The Negotiation Reality in Real Estate

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How to move away from traditional adversarial negotiation tactics and embrace more ethical and collaborative approaches.

In the real estate world, permeated with high-stakes and complex transactions, negotiation is a crucial skill to achieve and sustain success. Tried and tested adversarial negotiation tactics are falling into obsolescence and giving way to a new approach.

In our practice briefing* for real estate professionals, recently published in the Journal of Property Investment & Finance, my co-author Thomas Wiegelmann and I examine the forces driving this shift and propose a switch from entrenched win-lose tactics to more ethical and collaborative negotiation practices.

Win-lose tactics

Real estate professionals have traditionally relied on win-lose or power-based negotiation strategies, leveraging information asymmetries or other aggressive and unethical tactics as weapons in negotiation to secure
superior deals. These may range from threats to coercion, deliberate misinformation and lies.

Such “winner-takes-all” tactics are rarely successful but occasionally yield highly visible big wins that can boost a negotiator’s reputation. Consequently, real estate professionals are misled into admiring and emulating these adversarial negotiators in search of big wins for themselves, when the reality is that they produce lower returns on average (e.g. low-value sales, impasses or failed deals). In addition, such an approach works against building sustainable, long-term relationships and trust.

Any market involving millions of professionals worldwide – like real estate – faces accountability challenges. Reputational information is scarce, and providing negative reputational information about another party is risky, lest one becomes the target of a defamation lawsuit. These challenges enable unethical behaviours to blossom without legal repercussions, which cements win-lose tactics as the default in an industry increasingly at odds with ethical and sustainable negotiation practices.

**Times are changing**

The real estate industry is undergoing significant transformation due to rapidly changing market dynamics, evolving regulations, technological advancements and new business models. Information asymmetries, arbitrages and simpler transactions are being substituted by **VUCA** (volatile, uncertain, complex and ambiguous) or **BANI** (brittle, anxious, non-linear and incomprehensible) environments.

This shift, coupled with the ease of finding and spreading information and the presence of skilled international real estate players, makes traditional win-lose negotiation tactics riskier and less effective. To remain successful, real estate professionals must actively pursue continuous learning and embrace evidence-based negotiation strategies.

A common misconception is that negotiation is a talent rather than a skill. This fixed mindset not only hampers personal development but also fails to prepare negotiators for the increased complexities and pressures of modern real estate dealings. In this new era, a lack of skills coupled with poor decision-making can lead to the ignorant usage of aggressive, risk-prone behaviours that compromise efficiency, outcomes and relationships. As the industry evolves, real estate professionals must invest in developing their
negotiation skills to enhance their personal success and that of society overall.

Obstacles to transformation

Despite the critical role of negotiations in securing superior and sustainable deals, many professionals still choose oversimplified, high-risk, one-size-fits-all strategies, instead of modern negotiation strategies that maximise value while minimising risks.

The real estate industry advertises its emphasis on relationships, trust and reputation, while silently adopting win-lose tactics. This dissonance allows seasoned, powerful negotiators to exploit newcomers who naively adopt relationship-friendly approaches. Instead, a collaborative, non-naïve approach can guard against such exploitation attempts.

Power differences exist in real estate transactions, such as when one party misunderstands or is ill-informed about the asset value. The more powerful or well-informed party may secure a big win and mistake win-lose strategies as superior choices in the future. This success bias deludes negotiators, who fail to see how win-lose strategies result in fewer and lower-value deals on average, as counterparties resist or avoid them whenever possible.

Power-based tactics inherent to win-lose strategies may eventually secure short-term gains, but are driven by fear or overconfidence. More frequently, however, they are unsustainable and volatile. They can raise resistance, escalate conflict, produce suboptimal deals, damage relationships and are fragile to future power shifts.

In a typical power-based negotiation, each side pushes for their aspiration price (the best that they hope to achieve) while resisting the other’s push in the opposite direction towards their reservation price (the minimum acceptable offer). The parties may eventually realise the aspiration price is unattainable or outside the Zone of Possible Agreement (ZOPA) and threaten to move on to their Best Alternative to a Negotiated Agreement (BATNA), making concessions towards a compromise or no deal.

