Negotiating and Closing a Good Deal - Q & A

Q: **Is a low offer a good idea?**

A: **While your low offer in a normal market might be rejected immediately, in a buyer's market a motivated seller will either accept or make a counteroffer.**

Full-price offers or above are more likely to be accepted by the seller. But there are other considerations involved:
*** Is the offer contingent upon anything, such as the sale of the buyer's current house? If so, a low offer, even a full price offer, may not be as attractive as an offer without that condition.**
*** Is the offer made on the house as is, or does the buyer want the seller to make some repairs or lower the price instead?**
*** Is the offer all cash, meaning the buyer has waived the financing contingency? If so, then an offer at less than the asking price may be more attractive to the seller than a full-price offer with a financing contingency.**

Q: **What contingencies should be put in an offer?**

A: **Most offers include two standard contingencies: a financing contingency, which makes the sale dependent on the buyers' ability to obtain a loan commitment from a lender, and an inspection contingency, which allows buyers to have professionals inspect the property to their satisfaction.**

A buyer could forfeit his or her deposit under certain circumstances, such as backing out of the deal for a reason not stipulated in the contract.

The purchase contract must include the seller's responsibilities, such things as passing clear title, maintaining the property in its present condition until closing and making any agreed-upon repairs to the property.

Q: **How is the price set?**

A: **It's very important to price your home appropriately relative to current market conditions. Because the real estate market is continually changing, and market fluctuations have an effect on property values, it's imperative to select your list price based on the most recent comparable sales in your neighborhood.**

A comparative market analysis provides the background data on which to base your list-price decision. Study the comparable sales material presented to you by the different agents you interviewed initially. If the analyses are more than two or three months old, have your agent update the report for you.

If all agents agreed on a price range for your home, go with the consensus. Watch out for an agent whose opinion of value is considerably higher than the others.

Q: **Are low-ball offers advisable?**

A: **A low-ball offer is a term used to describe an offer on a house that is substantially less than the asking price.**

While any offer can be presented, a low-ball offer can sour a prospective sale and discourage the seller from negotiating at all. Unless the house is very overpriced, the offer will probably be rejected.

You should always do your homework about comparable prices in the neighborhood before making any offer. It also pays to know something about the seller's motivation. A lower price with a speedy escrow, for example, may motivate a seller who must move, has another house under contract or must sell quickly for other reasons.

Q: **Are interest rates negotiable?**

A: Some lenders are willing to negotiate on both the loan rate and the number of points but this isn't typical among established lenders who set their rates like large corporations set the prices on their goods. Nevertheless, it pays to shop around for loan rates and know the market before you go in to talk to a lender. You should always look at the combination of interest rate and points and get the best deal possible.

The interest rate is much more open to negotiation on purchases that involve seller financing. These usually are based on market rates but some flexibility exists when negotiating such a deal.

When shopping for rates, look for published rates in local newspapers or check the growing number of Internet sites that publish such information.

Q: **Can you buy homes below market?**

A: While a typical buyer may look at five to 10 homes before making an offer, investors who make bargain buys usually go through many more. Most experts agree it takes a lot of determination to find a real "bargain." There are a number of ways to buy a bargain property:
* Buy a fixer-upper in a transitional neighborhood, improve it and keep it or resell at a higher price.
* Buy a foreclosure property (after doing your research carefully).
* Buy a house due to be torn down and move it to a new lot.
* Buy a partial interest in a piece of real estate, such as part of a tenants-in-common partnership.
* Buy a leftover house in a new-home development.

Q: **Can you negotiate the price on new homes?**

A: It can be difficult to negotiate the sales price with a developer because they may claim their prices are based on fixed construction costs. But it doesn't hurt to try.

Experts say builders are more likely to be flexible on price at the very beginning and the very end of a development project. Early on, most developers want to move people in quickly so the project picks up momentum. Later, developers may be more inclined to accept lower offers when only a few units remain.

If negotiating the price doesn't work, buyers commonly negotiate for better amenities (upgrade carpet, light fixtures, etc.) or lot location. Experts say a developer will rarely pass up a deal over a couple hundred dollars' worth of carpeting, for example.

