



APARTMENTS

Auckland apartments

Freehold v Leasehold
Market segmentation
Hotel Management contract
Bank lending
Numbers in the city
Cost and size
Potential issues
Apartments vs Suburbs
Due diligence

Freehold vs Leasehold

- Freehold
 - Own apartment;
 - All apartment owners own land.
- Leasehold
 - Own apartment;
 - Have lease with land owner to use land;
 - Pay ground rent each year;
 - Ground rent reset (at defined intervals)

Market Segmentation

Small student type apartment
High number of apartments / building
Low size and price

Professional apartment market
More light, less apartments / building

Executive / Corporate market
“Hotel standard” sometimes
Larger, views, waterfront, car parking

“Hotel Management” Contract

- No contract:
 - Owner can let apartment directly (or through “standard” rental manager)
- “Hotel management” contract
 - Lease agreement between owner and property operator;
 - Length of leases (& exit clauses) vary;
 - Rent return generally lower;
 - Banks only lend 50%.



Bank Lending

- The size
 - Total floor area (excl. decks/patios) can affect funding
- Finance
 - Under 40m²: 50% LVR
 - Over 40m²: 80% LVR

Numbers in the City

1990: 1,400 people in 564 apartments

2006: 18,000 people in 8,955 apartments

2006: Large oversupply of apartments

2006 to 2013:

Low level of building consents

Oversupply soaked up

Increasing tenant demand

Costs and Size

Cost to buy vs build

Buy existing: \$5,000/m² to \$6,000/m²

Buy new: \$7,500/m² to \$10,000/m²

Relatively low prices currently

Auckland Council planning requirements

Existing: 1 bed: 28m²; New: 40m²

Existing: Studio: 18m²; New: 30m²

(Note: Planning requirements may change with Unitary Plan)

Potential issues?

Volatility

Low specification

“Shoobox”

“Blue Chip” etc...

Leaky Buildings

Leasehold

Rental demand?

Need to consider the facts concerning the concerns that people may have.

- Volatility of prices. From 2000 to 2007 CBD apartment values increased only 36% whereas the rest of central Auckland increased 110%.
- Low specification – “shoobox” apartments. Reasonable demand for small apartments for students and some professionals living in town.
- “Blue Chip” sold apartments at inflated prices. Blue Chip no longer operating and selling overpriced apartments.
- Leaky buildings. Look at Body Corporate minutes, talk to Body Corporate secretary and building manager.
- Leasehold. Generally best to stay away from leasehold apartments.



- Rental demand. Demand generally has been increasing – but need to check for the building you are intending to buy in.

Apartments (CBD) vs Suburbs (Houses)

	Apartments (CBD)	Houses (suburbs)
Cashflow	Strong	More challenging
Capital growth	Volatile	Proven over long time
Ability to add value	Lower	Higher
Best coffee	Definitely	??

Checklist (guideline)

- Freehold
- Student/Young Professional
- Over 40m²
- Furnished
 - CBD tenants expect/need furniture;
 - Less wear and tear moving furniture in/out
- No “hotel management” contract

CBD Apartments: Due Diligence

The building

- Who built it and what is the quality and age of the building?
- Are there any defects with the building?
- Is it attractive to tenants?
 - room size
 - bathrooms
 - stairs and lifts
 - entrance security

The location

- Where are public facilities?
- Transport?
- What are surrounding sections/buildings like?
- Can value be eroded?



The size

Total floor area can affect funding
45m² to 50m² lower limit for major funding
Decks/patios
Number of bedrooms/bathrooms

Finance

Generally 80% for apartments over 40m²
May be 50% or lower for apartments less than 45m²

Tenants

Who are your likely tenants?
– students
– professional working couple

Purchasing off plans

Can be a good way of purchasing at a discount
Can use deposit bonds
Generally not recommended. Can often get better deals once an apartment is one or two years old.

Body corporate

Get last three years' minutes of Annual General Meeting
Ask for minutes of Extraordinary General Meetings over same period
Talk to the Chairman of the Owners Committee
Look for any issues that may affect your value
Look for any issues regarding weathertightness
Look for status of sinking fund



NEGOTIATION

The Negotiation Process

Step 1. Prior to the Negotiation

- Determine the details of the negotiation, dig for information so you can explore and anticipate both side's needs
- Ask open questions
 - “What can you tell me about the property?”
 - “Why are they selling?”
 - “What is the most important issue for the vendor?”
 - “When would they like to move?”
 - “Why do you think it hasn't sold yet?”
 - Define the main issues and develop a plan for dealing with them
 - Consider what incentives could be offered to encourage the other party to accept your offer
 - Know what your best case position is and what concessions you would be prepared to make before walking away from the deal (worst case)
- Do your numbers/calculations
- Have a plan for the negotiation

Step 2. Present your starting position

- Build rapport before starting negotiation
 - Don't discuss business until they have offered you a drink 😊
- Confidently present your starting offer, you have done your homework
- If purchasing: start low, with supporting reason(s)
- Be firm, but indicate flexibility
 - “This is my starting offer”
- Be assertive, not aggressive
- Be respectful and empathetic towards the other party

At each offer and countersign there are always only 3 options...

