Seven Tactics for Real Estate Bargaining

A Data-Driven Approach to Negotiations for Home-Buyers

REDFIN

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Introduction

As the real estate market has swung in buyer's favor, more homebuyers are shopping for deals. Many are looking for under-priced homes. Their focus is on the property: its location, square footage and asking price.

But the best deals may lie in over-priced homes, where the seller is more willing to negotiate. To identify these opportunities, one has to focus on the seller: how long he has been waiting for a buyer, what he has already invested in selling the property and how much he stands to gain from its sale.

To evaluate sellers' willingness to bargain, Redfin analyzed the sales of 9,053 single-family houses in Los Angeles (California), Fairfax (Virginia) and King (Washington) counties between April 15, 2008 and June 15, 2008. While most homes sold within 3% of the asking price, a significant number sold for much less, more than 10% below the asking price.

We thus divided the transactions into two groups, those that sold for a large discount (*The Discount Group*, comprised of sales where the discount off the final asking price was in the top ten percentile for that market) and those that didn't (*The Rest*). Then we compared the two.

The difference in concessions was significant: the average discount for The Discount Group was 11.4% off the final asking price, whereas the average discount for The Rest was 1.5%. For a home listed at $500,000, The Discount Group would have saved $57,000 off the asking price, compared to The Rest's $7,500.

Group	Fairfax	King	Los Angeles	All Counties
Discount Group	10.65%	8.27%	14.26%	11.37%
The Rest	1.82%	1.31%	1.73%	1.50%
All Sales	*2.71%*	*1.76%*	*2.94%*	*2.49%*

Table 1: Size of Discount, By County and by Group

By comparing the characteristics of listings in The Discount Group to those of The Rest, Redfin developed guidance for determining when buyers can negotiate more aggressively:

1. **Focus on Listings Unsold After 90+ Days:** Heavily discounted homes are 83% more likely to have been on the market for 90+ days.
2. **Focus on Fixer-Uppers:** Heavily discounted homes are 73% more likely to be marketed as fixer-uppers.
3. **Back Off On Remodels:** Heavily discounted homes are 20% *less* likely to feature a noteworthy remodel.
4. **Don't Be Put Off by a Price Reduction:** Heavily discounted homes are 28% more likely to have already been price-reduced.
5. **Look for Homes Owned a Long Time:** Heavily discounted homes are 52% more likely to have been seller-owned for 20 years or more.
6. **But Don't Be Put Off By Flips Either:** Heavily discounted homes are 9% more likely to have been seller-owned for less than five years, a slight but surprising correlation.
7. **Don’t Expect Banks to Negotiate Much:** Heavily discounted homes are only 9% more likely to be a short sale or bank-owned. Most consumers expect this correlation to be much stronger.

Redfin and the Science of Real Estate

Our research is part of a series of papers and blog posts authored by Redfin that we promote as a more data-driven approach to buying and selling real estate. To develop near-real-time, data-driven guidance for real estate consumers, we analyze:

- the Multiple Listing Services (MLSs) brokers use to share listings;
- the logs of our popular real estate search site, Redfin.com;
- the research of academic economists.

We have already published research on:

- April 2008: The characteristics of listings that sell in seven days or less.
- March 2008: The relationship between commissions and sale-to-list price.
- December 2007: Tactics for pricing and marketing listings to sell quickly, at a high price.

A summary of our research is available at http://www.redfin.com/scientist.

Redfin is a broker like Century 21, but online like E-Trade. By combining online service with local real estate agents, we believe we can offer better customer service without the pressure and cost of traditional real estate commissions. We use our findings to improve our ability to serve our clients.

1. Focus On Listings Unsold After 90+ Days

Heavily discounted homes are 83% more likely to have been on the market for 90+ days.

The most decisive factor in evaluating whether a seller was likely to accept a discount is how long his property has been on the market. Most sellers will hesitate to accept a low offer if the property hasn't been on the market for at least a few weeks.[1]

The average period between when a listing first hits the market and when it is under contract to a buyer was 106 days for The Discount Group, compared to 65 for The Rest.

