Know Your Numbers and Win Sales

When you speak about real estate financial numbers with confidence, your clients and customers gain confidence in you. And when you're accurate, you gain their trust. Here, one mortgage banker reveals his market research and calculation methods so you too can become conversationally fluent in real estate and finance.

Whether you're a Realtor® or a mortgage lender, clients and customers expect you to be intelligent. They want you to give them quick, accurate projections of what they can expect to pay for mortgage, taxes and homeowners' insurance.

Cash to close and monthly payments are critical to the consumer purchasing a home. They also want to know you won't mislead them with ballpark numbers that later prove to be substantially different and even unfavorable. In fact, with all the licensees to choose from, they want your service and your numbers to exceed their expectations if you're to win their business.

That's a tall order, especially when it comes to speaking about the financial numbers with both accuracy and confidence. If you can do it, you can distinguish yourself: Speak very intelligently, and people will listen to you.

After working with thousands of homebuyers and teaching thousands of Realtors, I realized real estate professionals need a way to simply communicate cash-to-close and monthly payments. Based on the pattern I saw, I devised these quick-reference formulas.

1. Clearly Communicate Payments

Don't disappoint the consumer by saying, "This is your payment, but I forgot to tell you about the other costs associated with the payment." Quote a payment that includes principal and interest, taxes, insurance, mortgage insurance and homeowners' association dues.

How do you do that? Here's my formula:
Take 1 percent of the mortgage amount and then subtract $100 or $200 for every $100,000 borrowed. So, if someone is borrowing $100,000, 1 percent of the loan amount is $1,000, less $100 or $200, results in a monthly payment of $800 to $900.

You're also quoting a little high and delivering a little low. If buyers think their payment will be $900 a month and it comes out to $840, they'll feel great. And you'll be the hero.

Here's another example: if the house sells for $250,000 and the buyers put down $25,000, they're borrowing $225,000. You can say with conviction that their monthly payments will be in the $1,850 to $1,950 ballpark ($225,000 times 1 percent equals $2,250, less $300 or $400.)

What if someone rents for $1,500 a month? What does that equal in a mortgage? Use the formula backwards: Multiply $1,500 by 100, which is $150,000. Then gross it up $10,000 to $20,000. This range reflects the same net range we did when we subtracted the $100 to $200 in the monthly payment estimate. So, they end up with a $160,000 to $170,000 mortgage.

The end result: Your customer trusts you because of your confidence and command of real estate.

2. Know Your Area's Taxes

Don't keep your prospects in the dark about taxes. As a starting point, you can use anywhere from 1 to 1.5 percent of the sales or list price. High-cost, expensive subdivisions may be closer to 2 percent. Lower-priced homes are closer to 1 percent. You'll be able to predict, 80 to 90 percent of the time, the taxes on any property once you have established the formula for your area. Test it on your farm area.

A prospective customer called me from Great Britain. He was buying a house for about $300,000. I said, "I don't have your listing in front of me — matter of fact, we've never met. But my estimate is the taxes are $250 a month." He found his listing sheet, and we divided the annual figure by 12. It came out to $252. He said, "How did you do that?"

I said, "It's my job to know." Well, it's your job, too.

Look at your listing inventory and divide the taxes by the list or sales price to get the tax rate per $100. Certain neighborhoods are higher than others. If the average tax rate is 1.5 percent in your town, you can adjust each rate according to each area — maybe one area is 1.25 percent and another is 1.75. The point is that you'll be able to know the tax rate immediately and impress your clients.

3. Understand Insurance Costs

Homeowners' insurance policies in Florida typically cost about one-half of a percent of the sales price annually. For example, the annual policy for a $200,000 home is usually about $1,000.

To get the most accurate figure for your market area, find a sample property or HUD 1 settlement statement and divide the annual policy premium by the sales price. If the policy is $1,200 per year and the house is $200,000, your formula is .60 percent. You'll be able to prognosticate without a calculator how much consumers' payments will be — right before their very eyes.

4. Become a Rate Expert

One of the questions most frequently asked of Realtors is, "What are interest rates?" A very astute response would be, "I don't know what rate you will receive. I do know this: in Freddie Mac's Primary Market Survey, the 30-year fixed-rate mortgage average was [for example] 5.76 percent last week."

How did you know this? You visited www.freddiemac.com every Thursday. If you read the one-page news release once a week for 52 weeks, you'll become much more astute on interest rates and the economy. Additionally, you can use the release in a newsletter or informative piece mailed to your prospect database.

5. Identify the Top Five Houses

Suppose you have a buyer who want a house in the $200,000 to 250,000 range in southeast Orlando. You should be able to offer them a list of the top five house values in that range based upon your research and opinion.

Divide your city into quadrants. For example, in May 2008 in Orlando, there were 25,015 listings. 18,665 were sfh listings. In that price range there were 3,310 listings. Broken down into quadrants there were approximately 800 sfh in each quadrant. In the quadrant of the city where your customer wanted to buy there were 742 homes you would probably need to break this down further into a few zip codes or subdivisions .Of those, you would have to be able to identify the top five homes by using some methods. Make sure you are using listing inventory, short sale and foreclosed properties data.

One method of identifying homes of value is by dividing the cost per square foot by the list price. This will give you a numerical value by which you can rank houses. Another method is to personally examine the houses and rank them aesthetically. Or, you could rank them by calculating which have the largest difference between the tax assessed value and the list price. When you look at the results of your assessment the top five will be clear. Your research will be validated by results. Homes that you identify with these methods will not be on the market long. In Central Florida homes are currently average 121 days on the market . The homes you select will have a much shorter time period.

By doing your research, you know your market and your numbers. Use this as an anchor on which to build the relationship. After all this number crunching, what's the bottom line? Focus on what the customer values rather than your commission. You will become a walking, talking real estate machine. People are going to look at you and say, "Wow! How did you get so smart?" And that's what we want. And that's what your customers not only want, but what they demand and deserve.

Grant W. Simon is president of First Florida Home Loans in Orlando. In addition to his work in the mortgage banking industry, Simon lends his extensive knowledge and experience to the Florida Association of REALTORS (FAR) and the Orlando Regional REALTOR Association (ORRA) as a top-rated instructor and course writer.