1. Accept the offer
2. Decline the offer
3. Countersign the offer

Always negotiate in writing, otherwise you are just negotiating with the agent

Step 3: Addressing counter-offers

- Listen for clues - what is really important to the other party: look for Win/Win
- Keep asking questions
- Keep an overview of all of the issues instead of trying to reach an agreement point by point
- Concede on items less important to you
- Explore possible ways of reaching an agreement by using tentative language “maybe, possibly, perhaps, if/then”
- Pace the negotiation



Step 4: Post-negotiation

Review result

- What went well?
- What can you learn from?

When to use Different Strategies

- Vendor Finance – The vendor needs to like and trust you. They are lending you money so you will need to establish a relationship with them. You will need to be more flexible on price.
- Due Diligence – Find reasons to renegotiate just before your due diligence period is up. Finding something out about the property that gives you a reason to renegotiate can save you thousands on the purchase price.
- Low Ball – If the vendor is desperate, i.e. In need of quick settlement, and needs cash urgently, the offer will appeal more with a high deposit. This may also work if you make an unconditional offer.
- First & Final – “Based on my research this is all the property is worth to me”. Like the “Low Ball” approach, this may also work in your favour if you make an unconditional offer.
- Full Price – When you know the property is already below market value or there is other value in the deal such as being subdividable, signage rights, basement conversion, zoning changes, potential growth area etc.
- Over asking price – When the above occurs and you are in competition. The property must have huge potential to do this.

Common Emotions that occur when negotiating

- Starting too low or starting too high
- Fear of rejection
- Showing too much excitement
- Embarrassed to go in too low

Common Mistakes when negotiating

- Over complication – keep it simple with the Due Diligence clause
- Making your offer verbally
- Letting the agent know you could go higher if needed
- Not doing your homework on renovations, market prices, rents etc
- Making two offers in a row
- Best house in the worst street
- Buying on cosmetic criteria and the aesthetic appeal
- Showing an emotional attachment to the property
- Don't put the offers in too early. If a deadline or tender is called, leave it to the last possible moment and hand write it on if necessary.

Strategies for handling the negotiation

- Use “strange” figures e.g. \$149,500 instead of \$150,000
- Make them come down faster than you go up



- If they counter at the list price, don't go up much, if at all
- Take your time between offers. Let the agent know that you are looking at another property
- It is very seldom "just" about the price. You need to know the vendor's motivation
- ONLY negotiate with motivated vendors

Finally...

- Remember that negotiation is a GAME
- Have fun with it and don't ever take it too seriously or take it personally
- You will get rejected. Live with it.



Negotiation: Other Notes

An Effective Negotiator:

- Plans thoroughly, sets clear goals, and makes plans to allow for controlled flexibility
- Treats the other party with respect and consideration to build trust
- Is committed to the negotiation process before, during and after the process
- Reviews each negotiation immediately afterwards to assess what can be learnt from the experience

Pitfalls of Negotiation

- The most common pitfalls that you should try to avoid are:
 - Trying to reach a conclusion too quickly
 - Not understanding the needs of the other party
 - Not knowing all of the relevant details for the negotiation
 - Being too inflexible
 - Failing to establish trust

Remember

- ONLY negotiate with motivated vendors
- Find out the vendor's motivation
 - If they need cash before the end of the month, which deal are they more likely to accept?
 - An offer 20% below value with settlement before the end of the month
 - An offer that is above asking price with settlement in 6 months time!!
 - If you can solve the vendor's problem, you have a much higher chance of getting the deal done. WIN / WIN negotiating!

Power in Negotiation

Power of competition

- When there is competition for a product, and limited supply, the power shifts to the seller ("Seller's market")
- No competition and power shifts to the purchaser ("Buyer's market")

Power of legitimacy

- When you are well informed and quote official numbers or use official looking forms you are not often challenged
- After all who can argue with the facts?

Power of risk taking

- If you are well informed and prepared to take risks you will succeed
- 70% of the population are "risk averse", and even when they know they should, they don't!
- Risks can be reduced to zero with the right research



Power of knowledge of needs

- The ability to research and understand the other parties needs, and structure a deal that meets theirs and your own is a valuable skill
- The more you see the world as shades of grey instead of black and white, the more creative you'll become

Power of persistence

- Most people are not persistent enough when negotiation and give up at the first sign of resistance
- No means no "today"
- It could become "yes" tomorrow or next week if you just stick around to find out
- Remember the power of competition or "lack of"

Power of persuasive capacity

- If you prepare yourself with the knowledge and facts, and are confident in your delivery, you will bring people around to your way of thinking
- Good negotiators are very persuasive, and create doubts in others

Time in Negotiation

- Time is your greatest asset in a negotiation if the other party has a deadline
- The biggest concessions on terms, and discounts on price usually occur close to or after a deadline has passed
- Be patient
- Never reveal your deadline and always find out the other parties
- Be slow and persistent with your negotiating, to ensure the other party feels the pressure of the clock ticking, if you rush, you'll apply no time pressure