Q: **Who gets the furnishings when a home is sold?**

A: **Fixtures, any kind of personal property that is permanently attached to a house (such as drapery rods, built-in bookcases, tacked-down carpeting or a furnace), automatically stay with the house unless specified otherwise in the sales contract. But you can consider anything that is not nailed down negotiable. This most often involves appliances that are not built in (washer, dryer, refrigerator, for example), although some sellers will be interested in negotiating for other items, such as a piano.**

Q: **What do you think of get-rich-quick real estate schemes?**

A: **Most real estate experts say there is no such thing as getting rich quick in real estate. But there are no end of get-rich-quick programs presented to the public as alternative methods of buying real estate.**

Some are reputable while others depend on your financial circumstances to work. A handful are simply scams.

Many get-rich-on-real-estate programs offer advice on how to buy government foreclosure properties and participate in other government programs. Most of this information can be obtained by calling the government offices involved directly.

Anyone interested in real estate investments would be wise to explore a variety of sources. Most investors view real estate as a long-term investment. Deals that sound too good to be true often are.

Q: **What is the best time to buy?**

A: **Because many buyers prefer to move in the spring or summer, the market starts to heat up as early as February. Families with children are anxious to buy so they can move during summer vacation, before the new school year begins.**

The market slows down in late summer before picking up again briefly in the fall. November and December have traditionlly been slow months, although some astute buyers look for bargains during this period.

Q: **What are some tips on negotiation?**

A: **The more you know about a seller's motivation, the stronger a negotiating position you are in. For example, a seller who must move quickly due to a job transfer may be amenable to a lower price with a speedy escrow. Other so-called "motivated sellers" include people going through a divorce or who have already purchased another home.**

Remember, that the listing price is what the seller would like to receive but is not necessarily what they will settle for. Before making an offer, check the recent sales prices of comparable homes in the neighborhood to see how the seller's asking

price stacks up.

Some experts discourage making deliberate low-ball offers. While such an offer can be presented, it can also sour the sale and discourage the seller from negotiating at all.

Q: **What repairs should the seller make?**

A: Most sellers like to make all minor repairs before going on the market in order to seek a higher sales price. In addition, nearly all purchase contracts include a buyer contingency "inspection clause," which allows a buyer to back out if numerous defects are found. Once the problems are noted, buyers can attempt to negotiate repairs or a lower price.

Q: **What is the difference between list price, sales price and appraised value?**

A: The list price is a seller's advertised price, a figure that usually is only a rough estimate of what the seller wants to get. Sellers can price high, low or close to what they hope to get. To judge whether the list price is a fair one, be sure to consult comparable sales prices in the area.

The sales price is the amount of money you as a buyer would pay for a property.

The appraisal value is a certified appraiser's estimate of the worth of a property, and is based on comparable sales, the condition of the property and numerous other factors.

Q: **What is the first step to buying a home?**

A: Finding out what you can afford is one of the first steps, which can be done by pre-qualifying for a home loan. This step will help you narrow your search for both a neighborhood and particular houses. A pre-qualification is a simple calculation that considers several factors, but primarily your income. There are no guarantees with a lender prequalification notice, but it will be expected of you when you make an offer on a home.

Q: **Should I include an inspection contingency in my offer?**

A: An "inspection contingency" protects you as a buyer in a purchase offer by allowing you to cancel closing on the deal if an inspector finds problems with the property.

As soon as the seller accepts a written offer, the document becomes a legally binding contract. The purchase contract can be written to include a contingency for any repairs found to be needed or related items the seller must take care of before closing. If these are not dealt with, and you have such a clause in your contract, you can delay or possibly cancel the closing. If it's not stated in the contract, you could face losing your deposit. There also may be costly legal implications stemming from backing out of a contract.

You usually will have the right to choose the inspector (and be responsible for paying for the inspections). In addition to an overall inspection for structural

soundness, you can request a satisfactory pest control inspection report, roof inspection report or contingency for no potential environmental hazards such as asbestos or radon gas.

Contingency clauses should satisfy the concerns of both the buyer and seller. Buyers also can protect themselves by inserting additional necessary contingencies. Indicate which items like curtains and appliances are to remain with the house. Then stipulate you have the right to personally inspect the home 24 hours before closing to make sure all is in order.
