

Weekly insight 3-16-2011

I Told You Open Houses Don't Work!

I guess I have heard, "Open houses don't work" a hundred times from realtors® and homeowners who have asked their listing agent to do an open house. At one time a long time ago I actually saw some statistical data that was developed by a consulting firm to a realtors® organization that clearly showed open houses account for less than ½ of 1% of all sales.

If I were a realtor® and was faced with an anxious seller who wasn't seeing the traffic I had sold him on, I would be considering an open house. But that's me and I am not a realtor®. This issue of realtors® not getting traffic to a seller's property is the biggest complaint I hear from angry homeowners who expected that what the agent told them would come true about the price he could get for the property and how soon he could sell it.

More money has been spent on learning how to sell the listing to the homeowner than on how to market and sell a property quickly and at the highest possible price in the neighborhood. The reason is very simple, the most successful realtors® make more money selling listings than homes. The reason is very simple and you'll hear it from every sale manager of every brokerage firm, "He who has the most listings makes the most money".

Almost 20 years ago as rehabbers, we always faced the issue of turning the properties as quickly as possible to use the money to buy and rehab another property. Every day it "sat" unsold, it cost us money straight out of our pocket – our profit declined because of carrying expenses. I always used an estimate of 1% of the purchase price as my carrying costs per month. If you are using hard money, this estimated expense will be at least 2% per month.

To make it clear, let's say we purchase a property for \$150,000 and went to work rehabbing it. Our carrying costs include interest expense (\$75/mo.) on the money (even our money had a cost – lost interest in a bank), taxes (\$200/mo.) (these weren't paid until we sold it but they accumulated every day; insurance is critically important (\$200/mo.), utilities (water & garbage \$50/mo. and electric \$150/mo.) and miscellaneous and maintenance expenses (assume \$500/mo.).

The total of these are about \$1,175. Why did I say 1% per month, because I like to be on the safe side and if I am wrong by over estimating expenses I make a larger profit. On a \$300,000 property, the costs are double and can run \$100/day. Again, no accounting for rehab costs because they are not dependent on how long you keep the property unless you estimated your rehab wrong.

I was a stockbroker and Certified Financial Planner (CFP) in the daytime and I was used to selling stocks, bonds, commodities and "paper instruments" in seconds – not weeks or months. So with my real estate business I decided that I needed to develop a method of marketing the property so that a ton of people would come by to see it. I tried listing my rehabbed properties with realtors® on the MLS® but had very little success. No, that's not fair I had no success unless I sold the property myself. That is not the fault of the realtors®, it's the fault of the

culture that stresses getting listings instead of marketing the properties. Using the MLS® to list a property is not marketing the properties except to other realtors®. I would have been very happy and gladly paid a commission if a realtor® would have just brought buyers.

But even when it happened, the realtors® wanted to control everything about the deal and most often killed the deal. I have paid commission from 10% to 25% to agents who brought me buyers and still do this today – but they have to stay out of the closing process. All they have to do is come to the closing and pick up a check – nothing more. Why is that so hard? Maybe they try to justify their commission to their buyer (even though I am paying it) and they gum up the works nearly every time.

I am sure if you have read this far and are a realtor® your blood may be simmering about now. If you are an investor with more than 10 closings under your belt, you will be cheering about now.

Anyway, there I was trying to come up with a marketing plan to sell any property in any neighborhood for over full market value. Sounded impossible to me until we saw an auction and watched people frantically bidding to get properties that were worth less than 1/2 of what they were offering. It didn't take long to decide that I needed to mimic the process in the property itself.

We developed a round-robin auction system that took a few sales to refine but we were able to sell properties within the first weekend we offered them. Yea, I know you are thinking that 5 - 6 years ago anything would sell that fast. In those days ours sold in hours not even days. We still use this modified round-robin auction system today with our students.

This past weekend, a student held what we lovingly call our FSBO Power Selling System sale or open house as realtors® might call them. This neighborhood is in the price range of \$100,000 to \$135,000 not including waterfront properties. He did the sale on Saturday and Sunday for five hours each day and had 41 people register to see the property and an estimated 20 more who did not sign in.

The grand total of 61+ people made three cash offers and two finance offers in the range of \$120,000 to \$130,000. No realtors®, no MLS®, no commissions to be paid, the property was on the market two days and just because of good marketing. I forgot, he used eleven (11) signs with directional arrows to guide the prospective buyers to the property.

I told you open houses don't work, and frankly they don't. Good marketing does work. Almost forgot, his costs for advertising were less than \$20 for printing what he needed onsite and a few bucks for two students who helped with the signage, but not even a newspaper ad.

The real value of this sales event is the list of 41 registered prospective buyers. Before you start, I agree that 10% may be actually looking for a property. So now we have four prospects that want a home. What we always did, as rehabbers, was to put the property under contract and kept selling the property week after week. With just one property we would create a

buyers list of REAL buyers who were eager for our next rehab. We called this list before we marketed the property and usually sold it “internally”; without actually having to market it!

One of my students took this program to a whole new level by pre-qualifying every “serious” buyer who couldn’t qualify for a loan into a “credit rehab pool”. Every month he graduated 4 -6 ready, willing and now able buyers for homes he had been rehabbing. His average rehab profits per deal were in the \$45,000 range and it’s simple to figure when he did three or four a month, he was making great money. As a P.S. to his story, he vehemently hates realtors® and calls them “Deal Killers”. I on the other hand, love realtors® and gladly pay double and triple commissions when they bring me buyers.

This student is one of my most successful graduates who consistently nets over \$100,000 per month in this market. He is no longer doing rehabbing as there is “lower hanging fruit” that he is after. Frankly, he is the only student that completed my “12 Step” process and he used every one to the max.

I put all the info on this marketing system into a book and tape package that I market online. I even made a special “Realtors® Edition” but got so frustrated with a few realtors® that I took it off the market.

If any part of your livelihood depends on selling properties, you may want to take a look at how to do it on steroids – without the medical side effects!

We are having what we call our “**Fearless Real Estate Investing Seminar**” in Palm Beach on Saturday, April 16th. If you want to get started quickly in doing real estate investing or want to take your investing to another level, make a reservation and pay to attend this event! The FSBO Power Selling Software will be part of a huge package that each attendee will get. We did this event in Dade and Broward to sold-out audiences each time. Don’t miss it because you’ll be very happy with the pure-content you’ll receive and no up-sells to expensive guru products.

Here is a link to register:

<http://www.breia.com/event/SignupBREIA.pdf>

or call for more information 954-318-6042

To Your Limitless Success,

Dave Dinkel