

## CONFUSION IN A CHALLENGING MARKET

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A cooling housing market is no longer a threat lingering somewhere in the future. It is here. Even national builders like KB Home and Toll Brothers are starting to see the effects.

Since the beginning of 2006, the media has been flooded with headlines about a cooling housing market: “Home loan demand falls to lowest level this year,<sup>1</sup>” and “February new-home sales plunge 10.5%,<sup>2</sup>” read two recent USA Today headlines.

The *good news* is that you can still succeed in a cooling market. But you must have a clear understanding of how the market works in times like these.

### **A cooling market is a confused market.**

*Buyers are confused.* They suddenly see prices dropping or leveling, when they are used to prices rising. They aren’t sure if they should take advantage now, or hold out for better deals later.

*The marketplace itself is confused.* Interest rates have risen, and continue to rise. Some builders are offering huge incentives to get prospects to buy. There are more re-sales. The market is over-saturated with properties that investors are trying to flip. These conditions have reduced potential buyers’ sense of urgency.

“There’s virtually no sense of urgency, and buyers can take their time considering multiple properties,” says a *South Florida Sun-Sentinel* article<sup>3</sup>. *The News-Press* quotes housing analyst John Tomlinson saying that, nationally, “The higher-end buyers are beginning to realize they don’t have to rush in – that maybe if they hold out prices will moderate.”

*Builders are also confused.* In some places, when the market was at its hottest, prospects were offering *more* than 100 percent of the listed price for a home. The market was so hot that many people were buying houses within a day or two of first looking. It has been a builders’ market, and, suddenly, it is not. Builders don’t know what sorts of measures they should take - should they discount their homes? Build fewer of them? They see a need to lower prices, and in many cases they can afford to do it, but they are also afraid that doing so will signal market weakness and discourage people from buying.

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<sup>1</sup> *USA Today*, Usatoday.com: March 22, 2006.

<sup>2</sup> *USA Today*, Usatoday.com: March 24, 2006.

<sup>3</sup> “S. Florida housing market cooling off as demand wanes, some sellers are cutting prices”. *South Florida Sun Sentinel*, Fort Lauderdale, Fla.: Feb 11, 2006. P 1A.

*The salespeople who work for builders become confused.* Their sales slow down. They don't get them as quickly or easily as they are accustomed to. They think their builders should be lowering prices, offering incentives and spending more money on advertising so they can continue to make sales as easily as they did when the market was hot.

**To thrive in a cooling market, you must *not be* confused.**

We know that the market never drops to zero. What is occurring now is a process of market corrections. The market has been unsustainably hot, fueled by low interest rates, investors and an extreme sense of urgency because of quickly rising prices. Houses have appreciated by as much as 30 to 40 percent in some areas over the past three or four years. Now, interest rates are increasing, investors are backing off, and market corrections are adjusting the housing market back to a more natural, sustainable state.

The fact that the market is cooling doesn't mean it is turning into a *bad* market. It is simply returning to normal. Imagine that the average yearly temperature over a period of centuries in a given area is 75 degrees. Suddenly, the average temperature in that area jumps to 115 degrees. It stays there for a few years, and then begins to fall. If the average temperature the next year is 95 degrees, are you going to say that it's abnormally cold? Of course not. It has just been abnormally hot for a few years, and now it is returning to normal. The same thing is happening with the housing market.

**Get back to basics.**

What's happening now is no different than what happened in 1974-75, when the Arab oil embargo triggered a market slowdown, or in 1981-82, when interest rates rose to 18 percent and caused a housing recession. We went from good markets to transitional markets.

I lived and worked through both of those markets, along with declining markets in 1967-68 and 1990-91. I led new home sales organizations through all four slowdowns, and I can tell you from experience that to thrive in a changing market you must get back to essentials.

In the past few years, many people have experimented with all kinds of "touchy-feely" relationship-selling techniques – and they appeared to be productive, even though they weren't, because in markets as good as the one we've had, houses sell even when the sales techniques are bad.

Great strategies and systems are not learned or created in good markets. They come as a result of having gone through tough markets.

There are many people in this business who have never been through difficult market times, and unless they are "coachable," they will flounder as things get tough. Many people have only come into the new home sales profession in the past five or ten years. All they have known are

booming times. It will be difficult for them to make the mental shift necessary to thrive in changing conditions.

There are even sales trainers who have emerged in the last five to ten years who have only known great markets. Many of them are teaching strategies that will not cut it in these transforming conditions.

There's an old saying that says, "Prosperity often conceals greatness, but adversity reveals it." Follow the strategies I offer here, and let adversity reveal your potential for greatness.

### **Improve the things you can control.**

As the market changes, you must identify which things you can and can't control, and then learn how to improve on the things that you can control.

