



# Charting Your Course to Home Ownership

## Negotiating for Your Home

A home is the largest purchase most people ever make, so a home buyer who doesn't negotiate can end up with unnecessary costs. Negotiation should take place at all stages of the home-buying process including the hiring of professional services, the contract between buyer and seller and the choosing of a mortgage lender.

### Information Helps

Before you can negotiate with others successfully, you need information. Start reading the real estate section of local newspapers and the free real estate magazines available at broker's offices and supermarkets. Note the location, size, features and price of listed homes. See if prices appear to be rising (a seller's market) or if sellers are reducing their asking prices (a buyer's market). It can also be helpful to read the business section of the newspaper to stay aware of current economic conditions and trends, like mortgage rates.

When you start visiting homes for sale with a real estate agent, keep a notebook to jot down your thoughts and the key features of each one. Plan to look at a minimum of 10 to 15 houses in your price range. Remember, unless you are working with a realtor you have hired to represent you, the realtor is usually representing the interests of the sellers.

### Negotiating Price

Eventually most buyers find a home they can afford that also meets most of their needs. Now is the time to negotiate. Unfortunately, buyers often have a limited period of time to figure out the price and conditions they will offer in a home purchase agreement. That is why 3 to 6 months of "homework" really helps. Carefully consider economic trends and ask your realtor to give you information regarding the price of comparable homes listed in the area over the past 6 months.

You can negotiate from strength if you know something about the seller's situation. If you know a seller's deadline but they don't know yours, you have a negotiating advantage. The closer sellers are to their deadline, the higher their need to close a deal and the more likely they are to make concessions.

It's helpful to know why a seller is moving. Sellers may take less if they've had few or no offers, are buying another home, are divorcing, are settling an estate or must transfer to a new location quickly. Find out how long their house has been on the market and if they've had any previous offers.



The most important point of negotiation is, of course, the home's price. Be certain you really want to buy that home before you begin negotiating. Submit all offers in a written purchase agreement. Only written offers may be considered.

In general, sellers expect to receive less than their asking price and often pad it to end up with the amount of money they really want. Unless real estate is extremely active (a seller's market), you can probably make an offer below asking price. The exact amount of your offer should depend on the market value and how fast local homes are selling.

Ask whether the listing agent prepared a comparative market analysis (CMA) on the home. This is a written report that reviews prices of comparable homes in that location that are currently on the market, under contract and that have sold recently.

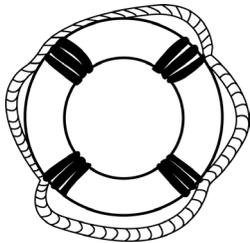
In a seller's market, you may have to offer close to (or above) the asking price. In a buyer's market, you can usually offer less than the asking price. It's a gamble, but if your offer is not accepted based on price alone, the seller may make you a counter offer at a higher price or you can always resubmit a new contract and raise your offer. A real estate agent is obligated to submit every bona fide written offer (purchase agreement).

You cannot, however, go back to a seller and lower your offering price once a contract is signed. That's why it is so important to be sure how much you can afford and know both the market value and condition of the home before you make an offer.

## **Purchase Agreement Contract**

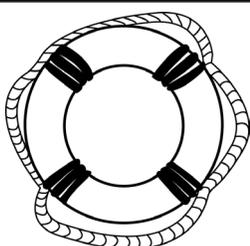
Other parts of a contract to buy a home deserve as much attention and negotiation skill as the price. Your written purchase agreement should include "contingency clauses" to protect your interests. These are the conditions or requirements of your offer. If any of these contingencies aren't met, then you can withdraw your offer and void the contract. Here are some items to consider:

- What will be included with the sale? – If you would like items such as the seller's appliances, draperies, light fixtures or fireplace screen, list them in writing in the purchase offer. The seller can then decide to: include them in the offering price accordingly, remove these items from the contract or sell them in a separate transaction. If you don't list them, you may not get them, so be specific and detailed to avoid misunderstandings.
- Deadlines – The offer to purchase should state a length of time (in days) that the offer is valid. If the seller does not accept it within that time, you may withdraw it. This agreement should also state a proposed closing and occupancy date.
- Home Inspections – Two of every five homes for sale have at least one serious defect which could be costly to repair. A contingency clause should be written into your offer to allow you to have one or more inspectors evaluate the property. This clause also allows you to void the home purchase contract if inspectors find any serious problems.
- Some defects that should concern you include: mold and decay; termite damage; lead-based paint; septic system malfunction; deterioration in the heating, plumbing or electrical systems; sagging in the foundation; rotting in the roof; water damage and other defects that could be expensive to



### **Life Saver**

Standard real estate forms can be accessed online at <http://www.lrec.state.la.us/forms.htm>. Click on *Standardized Real Estate Forms*, then choose the form you wish to view.



