

Good Happenings

News & Insights from the Ron Sitrin Team

How Does a Bidding War Work?



A first time buyer, Kate, contacted us ready to buy her first home. She was familiar with the market and sensed there was a good chance she would be competing with other buyers for the same house.

She asked, “how does the seller determine the winning offer?”

In a market where the inventory is low and multiple offers are common, the Buyer Agent will generally suggest the buyer include an “Escalation Clause” with their offer.

An “Escalation Clause” is a Realtor approved document that creates the framework on how to calculate the highest offer. It has two parts, an “**incremental amount**” and a “**cap.**”

The incremental amount is the amount that the buyer agrees to beat any other offer by. For example, a buyer might offer “to beat any other offer by \$10,000”. In this case, the incremental amount is \$10,000.

Each buyer also needs to establish a cap. This is the amount that the buyer is not willing to go beyond.

For example, if the buyer is unwilling to pay no more than \$900,000, this would be their cap.

Therefore, the Escalation Clause included in the offer would state “...*the buyer will beat any other offer by \$10,000 up to a cap of \$900,000*”.

Let’s say Kate finds a house she loves that has a list price of \$800,000. Then we find out there are three other competing offers. Kate, not wanting to lose the house, decides to include an Escalation Clause with her offer. Kate’s offer might read like this.

- Full Price offer of \$800,000
- Incremental Amount of \$10,000
- Cap of \$900,000

Here’s an example of how Kate’s offer wins:

	Kate’s offer	Peter’s Offer	Paul’s Offer	Mary’s offer
Initial Offer	\$800,000	\$850,000	790,000	\$800,000
Incremental Amount	\$10,000	\$4,000	\$10,000	\$7,000
Cap or Ceiling	\$900,000	\$870,000	\$865,000	\$875,000
Escalated offer	\$885,000	\$870,000	\$865,000	\$875,000

In this example, Kate’s offer ends up being the highest offer. Even though Kate offered up to \$900,000, she did not have to pay that much. She only had to pay \$10,000 above the next highest offer, Mary’s. Mary’s offer capped out at \$875,000, so Kate wins at \$885,000.

People often ask, “How can prices go up so fast?” The culprit is the Escalation Clause.

Market Update

BY RON SITRIN

January is always an exciting month because it helps me anticipate the year ahead. There are two January indicators that I use to predict the real estate market. One anecdotal (see “*When does my phone start ringing?*”), the other, data-driven.

By January 3rd we had already ratified three contracts. A few days later, despite the snow, we listed two homes for sale. Both went

under contract with multiple offers. Needless to say, during the first week of January the phone was ringing off the hook!


This January exceeded my expectations. Based on this indicator, the spring market will arrive early. Perhaps it’s already started. I expect to see another year marked by multiple offers driving more house appreciation (see “*How Does a Bidding War Work?*”).

People often ask me “how’s the market?” I wanted to give our clients a more concrete answer than, “it’s hot” or “it’s cooling off”. Those answers don’t provide enough context for a seller ready to list or a buyer wondering how much to offer.

Frustrated by the lack of a single indicator, I decided to create one. We named it the “Market Strength Indicator” and it’s proved to be amazingly accurate.

In a nutshell, **Homes Under Contract ÷ (Homes for Sale + Homes Under Contract) = Market Strength**. This formula has helped me, and so many of our clients, quantify the actual market conditions and track them as they change over time. Here are some current examples of the formula in use.

Criteria: priced from \$600 - \$1.2 M	Homes for Sale	Homes Under Contract	Under Contract ÷ (For Sale + Under Contract)	Market Strength Index
DC Row Houses	28	45	$45 \div (28+45)$	62%
DC Condos	210	192	$192 \div (210+192)$	48%
MoCo Houses	72	166	$166 \div (72+166)$	70%
MoCo Condos	18	23	$23 \div (18+23)$	56%

When the percentage in the fourth column is 40% or greater, that is my definition of a seller’s market. The more above 40% the percentage goes, the stronger the seller’s market is. 

The converse is also true. As the ratio drops below 40%, the market is shifting to a buyers market. The lower the ratio, the better it is to be a buyer. Here are the stats for the two homes we listed in January. Both of these homes received multiple offers and sold significantly above the list price.

	Homes for Sale	Homes Under Contract	Under Contract ÷ (For Sale + Under Contract)	Market Strength Index
Gaithersburg Townhouse (\$250,000 to \$350,000)	55	109	$109 \div (55+109)$	67%
Chevy Chase House (\$2M to \$2.3M)	14	13	$13 \div (14+15)$	48%

Based on the data I am seeing today, prices are still going up and I anticipate a strong sellers market.

Lessons from a Mentor: Duct Tape Makes Good Friendships

BY RON SITRIN

Early in my career, a friend of mine referred me to the Ravangards. They had an investment model of buying luxury townhouses as rentals. As a rookie agent, their purchase point was way above my average at the time. I was excited, nervous, and insecure, all at the same time.

The day before the appointment, someone backed into my car, and the front headlight fell out. It was just dangling by a wire and needed to be fixed. I didn't have time or money to get the car repaired before the meeting, so I got creative and used duct tape to secure the headlight.

All the duct taped around the headlight looked awful. I was feeling

Ravangards liked the property. It met their criteria of being walkable to the Red Line Metro and in great condition. They even joked that many of their tenants lived in nicer homes than theirs.

We each went back to our cars and started to drive away. Then they thought of one more question, pulled over, and motioned me to stop. I started to sweat. I was already in my car and there was no way for me to hide the duct taped headlight. I pulled over, got out of the car, and quickly positioned myself in front of the headlight.

We talked a bit more, and then,

“I still remember her answer to this day. She said “we use a ton of duct tape.”

pretty self-conscious. My plan was to arrive early, park that side of the car out of sight, and meet them at the front door.

The meeting went well, and the

out of curiosity I asked “how do you save enough money to keep buying rentals?”

Mrs. Ravangard looked at me. Then slowly looked in the direction



of my headlight. She just stared at it for a second and smiled.

I still remember her answer to this day. She said “we use a ton of duct tape.”

Since then, the Ravangards have become good friends, favorite clients, and mentors. Thank you Dr. and Mrs Ravangard for being such wonderful people. I am grateful for all the real estate lessons you have taught me.

...And then there's Anecdotal Market Insight:

When does my phone start ringing?

We can determine – surprisingly reliably – how strong the Spring real estate market will be simply by noting when our phones start ringing in the new year. This year? It was ringing off the hook from the very start!

**1st week
of January**

High appreciating
Sellers Market

**2nd week
of January**

Sellers
Market

**3rd week
of January**

Balanced
Market

**4th week
of January**

Buyers
Market

THE **RON SITRIN** TEAM

at **LONG & FOSTER**
REAL ESTATE

A Top 1% Producer Nationwide

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Ron Sitrin has a better career record than Tom Brady!

97.2%

Ron's career listings-to-sales record

vs. 64.2%

Brady's lifetime pass completion average*

**but Ron wouldn't survive a sack from a NFL lineman*



Good
things
HAPPEN

Good Happenings

Good Happenings is a look at market trends, Ron Sitrin Team insights, great stories and other good things we want to share with you. All content and information shared is approved by the clients involved. And we're being responsible – the maskless photos used here were taken back when you thought "Fauci" was just some kind of fun pasta. Enjoy!

The Ron Sitrin Team

Long & Foster Real Estate, Inc.

Have a question, story idea or comment? Give us a shout!

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