Group	Fairfax	King	Los Angeles	All Counties
Discount Group	108	108	105	106
The Rest	56	67	69	65
Difference	**93%**	**61%**	**52%**	**63%**
All Sales	*62*	*71*	*73*	*69*

Table 2: Days on Market, by County and by Group

Figure 1 shows that a seller's willingness to negotiate increases most sharply as the property approaches 90 days on the market, suggesting that 90 days is a key psychological milestone:

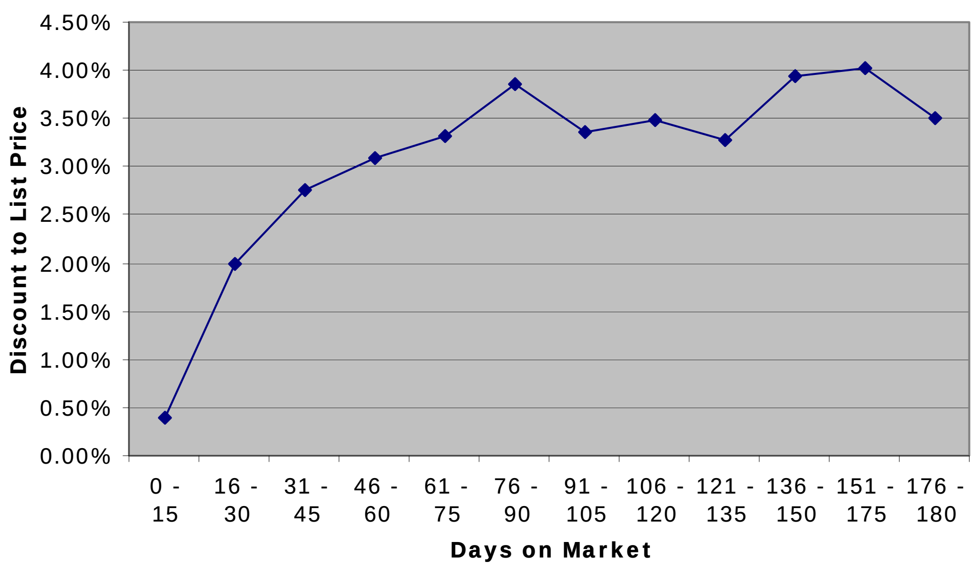

Figure 1: Average Discount vs. Days on Market

[1] Daniel McCue and Eric S. Belsky, "Why Do House Prices Fall? Perspectives on the Historical Drivers of Large Nominal House Price Declines," Joint Center for Housing Studies, Harvard University, June 2007, page 8: http://www.jchs.harvard.edu/publications/markets/w07-3.pdf

Line three of Table 3 (*The Difference*) calculates the difference in the incidence of 90+-days-on-market sales among The Discount Group and The Rest. Forty-five percent of homes in The Discount Group took 90 or more days to sell, compared to 25% of The Rest. In other words, properties that were in the Discount Group were 83% more likely to take 90+ days to sell.

Group	Fairfax	King	Los Angeles	All Counties
Discount Group	46.53%	42.71%	46.68%	45.37%
The Rest	20.22%	23.49%	28.88%	24.78%
The Difference	**130.14%**	**81.82%**	**61.67%**	**83.08%**
All Sales	*22.85%*	*25.42%*	*30.71%*	*26.86%*

Table 3: Percentage of Homes That Took 90+ Days to Sell

Figure 2 provides more detail than Figure 1, showing how the average discount changes as the number of days on market increases each day from 0 to 160.

