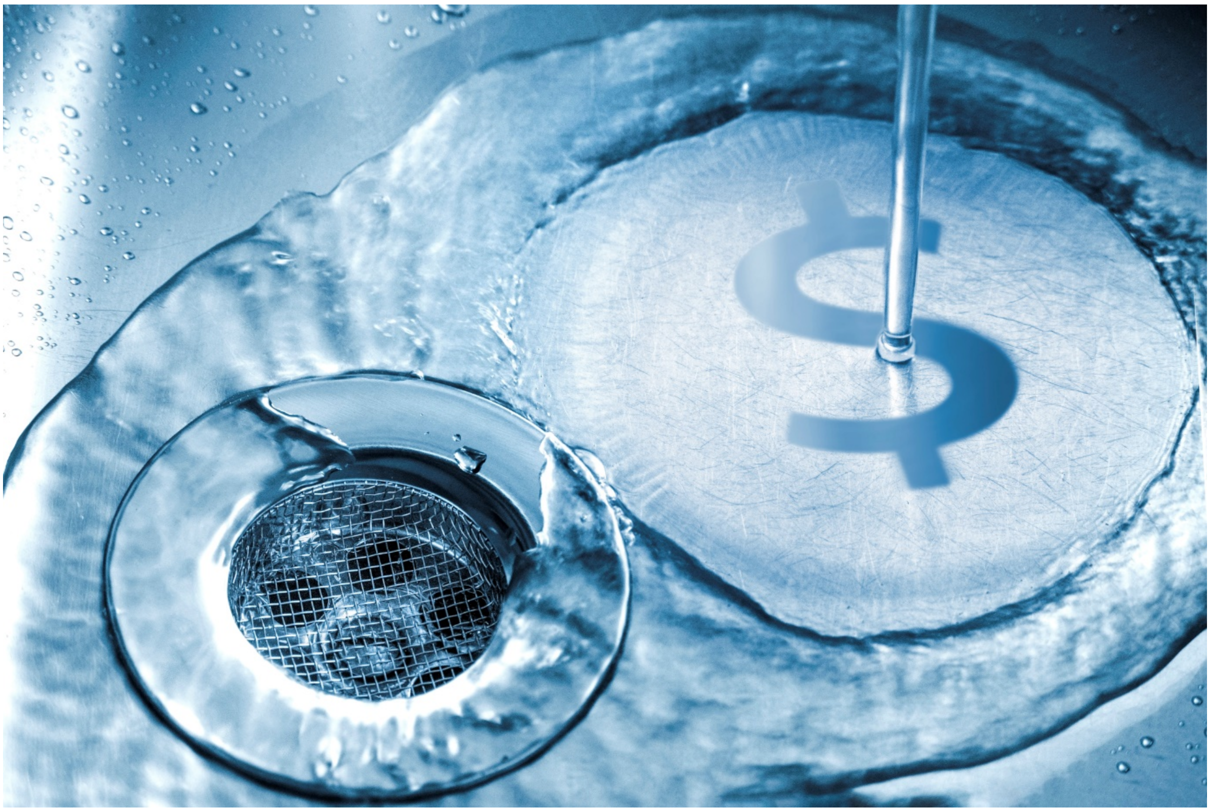

In a HOLE... How excessive upfront costs can come back to bite

By Peter O'Malley, author of Inside Real Estate

The NZ property market in 2022 has been challenging for vendors and respite does not appear to be coming over the horizon right now. To achieve a sale, vendors and agents have needed to ensure they had the right sales and pricing strategy in place and a good dash of luck.

One area vendor's have been unwittingly exposed to is excessive upfront costs of running a sales campaign. The easiest money in the world to spend is someone else's. It's easy for agents to have a flamboyant list of expenses that will aid the sales campaign, because they are not the ones paying upfront and carrying the risk.

Many agents are unflinching in their advice to prospective sellers – spend large on advertising, style the property, move the tenant out (sometimes the owner is even asked to move out – truly) and undertake several repairs/works to the property.

If you are expecting $1 million for your property and you achieve around $1 million, the expenditure is not necessarily painful. However, in the past 6 months where property prices have corrected quite sharply, agents and vendors are finding there is often a gap between expectation and market price. This price gap is neither the agent nor the vendor's fault, it just happens when markets are volatile.

The problem for the vendor is they are often in a financial hole at the end of the campaign. They have committed anywhere from $3,000 - $10,000 on advertising, $2,000 on styling/staging. In the case of landlords, they have possibly forfeited an additional $10,000 in rental income because they terminated the tenancy, only to learn the current market price for their property is unacceptably low.

Inexplicably, we have seen agents insist landlords terminate good paying tenants who present the respective property well – so the agent can have a styled presentation at the vendor's expense.

What’s worse for the vendor, they must wait 90 days for the tenant’s termination notice to take effect, which in the current environment could expose the vendor to 2 or 3 more interest rate rises. Utter madness.

At this point, it’s worth noting that no one really puts their property on the market and spends $10-$20,000 in doing so, in the expectation the campaign will fail to meet its price target. Given auction clearance rates have been systemically stuck at around 40% around most of the country for the past 6 months, that’s exactly what has happened to thousands of vendors across New Zealand in 2022.

The vendor commences their sales campaign at the top of the Mountain of Optimism and they end up In a Hole.

To get out of the hole, the vendor needs to drop their price expectations to achieve a sale or withdraw from the market and write off the entire cost of the campaign. This a classic wedge for the vendor – damned if you do, damned if you don’t. It also gets to the heart as to why the agents were so keen on that upfront expenditure at the beginning of the campaign. It’s all crystal clear at the end of the campaign when it’s too late.

To ensure you don’t fall for the upfront sting and end up in a hole, below are some pointers to look out for:

- Aim to work with good tenants – offer rent reductions in return for a good presentation. This will ensure income is maintained and you can avoid unnecessary furniture hire.
- Tell the agent to wear the cost of the advertising campaign if the best price is below the price the agent quoted you at the time of listing. You will quickly see what the agent really thinks your property is worth.
- Some agents insist on the campaign being paid upfront, while others are happy to wait. Don’t take false comfort in the advertising campaign being ‘payable on sale’ or ‘withdrawal from market’. Ask yourself, who is carrying the risk here?
- Look for risk-free marketing options such as short database campaign to garner feedback, or select an agent that will market the property at their cost and risk.
- Avoid long agency agreements where you are potentially bound to an agency against your will.
- Repairs/painting/re-carpeting/ landscaping can be a good investment before going to market because you are improving the fundamental offering, the property.
- Remember the buyer is buying the property not the staging furniture. Sometimes staging is worthwhile, sometimes it isn’t. Make your own assessment, because ultimately you are the one paying the bill.
- Be brutally realistic about what your property is likely to sell for in the current market before you list. Is that figure enough for you to move forward? If you treat the agent selection process like a bidding war between agents, you will ultimately end up with the highest quoting agent conditioning you down in price over a 6-week period. Many vendors have experienced their friendly agent taking on a different persona after the vendor has signed in recent times.

If all of the above seems like a ‘risky effort’ you are correct. The risk is further amplified with the impacts of inflation, interest rates and access to finance causing buyers to exercise caution. This is a market for those that really want to sell and/or need to sell. Discretionary, price motivated vendor’s are wisely staying on the sidelines, lest they fall down the hole.