Information in Negotiation

- Information is the heart of the negotiation
- Find out as much as you can from the agent, if he declines your questions, ask them again and again
- In every deal lies the key that unlocks the full picture, and its potential
- Ask the vendor directly if you get the chance, often they will open up to you
- Empathise with them always
- Look for the visual and verbal clues, body language, unkempt property, bills piling up

***"Let us Never negotiate out of fear.
But let us never fear to negotiate."***

John F. Kennedy 1961



NEGOTIATION EXERCISE

SCENARIO 1. - VENDOR

This is a private sale, so there are no Real Estate Agents commissions to be accounted for.

Asking price: \$599,000

Market value: \$600,000

Current mortgage: \$35,000

Reason for selling: You have recently been widowed, and although your property is much loved, there are too many memories here and you want to move to a new home for a fresh new start.

You have found a cute little home that is close to where your daughter lives, it is perfect for you, and your offer has been accepted conditional only on the sale of your current home.

The purchase price for the new property is \$375,000 and you would like to use your existing equity to purchase this property freehold, which means that you will need to get more than \$410,000 for your current house.

You have other investments that give you a sufficient passive income to live on, in addition to the pension, so you do not need to make a lump sum profit from the sale of your property for any other reason than it will add to the inheritance your children will get after you pass away, so your aim is to sell the property for as close to market value as possible.

The deadline for you to sell your property is 21 working days from today.

Summary of your objectives:

Asking price = \$599,000

Sell your property for as much as possible

Lowest price you are willing to accept = \$410,000

Deadline for settlement = No later than 21 working days from today



NEGOTIATION EXERCISE

SCENARIO 1. - PURCHASER

This is a private sale, so there are no Real Estate Agents commissions to be accounted for.

Asking price: \$599,000

Market value: \$600,000

Why you are interested in this property:

You are a developer, and this site has subdivision potential. You know this area well (market expert), and know that if you subdivide the section and build on the back, the front house will be worth \$550,000 and the back house will be worth \$630,000. Your development costs will be \$400,000 and after selling both properties you want to make a minimum profit of \$200,000. This means that your top dollar for purchasing this property needs to be \$580,000. It is a rising market, so if you can negotiate a delayed settlement, this also works in your favour financially.

Summary of your objectives:

You want to purchase this property for the lowest price possible.

Top dollar = \$580,000

Settlement date = the longer the better



NEGOTIATION EXERCISE

SCENARIO 2. - VENDOR

This is a private sale, so there are no Real Estate Agents commissions to be accounted for.

Asking price: \$250,000

Market value: \$240,000

Current mortgage: \$225,000

Reason for selling: You have been made redundant, and have so far been unable to find another job. You are under significant financial pressure as your spouse's income is not sufficient to cover all of your expenses as well as your mortgage payment. The property is in quite poor condition, as it was when you bought it. You had great plans to renovate it, but you can no longer afford to do this. You have worked out that you could survive financially on only your spouse's income, if you moved in to a rental property in a neighbouring suburb until you get a new job.

The bank has issued you notice that they intend to commence mortgagee procedures, and your deadline is now 15 working days away. You have not owned this property very long, so have not had the benefit of any capital growth, and you financed your purchase with 100% lending, so the bank will not allow you to go on to interest only payments, or to take a mortgage holiday.

Your mortgage balance is \$225,000 so you need to sell your property for at least \$230,000 in order to clear your mortgage, cover solicitor's fees, and have enough money to move in to a rental property (bond, rent in advance etc).

Summary of your objectives:

Asking price = \$250,000

You want to achieve the highest sale price possible for your property

Bottom dollar you are willing to accept = \$230,000

Deadline for settlement = No later than 15 working days from today, and you have already advised that you have no problem with early access for improvements.



NEGOTIATION EXERCISE

SCENARIO 2. - PURCHASER

This is a private sale, so there are no Real Estate Agents commissions to be accounted for.

Asking price: \$250,000

Market value: \$240,000

Why you are interested in this property:

You are looking to add this property to your buy & hold portfolio if you can buy it for the right price. Alternatively, it may work for a trade deal, as there is huge potential to add value through renovation.

To renovate this property will cost you \$15,000 and this will increase the value of the property to \$325,000.

Market rent after renovation will be \$480 per week which means that in order to achieve your goal of 10% yield, your purchase price will need to be \$249,000 less the \$15,000 for renovation, which equals \$234,600 (and this will also enable you to recycle your deposit after renovation).

For a trade deal, you would be happy to make a gross profit of \$50,000 which means that you could pay up to \$260,000. (\$325K, less \$15K reno costs, less \$50K gross profit).

Summary of your objectives:

You want to purchase this property for the lowest price possible

Top dollar for buy & hold = \$234,600

Top dollar for trade = \$260,000

Settlement date = the longer the better (you already know that the vendor is agreeable to early access for improvements)