

How to Negotiate the Best Price when Buying a Home



Have you found the home you want to buy? The next step is to write an offer. Use the following negotiation techniques to reach an agreement with the seller.

What does a purchase offer consist of?

A purchase offer is a written contract which you sign and submit to the seller; it is accompanied by a certain amount of "earnest money" (a small good faith deposit to show you are serious about buying the home). The written purchase offer indicates the amount you are willing to give the seller for his or her property. If you are working with an experienced real estate agent, he or she will typically provide a standard purchase offer form which you can complete, sign, and then hand over to the seller to sign. If you are not working with a realtor, be sure you are aware of state laws regarding the information the offer should include. Because your written offer forms the basis of a legal contract with the seller, be thorough. There are some important details you should be sure to talk through with your agent, and to make sure are accurately included on your purchase offer, such as:

- the amount you are offering for the home, and how you will pay the seller (cash, check, etc.)
- contingencies to protect you if your financing falls through, or if the inspection unearths major problems with the home (because inspection happens after you make an offer)
- conveyances, such as whether the home comes furnished or unfurnished
- an expiration date, by which the seller must respond or your offer expires
- concessions, such as any closing costs or other costs you would like the seller to pay for
- the amount of earnest money you are offering
- the size of your down payment

The "earnest money" deposit can range from about \$500 to 5% of the value of the home, depending on where you are interested in buying, and the state of the market. Your earnest money is typically put towards your closing costs; however, if you enter into a contract with the seller and then breach that contract, you could stand to lose this money.

Once you make a purchase offer, sign it and submit it to the seller along with your earnest money (this is usually done through your agent), the seller has the right to either sign your offer as is, make a counter offer, or reject your offer outright.

If the seller accepts your purchase offer, the offer becomes a contract, and you are on your way to owning the home. If the seller counters your offer, you may choose to counter his or her offer, or walk away. Note: If, for some reason, you forget to specify contingencies in your offer, there are sometimes legal steps you can take to back out of the deal. Ask your agent what recourse you have.

Why is negotiation so important when making an offer on a home?

It's not often a seller isn't willing to negotiate. Barring any competing offers, which are unlikely in today's market, this means you're going to buy lower than the listing price. The average discount varies by market, but it's often about 5% below the listing price. These days, it may be even more. How do you get there? Negotiation.

How should I negotiate my way into an offer?

Once you've found a home you're interested in, use the following negotiation techniques to reach an agreement with the seller:

Treat your initial offer as an opportunity to gather information about the seller's motivation for selling.

Are the sellers retiring, and would like to downsize? Does the seller need to make a quick move due to a sudden job change? You may not get direct answers to your questions about the seller's motivation for moving, especially if their agent has urged them not to divulge this information, but you might be able to get insight into the seller's willingness to negotiate by making an offer and seeing what the seller comes back to you with. If the seller refuses to come down off of his or her listing price, this may indicate that he or she isn't in any hurry to move. On the other hand, if he or she responds immediately with a counter offer that is higher than what you offered but lower than the listing price, they may be in a bigger hurry to sell.

Be realistic with your offer; don't lowball. This shows the seller you are serious.

Nothing is accomplished by going in with a low-ball offer (except sometimes, in the cases of foreclosures or when a home is significantly overpriced and has been on the market a long time). If you go in too low, you're going to insult the seller. Sellers love their homes and offering a lot less than what a property is worth won't win you any points. If your research shows that the property is fairly priced, offer just slightly less than the listing price. If your offer does not elicit a meaningful counteroffer from the seller, your offer failed. How do you negotiate with someone who won't

respond? You can't. You have to get them to believe that you are a serious buyer who will actually complete the transaction. To do this, you have to first get them to believe that you're capable of arriving at a price that is agreeable to them. That starts the negotiation process.

Be ready to walk away.

If you can't put together a deal on the first property you like, don't worry. There will be a lot more homes for sale, especially in this kind of market. It is VERY common that you'll end up finding a home a week later that you like even more than the first. Not taking that first home might end up being a blessing in disguise.

Don't show enthusiasm.

There is a time for trying to convince the seller that you will be broken-hearted if you don't get his or her property---when there are multiple competing offers for a home. In today's market, however, you won't have as many competitive buyers. You should be dispassionate about potential homes and, more importantly, appear to be that way. Fact-driven, highly qualified and ready to walk away at anytime---this should be the attitude you display (even when you don't feel that way) during the home buying process.

Stick to your guns.

By the time you're ready to make an offer, you should have done your homework. You know what homes in your area are worth. And you also know how much home you can afford. Be serious about defending these figures. It is easy to get carried away by emotion and allow the seller to box you into a price that is above what you've decided. If you have chosen your agent well, this won't happen. Nevertheless, bad agents have been known to urge clients to accept counter-offers simply so they can stop working on the negotiation. Be firm.

Set tight deadlines for the expiration of your offer.

You and your agent need to make sellers BELIEVE that if they want to sell their home to you, they're the ones who need to get with the program. You can tell them other homes are on your list, ones you are just as happy with, in fact, and that you'll gladly make an offer on if the sellers don't make a deal with you first. When you make your offer, there will be a space for putting a time limit on it. Make this a very short period, for example, within 24 hours. If you are making an offer in the evening, make the expiration early the next afternoon. Why? Having a longer period just invites a competing offer, exactly what you do not want. Don't give the seller's agent a chance to round up someone else.

Be creative with your offer if the owner is stuck on price.

If the seller seems emotionally tied to a certain price on his or her home, instead of asking the seller to lower their asking price, ask for certain concessions, such as repairs, or that the owner contribute to the closing costs.