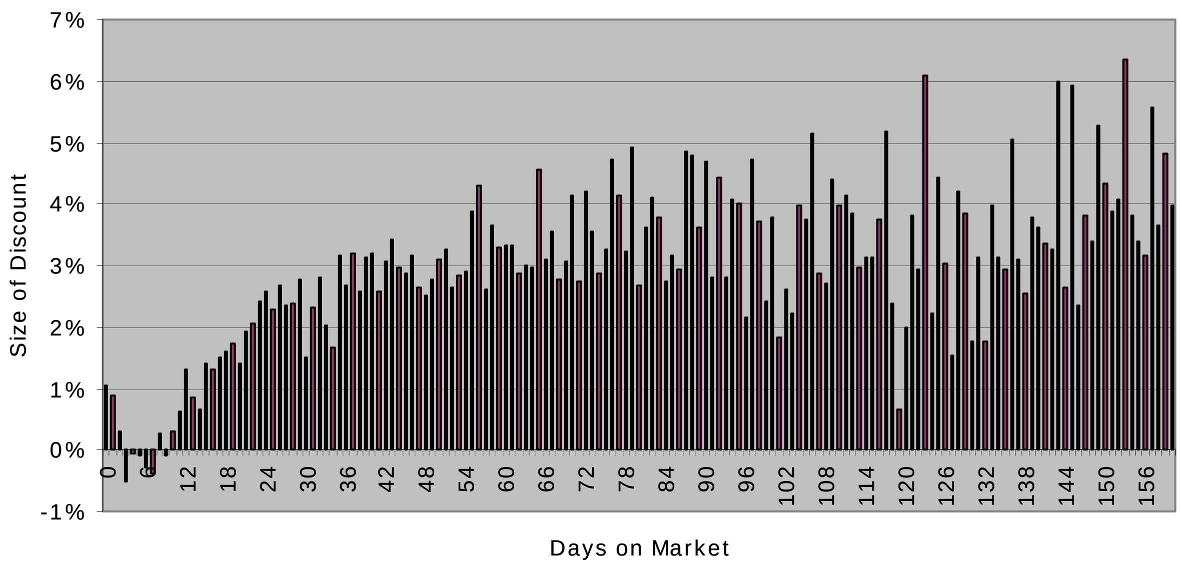

Figure 2: Average Discount for Each Day on Market

What's interesting about Figure 2 is what it tells us about homes selling after a period of between three to nine days on the market: they tend to sell for above the asking price, which is consistent with previous Redfin research showing that, even in difficult market conditions, listings in certain areas and of a certain type still tend to benefit from strong demand.[2] Homes that sell more quickly than three days often haven't been fully marketed to the public, and are less likely to generate multiple bids.

[2] See Redfin's analysis of 9,212 real estate transactions in Boston, April 21, 2008, http://blog.redfin.com/blog/2008/04/boston_real_estate_not_clinically_depressed_just_a_split_personality.html

2. Focus on Fixer-Uppers

Heavily discounted homes are 73% more likely to be marketed as fixer-uppers.

People who sell homes before fixing them up are usually more concerned about an easy sale than the best price. Unsurprisingly, a 2003 study by the National Association of Realtors found that homes identified as fixer-uppers sell for 24% less than other properties.[3]

But since the asking price of fixer-uppers is often already low, we wondered how willing sellers would be to bargain further.

Quite willing, it turns out: while less than 10% of listings are marketed as fixer-uppers overall, such listings were 73% more likely to be in the Discount Group.[4] Nearly 10% of homes in The Discount Group were marketed as fixer-uppers, compared to slightly more than 5% of homes in The Rest.

Group	Fairfax	King	Los Angeles	All Counties
Discount Group	5.71%	4.41%	16.45%	9.71%
The Rest	2.36%	2.83%	10.02%	5.60%
Difference	**141.95%**	**55.83%**	**64.17%**	**73.39%**
All Sales	*2.70%*	*2.99%*	*10.68%*	*6.02%*

Table 4: Percentage of Listings Described as Fixer Uppers

Interestingly, the prevalence of fixer-uppers was nearly four times higher in Los Angeles, where banks are selling trashed foreclosures as-is and demoralized home-sellers have stopped investing in repairs. Part of the reason for declining home values in such areas hasn't just been a decline in demand; there has also been a decline in the fundamental quality of the supply.

3. Back Off on Remodels

Heavily discounted homes are 20% less likely to feature a noteworthy remodel.