### **Life Saver**

Don't respond to any suggestions or counter offers unless they are presented in writing. For example, if a seller or his agent tells you your offer is too low, insist on a written counter offer indicating the price (or other changes) that would make your offer acceptable. Don't feel pressured into raising your offer on the spot.

repair. If you're concerned about the defects, you can withdraw your offer, renegotiate the price or ask the seller to pay for needed repairs. As part of the purchase offer, ask the seller in writing to pay for a home buyer's warranty, which is insurance to cover the cost of any home systems that might fail during your first year of home ownership.

- Financing – Be sure to make an offer to buy contingent upon your being able to obtain a mortgage at the terms you specify. The specified number of days to receive a mortgage loan commitment should match or exceed your lender's time needs to process loan applications. In times of heavy loan activity, this deadline may be extended.

The agreement should state the price, the down payment amount, the total loan amount and the exact financing terms you will accept. It should also state the amount of deposit being held in escrow and which closing costs are to be paid by the buyer and which by the seller.

- House sale contingencies – If you need to sell your present home to finance a new one, insert a clause in your purchase offer to make your new home purchase contingent upon the sale of your current residence. Many sellers will object to this, however, particularly when the real estate market is strong.
- If sellers accept a contract with a house sale contingency, they will probably add a "knock-out clause." This allows them to keep their home on the market. If another offer comes along, you may have only a few days to remove the contingency or lose the home to another buyer.
- Other contingencies – An appraisal contingency gives you the right to withdraw your offer if the appraised value is lower than the purchase price. The agreement should also state that the sale is subject to (depends on) your receiving a clear title on the property. Try to include a statement that the sellers are responsible for ensuring that the plumbing, heating, air conditioning, mechanical and electrical systems are in working order at closing. Without this clause, you accept the house "as is."

Once a buyer has completed and signed the offer, it is presented to the seller. If the seller accepts everything in the purchase agreement contract, including the price and all of the clauses, the seller signs it. The signed contract is then binding on both buyer and seller, subject to any listed contingencies.

If the seller wishes to negotiate, a counter offer is made with either a new contract or with notations and substitutions made on the original document. The original offer is legally canceled. The buyer then receives the revised contract and can either sign it, if acceptable, or reject it and make a second offer. Most agreements are reached after two or three rounds of offers and counter offers.

## **Additional Negotiating Tips**

While you are visiting homes for sale and negotiating a contract, watch what you say within earshot of either a real estate agent or a home seller. Everything you say can and will be used in the bargaining process. For example, if you submit a contract with a figure lower than the asking price, don't let the seller's agent know you are willing to pay more. Never confide your negotiating strategy. The seller's agent is legally bound to persuade you to buy at full asking price and on terms that favor the seller.

If the seller agrees to make repairs based on negotiations following a home inspection report, insist they be done by contractors you select and supervise. Otherwise the work could be poorly done with incompetent labor and/or inferior materials.



*Red Flag: Never submit a contract to buy a house after seeing it only once. Return for another look the next day or weekend and more often, if necessary. It's wise to return immediately after a rain, if the weather cooperates, to see possible water or drainage problems.*

Don't be embarrassed to revisit the homes you like most. Remember, you don't really "see" a home on the first visit. Shoppers tend to focus on several outstanding features (the pretty wallpaper) and have little memory, or an inaccurate impression, of the rest of the house. Returning to the house may also give you an opportunity to talk to the sellers.

Remember that seller's real estate agents work for, and are paid by, sellers. Once you express an interest in buying a home, the seller's agent will be eager for you to sign a purchase agreement. Do not sign anything until you have read it and made sure it includes everything you need to protect your interests. Don't let an agent talk you into raising your first offer for fear of insulting the sellers.

You may want to consider hiring a buyer's real estate agent to represent your interests. You may be charged a flat fee, an hourly rate or a percentage of the sales price. A good buyer's agent should be a skilled negotiator and might be able to save you enough to cover the fee charged. In Louisiana, realtors are required by law to tell you in writing if they represent the buyer or the seller. Be sure your agent adequately represents you.

Negotiating to buy a home is the process of telling sellers at what price and on what terms you are interested in their property. Expect to haggle by insisting on the price and the conditions you desire. Many buyers don't realize they are allowed to bargain on key features of the deal, and agents don't always tell them. Also, expect to make some compromises.

Read books, articles and go to home buyer Web sites online for additional information, consult experienced and knowledgeable friends or coworkers and hire professional advisers when needed. Don't be afraid to ask questions. Doing your homework will help you buy a home with confidence and knowledge that you've made the right decision.

*Adapted from: Reichel, C. (1998). Your Path to Home Ownership. Baton Rouge, La.: LSU AgCenter.*

*Additional Resources: Louisiana Real Estate Commission (2008). "Disclosure and Consent to Dual Agent Designated Agency."*

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This material is based on work supported by the Restoring Home Ownership in Louisiana Hurricane Recovery project funded in part by USDA Cooperative State Research, Education and Extension Service, Smith-Lever Special Needs project number 2007-41210-03986.

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Pub. 3085-G 09/08

Issued in furtherance of Cooperative Extension work, Acts of Congress of May 8 and June 30, 1914, in cooperation with the United States Department of Agriculture. The Louisiana Cooperative Extension Service provides equal opportunities in programs and employment. This institution is an equal opportunity provider.