

The Secret of Knowing The Right Offer

By Judith Johanssen

When you are buying a house, how do you know the price you're offering is a good price, a fair price? I mean, if you submit a lowball offer the seller might not take you seriously or be insulted and not even send back a counteroffer. On the other hand, if you tender an offer that is below the list price but not a full-fledged lowball offer and the seller accepts it right away, you might think you have offered too much.

Sellers expect to negotiate, don't they? Isn't it common knowledge that a seller's list price is pretty much more than he realistically hopes to get? He's probably added up in his head what he paid for the house 20 years ago, the cost of every nail, screw, piece of plywood, shingle and plumbing part, adjusted for inflation, and, then, just for good measure, added a little more for profit and repairs a buyer will ask for and the real estate broker's commission.

So how do buyers and sellers know what the right offer should be? Before buyers buy or sellers sell, they all have to consider the market *objectively* – is this a sellers' market where there are few sellers but lots of buyers, or is it a buyers' market where there are tons of sellers but only a few buyers? Knowing the type of market you are in will impact how a buyer structures an offer and how a seller responds to it.

The first thing buyers need to know before looking for a house is how much they can realistically afford each month for housing. This means that buyers should speak with a lender or credit counselor to understand the price range in which they should be looking. Sure, buyers may be able to afford the monthly mortgage principal and interest, but they also need to be able to afford the property's taxes and insurance and the monthly living expenses such as food, utilities, cell phone bills and gas for their cars.

The second thing buyers need to understand before they write up an offer is that the price they are offering should fall in line with other recent and comparable house sales. Such property transaction information is available through examining the town's Land Records, the local newspapers, and the buyer's and seller's Realtors®. A buyer being able to shore up an offer by showing the seller local and recent comparable sales can slingshot that seller with overpriced expectations back into reality.

Lastly, and maybe most importantly, buyers need to know what that house they are making an offer on is worth to them. Oftentimes, buyers find themselves in a bidding war with several other buyers and the competition gets the better of them. Again, it is the buyers' job to know their limits when it comes to their purchase price ceiling as it is not about winning the battle in the short term, it is about being able to continue to afford the payments in the long run.

The sellers' position is a little different in that they have to let go of two mindsets. First, sellers must discard the notion that cost equals value, so they should push aside the meticulous job of accounting they have done for every repair and improvement over the years. The market (what willing buyers would pay willing sellers) determines the value, not the total amount of money the sellers have poured into house maintenance over the years.

Secondly, a seller's belief that he has to come away from the closing table with \$X from the sale of his house in order to pay for his next house may be true, but when it comes to a listing or selling price, it is irrelevant. Yes, a seller may require a certain amount of money from the sale of his property in order to afford the new property, but the listing and ultimate selling price of the current property is not based on what one's next property is going to cost.

Even in the real estate market we are experiencing today, sellers have to be just as aware of the market conditions and values as buyers. In some areas, house values have changed, so by looking at very recent comparable sales, both buyers and sellers can extract a realistic price range from their "want" price range.

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