If the sellers of fixer-uppers are more likely to give ground on their asking price, sellers who have remodeled a home are more likely to stick to their guns. In nearly a third of all listings, the seller marketed the listing as having been remodeled.[5] Twenty-six percent of listings in The Discount Group were marketed as remodels, compared to 33% in The Rest. Remodeled listings were thus 20% less likely to belong to The Discount Group.

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[3] G. Stacy Sirmans, David A. Macpherson, "The Value of Housing Characteristics," published by The National Association of Realtors, December 2003, page 3: http://www.realtor.org/ncrer.nsf/files/execsumsirmansmacpherson2.pdf/$FILE/execsumsirmansmacpherson2.pdf

[4] Redfin classified homes as being marketed as fixer-uppers if the listing description included any of the following terms: *contractor*, *fixer*, *hammer*, *repair*, *sweat*, *TLC*.

[5] Redfin classified homes as being marketed as remodeled if the listing description included any of the following terms: *addition, redone, remodel*, *renovate*, variants of *update.*

Group	Fairfax	King	Los Angeles	All Counties
Discount Group	30.20%	33.90%	17.24%	26.06%
The Rest	37.85%	34.65%	27.26%	32.53%
Difference	**-20.21%**	**-2.16%**	**-36.76%**	**-19.89%**
All Sales	*37.08%*	*34.58%*	*26.23%*	*31.88%*

Table 5: Percentage of Listings Marketed as Remodeled

That fixer-uppers are discounted and remodels aren't points to the same trend: buyers' flight to quality in a distressed market. But it nonetheless surprised us. We had expected sellers who invested in a remodel to have unrealistic expectations about their home-value built into their asking price, leading to discounting down the road.[6] In fact, these sellers were able to command a higher price.

4. Assume You Can Negotiate an Already Discounted Price

Heavily discounted homes are 28% more likely to have already been price-reduced.

As prices decline and homes take longer to sell, the prevalence of asking price reductions has increased, from a historical level between 35 – 40% to an average across the three counties we measured of 45.1%.[7] Fifty-six percent of listings in The Discount Group had already reduced the asking price, compared to 44% in The Rest, a difference of 28%.

Group	Fairfax	King	Los Angeles	All Counties
Discount Group	54.69%	54.58%	58.36%	56.16%
The Rest	41.34%	39.78%	48.83%	43.85%
Difference	**32.29%**	**37.20%**	**19.52%**	**28.07%**
All Sales	*42.68%*	*41.26%*	*49.81%*	*45.10%*

Table 6: Percentage of Listings with Asking Price Reductions

The higher prevalence of asking-price reductions among The Discount Group suggests that once a seller lowers his asking price, he sends a signal to buyers that he willing to accept further discounts in negotiations.[8]

But it turns out that both reductions in asking price and discounting during the negotiations are driven by one and the same factor, days on market. As Figure 3 illustrates, reductions in the asking price go hand in hand with long days on market.

[6] Accounts in the popular press support the notion that sellers' expectations around a remodel may be unrealistic: "Will Upgrading Your Home Help You Sell It?" Wall Street Journal, May 15, 2008: "Today, a buyer who spends unwisely on remodeling may be simply digging a deeper hole when it comes time to move." http://online.wsj.com/article/SB121081280615193817.html

[7] J.R. Knight, 2002, "Listing Price, Time on Market, and Ultimate Selling Price: Causes and Effects of Listing Price Changes," Real Estate Econ. 30 (2), page 215.

[8] In measuring the size of each sale's discount, Redfin evaluated the asking price at the time of sale compared to the final sale price.

