

How to Negotiate the Lowest Possible Price for Your Next Home



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How to Avoid the Most Common Mistakes People Make When Buying a Home-- and Save Yourself Thousands of Dollars

Most people don't have a **strategic plan** for buying a home.

If they *had* a strategic plan, they would probably save:

- Thousands of Dollars,
- Many hours of their time, and
- Most of the ***stress*** associated with buying a home

That's why I offer a free, confidential Strategy Session to anyone who is thinking about the possibility of buying a home. In this free report, I will explain some of the things you need to know before you begin the process of deciding to buy a home. I will also show you why meeting with me for a personalized, confidential Strategy Session – at no charge or obligation to you -- could be the *smartest* decision you'll ever make in your entire home buying experience.

As one of Orange County's most knowledgeable mortgage lenders, I have experience in more different types of unique real estate transactions than even the top realtors in town. I know this real estate market, and my experience can help you understand what the conditions of the market are now, and how that affects your negotiating position. Understanding your position (strengths & weaknesses) is the first rule of negotiating.

Here are the ten things you need to know before you buy a home:

1. **Know the neighborhood; Know the market.** Your first priority is to narrow your search to no more than a few neighborhoods that meet your most important criteria.
 - Does the neighborhood contain the kind of home you're looking for (are the houses the right size and style)?
 - Is the neighborhood conveniently located (close to your work, church, schools, shopping, and other important interests)?
 - If you have school-aged children, how are the schools that serve the neighborhood? How do their test scores compare with the rest of the district?
 - How safe is the neighborhood (how does it compare to other neighborhoods in terms of crime statistics)?
 - What is the condition of the real estate market in the neighborhood? How many homes are listed for sale? How many of them sell each month? The relationship between sales and listings will tell you a lot about the market conditions – and that will help you develop an effective negotiating strategy.

In a free, personal Strategy Session, I can help you get the answers to these and other questions and the most accurate, up-to-date information available.

2. **Know the difference between what you want and what you need.** Why do you want to buy a home? That's a question only you can answer; different people have different reasons. Maybe this will be your first home, and you're really excited about having a place of your own. Maybe you already own a home, but it's too big, or too small, or you don't like the neighborhood, or you want to be closer to work, or to better schools for your children. Maybe you're looking at the purchase of a home primarily as an investment.

Whatever your reasons are, it's important that you be clear about them, because understanding your own motivation will help you be clear about what you need, and what you want in your next home.

Once you know your dominant motivation, get yourself a notebook (this is something you'll use throughout the entire home buying process to keep track of important information) and write down a list of the things you consider to be your basic must haves in a home.

For example, how many bedrooms & baths do you need? Write that down. Do you need a family room or study? A 2-car garage? Do you need to be within walking distance of public transportation, or schools? Write all these needs down. Remember, these aren't things that you would *like to have*, but things you consider to be *necessary*.

It's important that you make this list of basic necessities now, *before* you start looking at homes, because once you start looking, the real estate agents are going to do everything they can to convince you that you absolutely need whatever features are present in the homes they show you. If you have your own written list of your needs before you get subjected to emotional appeals and sales pressure, you won't be tempted to pay more for things you don't really *have* to have. This doesn't mean you can't change your mind about what you need somewhere down the road, but if you're working from your own list of needs, you'll be guided by your own thinking and not being influenced by someone else.

On a separate page, you can make a list of things you *want* – things that would be *nice* to have, but aren't essentials – things you know you don't need to pay extra for.

Generally speaking, *design* choices like paint colors, wallpaper, and carpeting would be *wants* rather than *needs* – in part because they are relatively easy and inexpensive to change compared to, say, the number of bedrooms.

One of the things I can do for you in a Strategy Session is to help you make distinctions between wants and needs. I can help you evaluate the economics of various types of improvements to a property – show you how to determine the likelihood of being able to recapture your investment in such changes, given the relative costs of making them vs. the average price of homes in a neighborhood, market conditions, etc.

3. **Know your buying power; Take appropriate steps to strengthen your negotiating position.** Whether or not you already own a home, it's important to know – *before* you start looking at homes – your buying power, your budget, and your spending limits.

