

MULTIFAMILY LAUNCHPAD

WITH JONATHAN TWOMBLY

REAL ESTATE INVESTMENT
EDUCATION



STRATEGIES FOR A WINNING BID

Module 5 – Video 4

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SHOULD I BID ON THE DEAL?



What we'll cover in this video:

- Strategies for a winning bid in a buyer's market
- Strategies for a winning bid in a seller's market

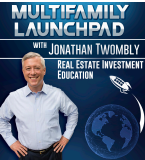
BUYER'S MARKET



Buyer's market:

- Characterized by fear on part of buyers, lack of access to financing, and relative lack of bargaining power for sellers
- Deals trading at cap rates **above** long-term median for the asset class
- Different types of sellers in buyer's market:
 - Strategic sellers looking to sell long-held properties with large built-in capital gains to do 1031 when there is lots of opportunity for well-financed buyers – not desperate, won't do deal that doesn't make sense
 - Must-sell owner - death, divorce, partnership breakup, loan defaults, etc. –
 - ✓ These sellers looking to transact quickly and simply get out
 - ✓ Owners who purchased at top of market are probably unrealistic with their asking prices, because the market price is less than what they owe on the property

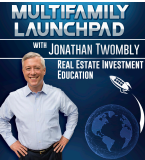
BIDDING IN A BUYER'S MARKET



Bidding in a buyer's market

- Strategic seller does not have to sell. You may not get a bargain but at least you won't have to deal with a bidding war, due to lack of buyers
- Necessity sellers – more likely to get a bargain price because they are anxious to sell and move on
- Try to understand the seller's motivation. Are they tired of owning? Did they inherit and don't want to own? Is speed more important than price? Or is price their ultimate objective? Tailor your bid accordingly.
- In any case, bid slightly below your value for the property, so you have room to move beneath your cap if the seller counters your offer
 - *Beware not to overbid just because deal "seems" cheap. Seek to purchase the deal for less than the intrinsic value*
- In terms of timing and contingencies, your bid should be generous to yourself. Include all contingencies and long time frame to inspect, arrange mortgage financing, and raise equity.
- **Mental position:** prepared to walk away if you don't get what you need. There are plenty of deals out there right now. You don't need this one. *Force buyer to negotiate off your terms.*

SELLER'S MARKET



Seller's market

- Characterized by greed on part of buyers, fueled by easy access to bank debt and investor equity
- Deals trading at cap rates **below** long-term median for asset class
- Sellers are also greedy, because they are watching the market rise
- Most owners are inundated with unsolicited offers to purchase their properties, so it's hard to identify sellers who are distressed and need to sell at bargain price

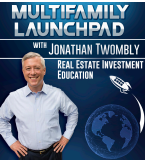
BIDDING IN A SELLER'S MARKET



Keys to bidding in a seller's market:

- Be realistic. You won't steal many deals in this market. Low bids will just get you reputation as a low-baller. You must make strong bids.
- Yet, at the same time, it's more important than ever to maintain discipline.
 - In a buyer's market, you can do a bad deal and get saved by a rising market. Not in a seller's market, where the market is likely to decline before it rises again.
- Determine a strike price and avoid temptation to go over it in a bidding war

BIDDING IN A SELLER'S MARKET



Ways to get more aggressive in seller's market without losing discipline:

- You can be more aggressive on price and terms, but do it conservatively
- On price, if you follow my underwriting method of not giving full credit for "Other Income," there is room to add back. Don't add back full amount, but you can increase amount from 25% to 50% or 50% to 75%.
- On terms:
 - Waive all contingencies except inspection/due diligence (can still cancel for any reason or no reason in this period)
 - Shorten due diligence (inspection) period and closing timeframe
 - Increase amount of hard money deposit
 - Offer partial "going hard" on Day 1
 - Offer to let entire deposit "go hard" on Day 1
 - ✓ But, remember to include clawback for Title, Survey, Environmental, Structural and Roofing
 - ✓ You can even concede Structural and Roofing, but never Title, Survey or Environmental

BIDDING IN ANY MARKET



Bidding rules in any market:

- Always try to understand seller's motivation, because it may give you a clue to something you can offer other than price increase.
- Always maintain your discipline on price. Never offer more than the deal is worth to you.
- Offer concessions on terms before you offer more on price.
- Fall in love with the data, not the deal. Be prepared to walk away if you cannot buy for your price.
- Never talk yourself into a deal. Try talking yourself out of deals instead and only do the deals that you cannot talk your way out of.
- It's always better to miss a good deal than do a bad deal.
- Be prepared not win a lot of bids in a seller's market. There will always be bidders who are less disciplined than you. But you will last longer in the business by avoiding bad deals.

QUESTIONS?



Questions on the materials?

As always, ask questions in the Facebook group or on the monthly calls – the First Wednesday of every month (check time in the group).



NEXT VIDEO

MODULE 5 – VIDEO 5
“THE LETTER OF INTENT”