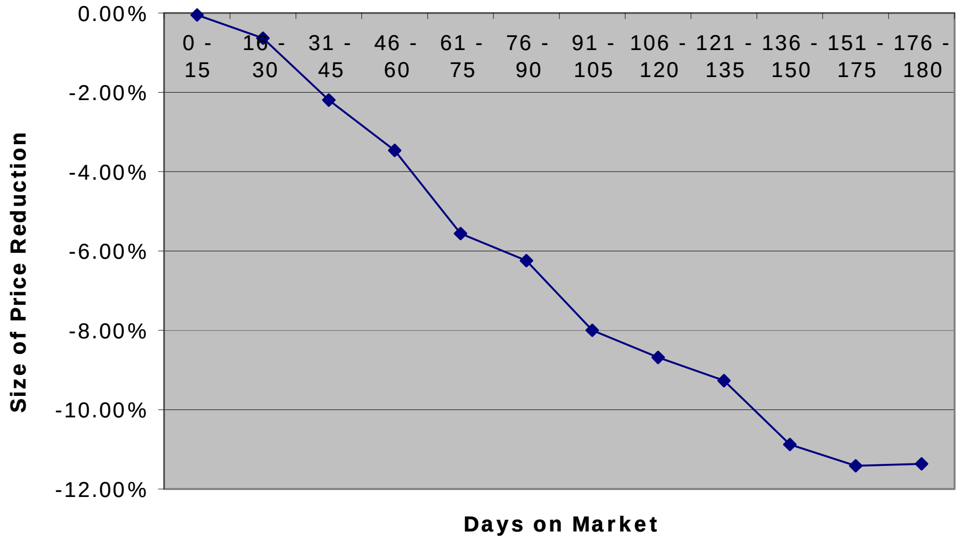

Figure 3: Price Reductions Are Highly Correlated with Days on Market

If we compare listings that have been on the market for the same number of days -- some price-reduced, some not -- we find that indeed the seller who reduced his asking price is less likely to accept a further discount at the negotiating table. This tells us that a price reduction may be a symptom of seller distress, but doesn't by itself lead to further discounting in negotiations.

In our experience as a real estate broker, we've noticed that a listing is most ripe for an aggressive offer after a pattern of price reductions, with more than 14 days since the last reduction. In a subsequent study, we hope to validate this observation.

5. Look for Homes Owned a Long Time

Heavily discounted homes are 52% more likely to have been seller-owned for 20 years or more.

The longer the seller has owned a property, the more equity he has likely accumulated, and the more likely he is to make the kind of significant price concessions seen in The Discount Group.[9] It stands to reason that someone who bought her home in 1988 for $130,000 and is now selling it in 2008 for $830,000 may have more money to concede during a negotiation.

In King County, a seller's owning a property for more than ten years, and especially for more than 20 years, was strongly correlated with being in The Discount Group. Nearly 10% of the sales in The Discount Group were sold after being owned for 20 years or more, as opposed to only 5% among the Rest, a difference of 97%.

[9] T. R. Sass, "A Note on Optimal Price Cutting Behavior Under Demand Uncertainty," Rev. Econ. Statist., 1988, 70 (2), page 337.

King County	< 5 Years	>5 Years	> 10 Years	> 20 Years
Discount Group	47.13%	52.87%	29.89%	9.77%
The Rest	47.70%	52.30%	24.63%	4.95%
Difference	**-1.20%**	**-1.08%**	**21.36%**	**97.37%**
All Sales	*47.65%*	*52.35%*	*25.10%*	*5.39%*

Table 7: Seller's Years of Ownership, King County Listings

The same trend held true in Los Angeles County, where 7% of the sales in The Discount Group were sold after being owned for 20 years or more, as opposed to 5% among The Rest, a difference of 28%.

Los Angeles	< 5 Years	>5 Years	> 10 Years	> 20 Years
Discount Group	77.74%	22.26%	15.41%	6.85%
The Rest	68.76%	31.24%	15.30%	5.37%
Difference	**13.06%**	**-40.34%**	**.72%**	**27.56%**
All Sales	*69.61%*	*30.39%*	*15.31%*	*5.51%*

Table 8: Seller's Period of Ownership for Los Angeles County Listings

Combining data for King and Los Angeles counties -- data about how long a property has been owned is not available for Fairfax County -– we see that homes are 52% more likely to be in the Discount Group if the seller has owned them more than 20 years.