There are two numbers that are important to you: the first is your *maximum purchasing power* (the total of the money you will have available for down payment plus the maximum amount of mortgage loan you can qualify for). The second important number is your *comfortable spending limit* – which is the amount you would feel

comfortable spending in order to get the features you are looking for in a home. Your goal will be to buy the right home for a price that falls within your comfortable spending limit. You will only go above that number (up to your maximum purchasing power) for a home that is really exceptional *and* represents an excellent value for the money.

The only way to reliably arrive at these numbers is to meet with a qualified, professional mortgage lender and get preapproved for a loan – which means that the lender has made a written commitment to make the loan to you, without obligating yourself to *take* the loan.

There's a big difference between being *prequalified* and being *preapproved*. When a lender prequalifies you, none of your financial information (including your income, assets, and credit report) has been verified, and the lender makes no commitment to you. With a preapproval, all of your information has been checked, your file has gone through underwriting, and the lender gives you a binding commitment, in writing.

In a Strategy Session, not only will I get you preapproved so you know your maximum purchasing power; I'll also help you arrive at your comfortable spending limit, so you'll know how much you want to spend, and how much you *could* spend if you found a home that was an exceptionally good value for the money.

One more thing about getting preapproved – it's been estimated that about 30% of credit reports contain some error or inaccuracy that could affect the consumer's credit rating. These mistakes can be corrected, but it takes time. That's another reason why it's so important to meet with me before you start seriously looking at homes. If there's a mistake on your credit report – or even a *correct* derogatory entry like a late payment – you don't want to be trying to get it fixed after you've already made an offer on a home and you're trying to meet a closing deadline.

Finally, in a Strategy Session, one of my most important objectives is to help you find ways to strengthen your negotiating position so you can not only find the right home, but also be able to buy it for the right price. Industry statistics clearly show that people who have been preapproved for a mortgage loan before they make an offer on a home save at least 3% to 5% on the price they pay for their home. On a \$500,000 home, that's a saving of at least \$15,000!

4. **Understand the role of Realtors – what they will do for you and what they won't do.** If you were a rock star or a professional athlete, you would have an agent to represent you in contract

negotiations, and your agent would work hard to get you the best possible deal – in part because the agent will receive a commission on the negotiated contract. In other words, the agent's self-interest and your self-interest coincide. You both want the same thing – the highest-paying contract possible.

If you're buying a home, real estate agents can be a tremendous source of information. They can help you find out about the neighborhood, schools, shopping, churches, and other community services. They have an extremely efficient system for identifying homes for sale that match your description of the home you're looking for. They can help you organize and coordinate the many details involved in closing a real estate transaction. If you are making an offer on a home, they will present your offer in its most favorable light (because they want to make a sale).

But it is not the Realtor's job to negotiate the lowest possible price for the home you buy.

Realtors work for commissions. They are almost always paid by the Seller of the home. This is the case whether you are dealing with the Listing Agent, or a Buyer's Agent who has been taking you around and showing you homes. The standard real estate commission in our area is usually around 5-6% of the actual selling price of the home. That commission is usually split 50-50 between the listing agent and the buyer's agent when there are two Realtors involved. (If you deal directly with the listing agent only, he or she will earn the full commission.) Consequently, (and it is very important that you keep this in mind) the higher the price the home sells for, the more commission dollars the Realtor will earn.

It is a common misconception among homebuyers that the Buyer's Agent is working for them. It is true that the agent has certain ethical responsibilities to you. For example, if you ask them about whether the home has certain defects, and they happen to know the answer, they are obligated to disclose that information to you.

But under no circumstances should you expect the Realtor to be trying to help you buy the home for the lowest possible price. It is simply not their job – and in fact, would be a conflict of interest for them. There is nothing wrong with this. The Realtor is not being unethical – the Realtor is representing the interests of the person who is paying the commission – the Seller.

Therefore, you should make it a practice *never* to reveal your maximum spending limit to a real estate agent. If agents ask you how much you have to spend on a home, tell them that you have been preapproved with a mortgage lender, and that if you decide to make an offer, you will provide them with a commitment letter that

proves you have the financing to buy the home. Tell them (politely) that you would prefer to keep your finances private, and that you would like the Realtor to focus on finding you homes that match the description you have given them, regardless of the listing price.