You can't control interest rates, but you can control people's perception of interest rates. You can't control what the competition does, but you can control what *you* do – presentation and sales skills, Follow-Through<sup>®</sup>, appointment-setting, how your models look, etcetera. You can't control what the articles in the newspaper say, but you can control what you put in the newspaper. You can't control the weather outside of your sales office, but you can control what kind of environment people experience when they come into contact with you.

<u>Things you can't control</u>	<u>Things you can control</u>
Interest rates Rising construction costs	The customer's perception of interest rates and rising construction costs
What the competition does	What <i>you</i> do: Attitude Personal appearance Presentation & sales skills Follow-Through <sup>®</sup> Appointment-setting Appearance of your models
What newspaper articles say	What you put in the newspaper (advertisements and press releases)
The weather	The environment the customer enters
<b>► Focus on the things you can control!</b>	

As the market changes, there will be less traffic to convert, so you must work to increase conversion ratio. Make every prospect who walks through your door count.

Even though buyers are confused, if they show up at your sales office, they are at least thinking *about* buying a new home. It is your job to un-confuse them. Have a solid, planned presentation to help guide them through the buying process. Cause them to think it *through*. Get them to recognize that, even though interest rates have risen, they are still the lowest, on average, that they have been in 50 years. Help them to realize that interest rates are probably not going to fall soon, and are likely to continue rising. Point out to them that construction costs are going to continue to increase because of oil prices and hurricane damage. Make them understand that now is still a better time to buy than later – that *their buying power will never be greater than it is right now*.

You can use the following script:

*“Mr. & Mrs. Homebuyer, with interest rates still the lowest they’ve been on average in 50 years, but rising, and with rapidly increasing costs of construction, your buying power for a brand new home will probably never be as great as it is today. Consequently, the only thing that waiting to acquire a brand new home might accomplish for you, is an erosion of your buying power and a limitation of your choices.”*

(Pause)

*“And I’m sure that you don’t want to have to pay more than you need to own the brand new home you want, do you?”*

**Below are some other specific things you can do to succeed in the confused market:**

1. Maintain strong, thorough knowledge of your marketplace. Research the re-sale market. Track the following re-sale information on a monthly basis:
  - How many listings go unsold
  - How many close
  - The average sales price
  - Average sales price as a percent of listed price
  - Average days on the market prior to selling
2. Look at trends. As the market cools, there will be more re-sales than before, and they will stay on the market longer. How many re-sales and investor sales are available? At what rate are they selling compared to normal market absorption (the average over the last 12 months)? You can use this information to estimate how long it will take to sell your inventory. Also note the names of the Realtors® who are selling the re-sales. They can help you. If they sell something in your price range in your market, you can reach out to them and get to know them, and they may be able to sell some of your homes.

3. Cut back your operating costs. Look at every aspect of overhead. Identify areas where you can consolidate, and do so.
4. Compare your prices with other selling prices in your marketplace. You may need to rework your product. You might need to downgrade the specs of some of your models. As interest rates increase, even gradually or marginally, people's buying power decreases. They can no longer afford to pay the same prices that they could afford when rates were even slightly lower, because monthly payments are higher. You may need to reposition your product to be more in line with current sales prices.
5. Assure prospective buyers that your market is a strong market. Never let them think that it is weak. Always tell them that business is *incredible*. Don't ever let them suspect that you may be struggling. Be a beacon of clarity and reassurance when everything else is confusing to them.

In an *extraordinary* market, it is easy for *ordinary* salespeople to look like very good salespeople. But in an *ordinary* market, it takes hard work to be an *extraordinary* salesperson. As the market becomes more ordinary, many salespeople will get out of the business and go back to doing what they did before the housing boom. But those who keep a clear focus stay informed about their marketplace, perfect their presentation and practice diligent follow-through will continue to succeed even in tough times.

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*Bob Schultz, MIRM, CSP, is North America's foremost new home sales and management expert. Builder magazine recently named him to the "Power On 50 List" of the 50 most influential people in the home building industry that includes other such notable figures as Chairman of the Federal Reserve Ben Bernanke, President George W. Bush and Prime Minister of Canada Stephen Harper.*

*He is the author of two best selling books, The Official Handbook for New Home Salespeople and Smart Selling<sup>SM</sup> Techniques. Today's tough market is nothing new to Bob Schultz. In the mid-70s, through the housing recession caused by the Arab Oil Embargo, and again in the early 80s, with 18%+ interest rates and another huge downturn, he engineered many extremely successful programs for builders and developers and as workouts for REITs and major financial institutions. It was during that market that Bob was recognized by the National Association of Home Builders as Marketing Director of the Year, Large Volume.*

*In February 2007, Bob was named an inaugural Fellow of the Institute of Residential Marketing. Bob's company, New Home Specialist Inc., is a full service management consulting and sales company, producing books, manuals and systems for home builders, developers and Realtors®. Bob and his hand-selected facilitators present custom sales training programs, management*

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