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Bidding gets ‘absolutely insane’

Brokers say bidding wars are now taking place in the majority of deals as market heats up amid tight inventory

With a continued inventory shortage and interest rates still low, bidding wars have emerged as the new norm for increasingly desperate buyers, industry experts said. And while sellers rejoice as prices get bid up, brokers struggle to please frustrated clients.

Bidding wars have been prevalent for some time. But lately, brokers said, multiple bids and “best and final” negotiations — in which all of the potential buyers simultaneously submit their final offer and the seller chooses between them — now take place in the majority of deals.

Howard Margolis, an executive vice president at Douglas Elliman, said the number of bidding wars he’s witnessed is “absolutely insane.” In one instance, three different parties made offers on an apartment during a single open house, he said.

Other brokers shared similar stories.

Bill Bone, a broker at Bond New York, said a buyer he was representing recently lost out on a new condo in Williamsburg after “we had to compete with 45 other offers.”

Jonathan Miller, CEO of the appraisal firm Miller Samuel, said the uptick in bidding wars is “the byproduct of low inventory.” As The Real Deal has reported, the number of available Manhattan listings in the fourth quarter of 2012 dropped 34.2 percent to 4,749 from 7,221 in the same quarter of 2011, according to a Douglas Elliman market report prepared by Miller. That figure had risen slightly to 4,860 units in January, Miller said.

Often, bidding wars result in buyers paying more than the asking price. One of Bone’s other buyers, for example, recently beat out seven other bidders in a best-and-final negotiation for a newly converted condo at 206 Montrose Avenue in Williamsburg. Although Bone declined to specify exactly how much the buyer paid for the unit, he said the price was around 10 percent above the \$400,000 asking price.

But it’s not clear that bidding wars alone increase home values, since some buyers react to bidding wars by looking for lower-priced homes.

“To ensure my buyers can play by today’s rules, I guide

them to look in a price range below their target, knowing full well that the final selling price will likely come up,” Bone said.

And it’s not always the highest bid that wins. With lending standards still tight, many sellers prefer to take all-cash offers over the highest bidder.

“In many cases, the cash deal even trumps the higher bidder,” said Jessica Cohen, a Elliman broker. “I have had many buyers who lost their deals because a cash bidder jumped ahead of them — and not at a higher offer.”

Perhaps not surprisingly, working with potential purchases under such competitive conditions is stressful, brokers said.

“In this market, just when you think that you have the best possible deal on the table — not only related to price but also terms — somebody else comes to the table with a better offer,” said Jacky Teplitzky, a managing director at Elliman. “This can be dangerous during the negotiation process, as people get frustrated, heated and [sometimes] even walk away.”

David Kazemi, a broker at Bond, said some of his clients have been “utterly frustrated” by the competitive atmosphere. In fact, one potential client “removed himself from the market” after seeing a rotation of 30 people in 15 minutes at an open house, Kazemi said.

Agents have had to develop new strategies to aid these disheartened clients.

“Brokers are making sure that customers are well aware of the fact that they have to act fast, ask fewer questions and place a bid close to [the] asking price if they want to have a chance at getting what might now be a rare apartment,” said Janice Silver, an executive vice president and sales manager at Bellmarc Realty.

But that’s easier for experienced brokers than for rookie agents, sources said.

“Brokers who have been in the business a long time — those are the ones who are successful right now,” Margolis said. “It’s not [a business] for the faint of heart.”