If you were in the market for a new car, and you were on the dealership lot looking at a car you wanted to buy, would you ask the salesperson how much you should offer for the car? Of course not. For the same reason, don't ask a Realtor for advice on how much to offer for a home.

One of the most valuable services I can provide for you in your confidential Strategy Session is teaching you how to decide on the right amount for your initial offer on a home.

5. **Put Time on your side.** Generally speaking, the Sellers are likely to be under considerable time pressure to sell their home. They may be planning to relocate for a job transfer; they may have already bought another home and don't want to be making two mortgage payments; or they may have had their home on the market for a while and are getting anxious about selling it.

This can be a negotiating advantage for you as a Buyer. If you are not in any particular hurry or pressure to move quickly, but are prepared to move quickly for the right home at the right price, the message you convey to both the Realtor and the Seller is that if the price of the house doesn't suit you, you're just going to keep looking – it's no skin off your nose, you'll just keep looking until you find a house that suits you for a price you're willing to pay.

But for those Sellers feeling the pressure to sell their home, you are the "bird in the hand" who's worth two in the bush. They won't want to let you go if your offer is anywhere near what they need to get for the home – even if it's thousands of dollars below what they *hoped* to get.

Therefore, never tell the Realtor you're in a hurry to find a home (even if you *are* in a hurry). That will immediately remove what may be one of your strongest negotiating tactics. At the same time, do stress that you are in a position (both financially and logistically) to be able to move very quickly -- for the right home at the right price.

By the way, this is one more reason why it's so important to have your mortgage financing preapproved ahead of time – so you are ready to close the deal as soon as you find the *right* one.

Finally, if you put yourself in a position where time is on your side (starting with taking advantage of my offer to give you a free Strategy Session), you will have plenty of time to do your research

– to track the *asking* prices of homes listed for sale in your target neighborhood, and record the *actual* prices those homes sold for, noting the difference between the two. This research will be invaluable in helping you decide what you should offer for a home, once you're ready to make an offer.

6. **Fall in love with a person, not a house.** Love is a wonderful thing, but a good rule of thumb is that you don't want to fall in love with someone (or something) who can't love you back.

When Realtors take you through a home for sale, they're looking for the telltale signs of love. If they can see that you (and/or your spouse) are going gaga over the house, their eyeballs start turning into dollar signs – and you are toast, as far as your negotiating position is concerned.

The Realtor may start babbling on about the wonderful this or that feature of the home. Your job is to be polite and friendly, but noncommittal. It is OK to fall in love with a home (or more accurately, to feel in your gut that this home is the right one for you) – as long as you never, ever let the Realtor know that's how you feel. As long as the Realtor (and by extension the Seller) feels that you could either take it or leave it, you are going to be in control. The instant the Realtor thinks you believe you *have* to have this home, you have lost all chances of negotiating a better price.

7. **How to look at homes; what to ask, what to say.** You have given the Realtor the profile or criteria of the house you want to buy. The Realtor has done a search, and now wants to take you to see these homes. How you conduct yourself during this part of the process will be critical to your success in finding the right home, and paying the lowest possible price for it.

To begin with, remember what I said about falling in love with a house (or letting the Realtor know you've fallen in love with it)? One of the ways a Realtor can tell how interested you are in a particular home is by how many questions you ask about it. If you go through a home and don't have a single thing to say, don't ask a single question, the Realtor will assume you're not interested in that house. If you go through five like that, and then on the sixth house you suddenly start asking questions, it's a dead giveaway that *this* is the house you're interested in.

So I'm going to give you some questions you should ask about every house the Realtor shows you, even if you know the moment you see it that there's no way you'd ever want to buy that house.

You don't have to waste a lot of time on a loser property, but it is very much in your best interest to avoid showing enthusiasm for any one home – so having a standard list of questions you ask about *every* home you see will keep the Realtor from getting the impression that you like a home so much you'd pay any price for it. Here are the questions you should ask:

- “What is the *asking* price on this house?” (The way you word the question subtly lets the Realtor know that you consider the listing price to be nothing more than the starting point of the negotiation of the price. The *asking* price is never the *final* price.)
- “Why is the home being sold?” (Most Sellers need to sell more than most Buyers need to buy. Knowing the reason the home is being sold helps you evaluate the level of the Seller's motivation.)
- “How soon does the Seller want to close?” (This is another way of getting at the level of the Seller's motivation/sense of urgency. Sometimes the agent will answer your question with another question, like, “What would be best for you?” Your response, if this happens, should be, “We haven't determined that yet. How soon does the Seller want to close?”
- “How long has the seller owned the home?” (If it has only been a short time, you might wonder out loud what was wrong with the house that they didn't want to stay there any longer. If they have owned the house for many years, it probably indicates that the seller has accumulated quite a bit of equity in the home, which might make them more flexible on the price.)
- “What repairs or improvements has the Seller made on the house?” (If something has been repaired, it obviously means there was a problem. Realtors know that buyers typically have a perception that a history of repair problems lowers the value of the home. While the repairs may have completely solved the flaw and this may not be a problem for you – you should always make any offer to purchase a home contingent on a satisfactory professional inspection – you can use this perception that because the home was worked on there may be a problem with it as a negotiating point in your favor, something you can use to justify lowering the price you'd be willing to pay.)

Remember, you should at least ask *some* of these questions about every home you see, and write the answers in your notebook, even

if you don't have any interest in buying that house. This will help protect you from prematurely giving away to the Realtor your level of interest in a particular home – if you ask questions about every home you see, the Realtor can't tell which one really "wowed" you. If they think you've fallen in love with a house, they're going to be looking to get top dollar for it. If they think you could either take the house or leave it, you have much more power in a price negotiation.

8. **How to make an offer.** During your first tour of a home, you can count on the Realtor to try to get you to make an offer. He or she may tell you that the property is sure to sell quickly, or even that an offer has already been made for the home (or that one is expected in the next 24 hours).

If the Realtor tells you there is another buyer who has made (or is "about to make") an offer on the home, your response (assuming you are interested in the property) should be something like this: *"We're not interested in getting into a bidding war for this home. We like the home, but we've also seen other homes we like that are priced better. If the other buyer's offer doesn't pan out, give us a call and we might be interested in making an offer then, but not for the price the Seller is asking."*

Realtors in this situation might respond by telling you what a great home this is and that they would hate to see you lose it. You should respond by thanking them for their concern and explaining that you are the type of people who make important buying decisions carefully, and that while you like the home, there are other homes you've seen that you also like. Tell the Realtor that if the "other buyer" buys the home, you'd wish them well.

You will find that, more often than you might think, this approach will result in your getting a call from the Realtor within the next few days, telling you that the "other buyer" is no longer a factor, and asking you if you'd like to make an offer. (The only exception to this rule would be a situation where there is a truly "hot" seller's market, and homes are being snapped up as soon as they go on the market – it happens, but it's fairly rare. In a personal Strategy Session, I can help you find out ahead of time whether this is actually the case for the neighborhood you're interested in.) Often this is because the "other buyer" never existed in the first place – it was just a ploy to get you to make an offer. Or there may actually have been another buyer, but they were unable, for whatever reason, to come to terms with the seller. Either way, your refusal to commit to the home at

the price the seller was asking has put you in a much stronger negotiating position.

If the Realtor asks you how much you would be willing to offer for the home, answer, "That hasn't been determined yet."

As a rule of thumb, you should not make an offer on your first visit to a home. If you really like the home, call the Realtor after a day or two and explain that there are some details about the home that you don't remember clearly, and that you would like to see the home again. This time, go through the home slowly and carefully (as much as an hour in total). Take your time. View it with a critical eye. Ask plenty of questions about the condition of the home, any repairs or problems – the electrical wiring, roof, plumbing system, the structural condition. Ask again about the seller's reasons for wanting to sell, and when they want to close. (Remember that if the Realtor answers your question with another question, you answer by saying you haven't decided yet and then restate your question.

The Realtor will once more try to get you to make an offer, and may very well suggest or hint that the Seller might be persuaded to accept an offer slightly below the listing price. This is a sure sign that the Realtor and/or the Sellers are highly motivated and willing to deal.

If you have done your homework, you will know how many homes are currently on the market in this neighborhood, and how many have sold in the last month. You will know the prices of all homes sold in the neighborhood over the last 6 months to a year. You will have a sense of the rate at which homes in this neighborhood have appreciated in the past few years.