Group	< 5 Years	>5 Years	> 10 Years	> 20 Years
Discount Group	66.31%	33.69%	20.82%	7.94%
The Rest	60.68%	39.32%	18.88%	5.21%
Difference	**9.28%**	**-16.71%**	**10.28%**	**52.40%**
All Sales	*61.20%*	*38.80%*	*19.06%*	*5.47%*

Table 9: Seller's Period of Ownership for Los Angeles & King Counties, Combined

Interestingly, we also found that heavily discounted homes are 9% more likely to be in the Discount Group if the seller has owned them *less* than five years. We'll discuss these findings in the next section.

6. Look for Builders, Flippers, Troubled Sellers

Heavily discounted homes are 9% more likely to have been seller-owned less for than five years.

What's interesting about the Los Angeles data in Table 8 is that The Discount Group is also over-represented among people who have owned their home for *less* than five years.

On one hand, owning a house for a very long time makes sellers more inclined to bargain. On the other, owning a house for a short period of time also seems to make sellers more inclined to bargain.

This suggests a second trend at work: flippers, builders and sellers in trouble on their mortgage are motivated to sell after a short period by their need to reclaim the capital they borrowed to build or to buy the home.[10]

Combining data for King and Los Angeles counties, we see that homes are 9% more likely to be in The Discount Group if the seller has owned them less than five years.

Nine percent is hardly a noteworthy effect, but it is remarkable as an exception to our earlier rule that the longer a listing is on the market, the more likely its seller is to accept a discount. The chart below illustrates this point, that homes are more likely to be discounted when owned for a few years or many years:

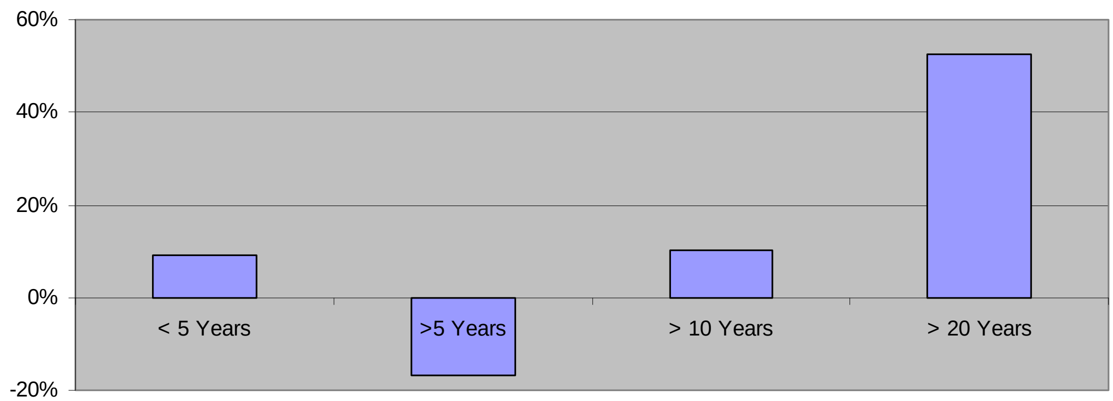

Figure 4: Change in Likelihood of Large Discount, by Years Owned by Seller

The bottom-line for buyers is to look for sellers who have owned the house ten to twenty years, or are trying to sell the house after only a few years of owning; the sellers in between are likely to cling more tightly to their gains.

7. Don't Expect Banks to Negotiate Much

Heavily discounted homes are 9% more likely to be a short sale or bank-owned.

To complete our analysis, Redfin sought to evaluate how the recent increase in foreclosures has affected buyers' ability to bargain. We searched listing descriptions and other fields for evidence of:

- **Short sales**: to avert foreclosure, the seller is seeking to sell his property for less than what we owes the bank, and requires that bank to approve the final price.
- **Foreclosures**: a trustee for the bank takes possession of the property and attempts to auction it for the amount owed on the property.
- **Bank-ownership**, also known as Real Estate Owned (REO): the auction failed and the bank takes ownership of the property, usually marketing it as-is through a real estate agent.[11]

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[10] McCue and Belsky, "Why Do House Prices Fall? Perspectives on the Historical Drivers of Large Nominal House Price Declines": page 9, talk about how builders, because of their large capital commitments, are often the first and most willing to reduce prices. Many builder concessions come in the form of closing costs and upgrades that mask the true magnitude of their concessions.

