

## Negotiating your home purchase

Negotiating to buy or sell a home or other real estate is much like buying or selling a used car. But real estate agents and their clients have become much more sophisticated in recent years, thanks primarily to more information available through computers. Subsequently, negotiation strategy plays a major role in home sales.

If the asking price for a home is correctly set close to its market value, as determined by recent sales prices of comparable nearby homes, that home should sell within 90 days for close to its asking price.

Even if a home is overpriced, it may sell quickly if the seller is motivated to sell and the buyer is anxious to buy. Where negotiations often break down, however, is when one or both parties really don't want to make a sale except at a very advantageous price. Here are the simple rules to help you win this real estate negotiation game:

### **Learn as much as you can to prepare for the negotiation**

Knowledge is power in negotiations. If you are selling your home, your best preparation steps are to (a) get your home into tip-top condition so buyers won't have any serious physical objections and (b) have the facts on recent sales prices of comparable nearby homes.

Make price adjustments for the pros and cons of your home compared to the recent neighborhood home sales. Also consider the asking prices of other competitive homes currently listed for sale.

If you are buying a home, don't be in a hurry. You may find the perfect home at the first weekend open house, or it might take you six months to buy a home. When you find a home you want to offer to buy, insist your realty agent prepare a written CMA (comparative market analysis). This is the same form the seller used when setting the asking price. You may be shocked to realize the asking price is a bargain. Or, it might be grossly overpriced.

As a home buyer, you are in the driver's seat. You can always raise your offer price, but you can't lower it. Don't be afraid to make your first offer, if justified by the CMA, 5 percent below the asking price.

Unless the asking price is grossly out of line, a very low first offer insults the seller, who might not even make a counteroffer. Use your superior knowledge of the market to negotiate back and forth until a mutually acceptable price and terms are agreed upon.

### **Understand the importance of time in the negotiations**

If you are the buyer, don't hesitate to ask why the seller is selling. A job transfer, pending foreclosure, illness, unemployment or other motivating factor might be motivating the seller. However, if you learn the sellers are a retired couple who will sell if they can get their price, they probably won't be motivated to accept your low offer.

### **Learn the other party's motivation**

Closely related to time in the negotiation game is the importance of the other party's motivation. For example, if you learn the seller is selling because they just purchased a larger home, you know they are motivated both by a time deadline and a need to sell their old home to provide the down payment cash.

However, if you learn the seller wants to buy a larger home, but has not yet done so, that seller is not yet highly motivated to sell and might not accept your low purchase offer.

The biggest obstacle to learning the seller's motivation is often a listing agent who refuses to tell why the seller is selling. You or your agent should courteously reply, "Well, we would like to know so we can make a purchase offer which meets the seller's needs." That is usually enough to melt even the toughest, meanest listing agent you will ever encounter.

### **Watch out for a negotiator who needs 'higher authority' approval**

Most real estate agents have encountered the home buyer or seller who needs approval from a "higher authority." This might be a spouse who is out of town or a parent who is supplying the buyer's down payment.

Realty agents can anticipate this negotiation roadblock by holding off until all necessary parties can be present to either make the offer or accept it. An offer which is contingent on the approval of a third-party is often doomed to fail. The reason is the third-party will often reject the negotiated offer because (1) they aren't aware how and why the offer was crafted and (2) if they approve, but something goes wrong, they will be blamed.

A variation of this situation is whether the buyer or seller agrees to the offer "contingent on my attorney's approval." This places the attorney in the "deal killer" hot seat. A better approach is to get the attorney's approval first or, if that is not possible, set a one- or two-day deadline for the attorney's approval of the legal aspects of the transaction.

### **Use the "He who cares least wins" theory**

When buying or selling a home, probably the most effective strategy to take the emotion out of your important decision is to act as if it doesn't really matter whether or not you make the sale. This tactic usually makes the other party realize they can't be too demanding or they will lose out.

Sellers and their realty agents can usually detect when a prospective buyer has fallen in love with a home and must buy it. The result is sellers usually hold out for top dollar. But the smartest buyers never let the seller or the realty agents know they really love the home and absolutely must buy it.

This same negotiation tactic is also used in business to make the other party offer their very best terms. Variations of this method are (a) if you are the seller, telling the buyer there is another serious buyer preparing a purchase offer and (b) if you are the buyer, informing the seller you are considering buying another house. Use of either alternative minimizes the bargaining advantage of the other party if emotions are kept under control.

### **Watch out for the nonstop negotiator**

Real estate buyers often use the nonstop negotiation strategy. They make a decent purchase offer that, often after a few counteroffers back and forth, results in a home sale with both parties signing a firm sales contract. However, for the nonstop negotiator, this is just the start of negotiations.

For example, a nonstop negotiator buyer will insist on coming back to the home, usually with a pretense such as measuring the rooms for furniture or carpets. The truth is the nonstop negotiator is looking for real or imagined defects in the property which can be used to negotiate the price downward or obtain a repair credit.

The truly professional nonstop negotiators save up their requests until a few days before the scheduled closing of the sale. Then they notify the seller of all the alleged defects or problems, demanding a price reduction. At this point the home seller has usually moved out

or incurred obligations for the sales proceeds and is very vulnerable.

Unless the home seller is desperate and will agree to outrageous buyer demands, it is appropriate to remind the buyer the purchase contract is firm, the seller has fully disclosed all known defects, and the seller will hold the buyer liable for breach of contract damages. In difficult situations, the seller's attorney might be called in to reinforce the seller's position.

### **Look for the bad guy-good guy negotiation strategy**

This is another name for the "bad cop, good cop" tactic we have all seen on TV. First, the tough guy tries to get the best possible deal. This role is usually played by the husband. Second, the good guy steps in to make the bad guy be more reasonable. This role is often played by the wife.

If the other side to the negotiation uses this strategy on you, often without knowledge they are doing so, just patiently listen, nod your head to indicate understanding rather than agreement, and let the bad guy and good guy talk themselves out.

Be sure all parties to the negotiation are in the room at the same time. When the bad guy and good guy have calmed down, then you can negotiate a reasonable transaction. But don't be in a hurry to conclude the negotiations because these negotiators often take hours to wear down.

### **Avoid an auction situation**

Home sellers love to get into the auction strategy. But this is not an intentional or formal auction. For home buyers, it is a very dangerous situation which should be avoided.

Just like a formal auction, where bidders often get carried away by "auction fever" and pay too much for an item being auctioned, the real estate auction strategy involves either (a) pitting one buyer against another or (b) a buyer considering purchasing one of two homes. These situations often happen in a seller's market where there are more buyers than homes for sale or in a buyer's market where there are more homes for sale than there are buyers.

The best way to combat an auction situation is to drop out of the bidding. If the home seller says there is another prospective buyer interested in the home, hold back making a purchase offer. Or, if the buyer is considering two houses for possible purchase, don't be over-eager unless you are desperate to sell and must give price or terms concessions

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