If you are prepared to make an offer on this home, your initial offer, generally speaking, should be for several thousand dollars *below* the lowest price for which a comparable home has sold in that neighborhood in the last 6 months to a year. This is your opening offer; in most cases the Seller will give you a counteroffer, and your negotiation has begun. Bear in mind that the price will only go *up* from your initial offer; that's why you want to start low (but not so low as to appear not to be serious).

Any offer you make should always be contingent on a satisfactory thorough professional inspection. You might want to suggest a relatively long time frame to closing (say 90-120 days), which you can shorten to as little as 30-45 days as a "concession" to the seller in exchange for their accepting an offer which is well below what they were asking for.

How you approach making an offer will depend on a number of variables – the state of the real estate market at the time, your specific circumstances, your goals and desires, your financial situation, and the specific features of the home you’re thinking about buying – and once again, the best way to thoroughly prepare yourself so that you make the best deal possible is to meet with me for 30 minutes or so for a free Strategy Session *before* you start seriously looking at homes.

9. **You get what you Negotiate.** If all of this seems like a lot of work, bear in mind that we are talking about the amount of money you will be spending for what may well be the biggest financial investment you’ll make in your life. If you spent a total of 40 hours doing your homework (including meeting with me for a personalized Strategy Session), being patient, and as a result saved \$20,000 off the “listing price” of the home you’d bought, you’d have made \$500 per hour for the time you spent – not bad!

As I have said before, you will in all likelihood be negotiating with a professional Realtor who is highly skilled in the art of negotiating a real estate transaction. Realtors have far, far more experience at this than you can ever hope to have, and there are many thousands of dollars at stake. There are only three things you have going in your favor:

- The homework and preparation you do to make yourself ready to negotiate from a position of strength (including the confidential, personalized Strategy Session I will provide you at no charge)
- The fact that there are almost always far more sellers with homes to sell than there are buyers ready to buy at any given time
- The related fact that most sellers need to sell (and most Realtors need to *make* a sale) more than you, as a buyer, need to buy that *particular* home *today*.

If you’ve flown on an airline in the last few years and read the airline magazines, you’ve no doubt seen the ad for the negotiating course with the headline, “In Life, You Don’t Get What You Deserve – You Get What You Negotiate!” There is a great deal of truth in that statement. When buying a home, no one is going to offer you the deal of the century – but you can save yourself thousands of dollars if you follow the suggestions in this report and put yourself in a position to negotiate the right price for the right home.

10. **What to do if you have a home to sell.** If you already own a home and haven't sold it yet, you will want to approach the sale of your home and the purchase of your new home as an integrated strategy. The price you get for your home, the price you pay for your new home -- and the *timing* of all of that -- are all interrelated.

With regard to the sale of your existing home, it is critical that it be priced right for the market. Sellers do tend to have a somewhat inflated idea of what their home is worth, in part due to their emotional investment in the home. But if you list your home initially at too high a price, you run the risk of discouraging serious buyers. A home can get a reputation among Realtors of being overpriced, and the consequence of that can be that it simply doesn't get shown.

One of the things I can help you with in a free Strategy Session is to refer you to a Realtor who will help you get top dollar for your home. I work with some of the top Realtors in our area, and I know which ones have the experience, professionalism, and integrity to do the best job for you.

Remember that, as a Seller, you and the Realtor are truly on the same side -- that is, you are both looking to get the highest possible price for your home in the shortest possible time.

In terms of the home you want to buy, you have the luxury of having plenty of time to do the necessary research and preparation -- but it is by no means too soon for you to get started thinking about the home you want to buy. For as long as your home is still on the market, you will be in an extra-strong negotiating position: you can be even more aggressive in your price negotiations because you have more time -- if you can't buy a house you like for the price you're willing to pay, you know you have the time to find another one -- you can be patient and wait for the right opportunity.

In a personal Strategy Session, I can help you explore all the options available to you.

Maximize your negotiating position and save thousands of dollars – schedule a free, confidential Strategy Session today!

CALL 714-892-1002 ext 312 to schedule your free Strategy Session today.

John Davis is a Certified Mortgage Planner who has undergone extensive training on advanced financing strategies. His unique one on one approach to helping clients pay the lowest price for their home purchase, combined with his Lowest Total Cost Guarantee for the mortgage itself, makes him the **Go To Guy** for all your mortgage needs.

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