Roughly one in three houses for sale fell into one of these categories in Los Angeles County, and one in five in Fairfax County. By contrast, King County hardly saw any sales involving a bank.

Group	Fairfax	King	Los Angeles	All Counties
Discount Group	23.27%	5.08%	32.36%	21.16%
The Rest	19.54%	3.47%	32.38%	19.48%
Difference	**19.09%**	**46.40%**	**-.06%**	**8.62%**
All Sales	*19.91%*	*3.63%*	*32.38%*	*19.65%*

Table 10: Percentage of Listings Affected by Foreclosure

While listings involving a bank were over-represented in The Discount Group, with 21% of sales involving a bank versus 20% in The Rest, the difference was slight, at only 9%.

Nine percent is again a slight correlation, but noteworthy in this instance because we expected the effect to be much larger. Many buyers expect far more bargaining in these distressed properties, but the data suggest that the selling bank had already accounted for much of the distress in the asking price. Buyers may be in for a rude surprise if they think they can win further savings in negotiations with a bank that is hardly prepared to negotiate.

Conclusion

Across markets, the data consistently suggest that buyers looking for a big discount should seek a seller:

- who has been waiting at least 90 days for a buyer;
- who has owned the listing for at least ten years or is flipping it under duress;
- who hasn't invested much in repairs or remodels; or
- who has already demonstrated a willingness to lower his asking price, but not too recently.

We welcome criticisms of the claims we make here, research topics that you propose, or articles you would like to see us assess. If you have a new tactic for buying or selling a home that we find plausible and compelling, we'll analyze the web and real estate data available to us and report the results.

Post your ideas to Redfin's Real Estate Scientist Forum, a discussion moderated by Redfin's statisticians and programmers, or email scientist@redfin.com. You can subscribe to get our findings by email or visit the real estate scientist section of our blog.

[11] Redfin classified homes as bank-involved if the listing description included any of the following terms: *bank,* variants of *foreclose, REO, short*.

Appendix: Methodology

To evaluate sellers' willingness to bargain, Redfin analyzed the sale records for single-family homes in three counties by consulting three broker databases, known as Multiple Listing Services:

- Northwest Multiple Listing Service: King County (2,446 sales)
- SoCal MLS: Los Angeles County (2,947 sales)
- Metropolitan Regional Information Systems: Fairfax County (3,660 sales)

We considered any sale that closed between April 15, 2008 and June 15, 2008. We excluded any transaction involving:

- sales for less than $200,000 or more than $2 million;
- sales where there was more than a 30% difference between final and asking prices, as these transactions are often between family or friends; and
- condominiums, undeveloped land or apartment buildings, as the pricing dynamics for these transactions differ from those of houses.

To determine the effect on sellers' length of ownership, we correlated listing sales with tax records in Los Angeles and King counties. We did not have access to the Fairfax County tax data. Of the 6,607 remaining sales records, we were able to correlate 76% to tax records, for a total of 4,995 data pairs.

We then divided the data into two groups as first discussed on page 2: those that sold for a large discount (*The Discount Group*, comprised of homes where the discount off the final asking price was in the top ten percentile for that market) and those that didn't (*The Rest*).

We identify *remodels*, *fixer-uppers* and *sales involving banks* by search the listing description provided by the seller for variants on the following terms:

Group	Terms
Fixer-Uppers	*contractor*, *fixer*, *hammer*, *repair*, *sweat*, *TLC*
Remodels	*addition, redone, remodel*, *renovate*, *update*
Sales Involving Banks	*bank, foreclose, REO, short*

Table 11: How Redfin Identified Different Types of Listings

Finally, we performed a regression analysis to confirm that the correlation of each factor with discounting held true on its own, even with all other factors being equal.

The regression determined that the correlation between reductions in asking price and negotiating discounts was largely a byproduct of long days on market, as already discussed on page 7; otherwise each factor independently correlated with a large negotiating discount.