

Management of Expectations Decreases Risk

By Laurel G. Kaufner

There is a fine line between making a sales pitch and creating unreasonable expectations in the sale of residential real estate. Real Estate professionals, in their zeal to make a sale, often raise client expectations to a point so high, that once the sale closes buyer's expectations of perfection in the property are unreasonable and they are disappointed.

Most buyers experience some level of disillusionment once they take possession of their new home, often leading to complaints, or unexpected and expensive repairs and sometimes to litigation over promises that were made or disclosures that were not. While some amount of this is unavoidable and to be expected for a variety of reasons, a significant amount of this is the result of inappropriate expectations on the part of the buyer.

This is particularly the case now, as real estate prices have escalated to a point where even the most basic starter home is likely to cost two hundred thousand dollars or more. This is a great deal of money and buyers should be entitled to expect a great deal for it. In reality, however, that kind of money doesn't buy very much in the Southern California market today, and preparing your buyers with reasonable expectations will make them more satisfied clients.

In setting reasonable expectations, brokers need to take into account the reality of the marketplace. Lee Jay Berman, mediator and former real estate developer, suggests the following example. A new home that sells for \$1,000,000, costs fortune by almost any reasonable standards. In an area where the lot has cost \$500,000, that home will not be a custom home with high priced amenities. Once the builder's profit, real estate sales commissions, bank charges and other costs are taken into account, there is likely between \$200,000 - \$300,000 left to build of the house. Instead of being the "million dollar" home the buyer expects, this house will be virtually the same house sold for \$400,000 in an area where the lot cost only \$100,000.

Most buyers come to brokers with some idea of what they can afford to spend. Rather than immediately identifying homes in their price range, (which will almost always be disillusioning for them) help your clients identify all of those things that are important to them in a home purchase (i.e. lot size, home quality and amenities, schools, neighborhood, accessibility to transportation, health care, etc...) and rank them in order of priority. Once this is accomplished, you can then identify areas that meet those desires and explain to your clients what they can expect in home pricing in each area. It takes a brave and seasoned professional to risk losing the sale in favor of informing the client, but, taking clients through this process helps them to form more realistic expectations of the property they will ultimately purchase through you and lead to greater client satisfaction.

Another common area of dissatisfaction emerges through complaints of "undisclosed defects" in property. Because of the lengthy statutes of limitations (the time in which someone may file a lawsuit) in California, it is common that these complaints arise a significant time (up to 10 years) after a buyer takes possession. Realtors are typically

called upon to participate in resolving these claims as witnesses or sources of information for their clients, if not as defendants themselves. Unfortunately, according to Brenda Radmacher, a partner in the law firm of Wood, Smith, Henning & Berman, who often defends real estate professionals in these claims, once the “defects” are investigated, it is often determined that the it is at least partially caused by inappropriate maintenance of the property by the buyer himself (over-watering of landscaping leading to ground instability or failure to repair breaks in tile or caulking leading to water damage or mold growth, etc...). The necessary commitment of energy, resources and assets in this exercise is always high and no one wins.

According to Katherine Chandler, Vice President and General Counsel of The Olson Company, one of the fastest growing homebuilder’s in California, some builders now provide their buyers with a list of instructions for appropriate home maintenance and a schedule to be followed, in an attempt to eliminate complaints that arise out of this maintenance failure. Instructions such as these are particularly important for first time homeowners or buyers relocating from other areas who are unfamiliar with our climate and geography. Real estate professionals can easily provide this for their clients.

When the seasons change, send your clients reminders to change their landscape watering schedules, clean their rain gutters, check their fireplaces, and service their air conditioner or furnace. Send them an annual reminder to check for leaks, listing the most likely offending spots, including roofs, foundations and grout or caulking around wet appliances, sinks, baths, showers and toilets. Providing this kind of information to your clients will be a valuable service, reminding your clients them the very beginning that they have responsibilities. Again, you will be setting reasonable expectations, thereby lessening the likelihood of claims made from the failure to meet them. In addition to enhancing your risk management strategy, this is an excellent marketing opportunity, as it gives you a real reason to stay in contact and keep the client relationship current.

Your close attention to these issues early and often in the sales process will result not only in more effective risk-management, but also in higher client satisfaction and retention, increasing your professional success.

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