This simplistic and rigid approach driven by emotional responses, ignorance and power moves is the bargaining process. It often benefits the more powerful party at the expense of weaker ones. Besides being inefficient, it stifles creativity, damages relationships and destroys value through
resistance and fighting.

A new path forward

To break the vicious cycle of adversarial negotiations, real estate professionals must adopt new negotiation skills to align their personal growth with the industry’s evolution. They must recognise negotiation as a skill to be honed through training and practice, and move away from volatile and unreliable instinct-based decision-making to more structured, rational and collaborative strategic approaches.

A systematic framework, such as the seven elements map, provides negotiators with a comprehensive guide to make superior decisions at each phase. The seven elements are:

1. **Communication**: The information shared among parties, including the process.
2. **Relationship**: Efforts to manage emotions as well as build and maintain rapport and trust.
3. **Interests**: The underlying needs, desires, wants, fears and concerns of all parties involved.
4. **Options**: The possible solutions to satisfy interests.
5. **Legitimacy**: The arguments to help the parties perceive the options as fair or reasonable according to their respective value systems.
6. **Commitment**: Consolidation of the negotiated terms into an agreement.
7. **Alternatives**: The moves or solutions left to either party if negotiations falter, including the BATNA.

**Value Negotiation Framework**

In applying these elements, negotiators need to shift their mindset from purely competitive to a mix of collaborative and competitive, focusing on creating (or at least not destroying) value for all. As real estate professionals navigate an increasingly volatile and complex business environment, having a rational, thoughtful and balanced negotiation strategy – one that prioritises long-term relationships and ethical practices rather than relying on aggressive tactics – becomes indispensable.

By fostering these skills, negotiators can enhance their immediate deal-making capabilities and contribute to a more robust, equitable and sustainable future for the industry.

**The value negotiation strategy**

Win-win strategies can help negotiators remain flexible, resilient and innovative, especially in markets characterised by asymmetric information.
and opaque transactions. Property investors faced with operational risks will be better off moving towards collaboration rather than competition with tenants to avoid the pitfalls of vacant properties and damaged reputations. Putting power plays aside not only ensures fairer deals but also cultivates trust and long-term partnerships, which are key for success in today’s volatile market.

A win-win strategy is fundamentally about abstaining from power tactics and leveraging communication so that all parties are more likely to achieve their objectives without feeling compromised. This approach minimises resistance and maximises resource investment from all, leading to deals that are not only more satisfying but also more sustainable. Within this framework, the parties engage in open dialogue to fully understand each other’s needs and constraints.

However, the real challenge lies in executing true win-win negotiations, as opposed to having win-win intentions but being unable to handle negotiations when the counterparty is adopting win-lose tactics. We thus recommend the “positive, not naïve” win-win approach from the value negotiation system. It encourages negotiators to maintain a positive, learning and creative mindset, alongside a realistic and strategic perspective. It recognises that some will not reciprocate collaborative moves and may even try to exploit them. Hence, the win-win effort must remain steadfast, managing potential exploitation or power plays from the counterparty.

This strategy acknowledges that while a good relationship is valuable, it should not come at the cost of strategic thinking, a clear understanding of one’s interests, the willingness to disagree or ask for better, and a valuable negotiated outcome. It extends beyond real estate relationships and can be applied throughout the entire real estate ecosystem. As the industry continues to evolve, a value win-win negotiation strategy will become increasingly pivotal for successful institutional investment strategies.

This “positive, not naïve” win-win approach encourages a thorough exploration of all possible solutions and ensures that agreements are not only equitable but also adhere to ethical standards. It not only enhances individual negotiations but also contributes to the overall health, growth and sustainability of the industry.
Real estate professionals need to adopt more collaborative and strategic negotiation approaches. These strategies should not only aim at securing favourable deals but also at fostering robust, enduring relationships. The “positive, not naïve” win-win strategy provides a clear pathway for navigating these changes and creating a better future for the industry.

*This is article is based on Part I of the practice briefing. Part II is forthcoming.*

Find article at
https://knowledge.insead.edu/strategy/negotiation-reality-real-estate

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