Determining the Value of a Property

The best way to determine property values is to monitor the sale of similar properties in the same geographical area. This way you can track how much a home is listing for, how quickly the home sells, and at what price. Your real estate agent can usually provide information like this to you and save you time. This is your money on the line and it is important you educate yourself as much as possible. The seller will have an asking price on his house. You, the buyer will have an offering price. The negotiated end result will be the final purchase price of the property. What the seller may have paid for the house originally, and how much they would like to get doesn't matter. If the seller is sticking to some unrealistic image of the value of his property, you should just move on. The price a buyer will pay and seller will accept for his house if neither party is under duress is known as the "fair market value". Duress can come from different sources. If the sellers are going through a divorce and are selling because they are required to by divorce decree, they may be under duress. If an appraiser knows that a sale was made under duress they may adjust the appraised value to conform more to other sales in the area

The Art of Negotiation

Many people are uncomfortable with negotiation. In this country we will readily pay the market price for an item even if it means paying too much. Because no one just pays the sticker price for a home, buyers need to become a little more knowledgeable about the negotiation process. Buying and selling a home can be an emotional experience. Sellers often have emotional ties to a home. Add to that the necessity of negotiating a price for something that holds many memories and it can put you on an emotional roller coaster. A buyer on the other hand is dealing with large quantities of their own money. They may already feel insecure about making the decision. Not only to put an offer in on a particular house, but also possibly to buy a home in general. There are many reasons why emotions might enter into what should be a detached business transaction. Since it is impossible to completely eliminate all emotions involved in the transaction, you must try to at least control them. The person who controls their emotions, usually ends up with the best deal. A good negotiator applies a few basic principles to the negotiation. They can increase your odds of a negotiation working out to your advantage.

Be Realistic

Get your facts first. Have comparable recent house sales supplied to you from your Realtor. With these facts you can obtain a fair assessment of a reasonable offer to make on a house. Don't just pull a figure out of thin air.If you have been prequalified or preapproved for a mortgage loan, this fact needs to be stressed when your offer is made.Don't ask for unreasonable corrections before you have had a chance to review inspection reports. Allow the reports to offer you the factual information. At the time you review the reports you can use property inspection clauses to renegotiate certain areas of your contract.If the sellers agree with your initial offer, they will sign it. At that point you have a ratified offer. The contract should still contain certain contingencies. It is these contingencies that give the buyer an out. Two very common contingencies are for

financing and property inspections.Were you approved for the loan specified in the contract? If not, you can turn away from the deal.

Property Inspections

You can pull out if you don’t approve of the inspection reports or can’t agree on what repairs need to be done, and who should pay for them. Usually you will find that a reasonable contingency will be allowed.Don’t delay obtaining a signed purchase contract on a home you really want. Negotiate the price, if the seller agrees he will sign. If you spend too much time before hand on dickering, the seller could very well get tired and sell the home to someone else. Negotiation is an on-going process. Once a price has been agreed on, the rest can be negotiated through the contingencies already built into the contract.

Counter Offers

Counter offers allow both buyer and seller to change some or all of the terms of the initial offer. If the seller agrees to some but not all of the conditions in the first offer he can have a counter offer drawn up to express the changes he would like to make. Likewise the buyer can come back with a counter-counteroffer to make changes. Hopefully a middle ground will be reached and agreed upon and the counter offer is signed and ratified.

Styles of Negotiation

There are really only two main styles of negotiation. The two main styles of negotiation are combative and cooperative. A combative agent may be ruthless and take no prisoners. He may fight hard to get you the sales price and other considerations you are looking for. But he may be so difficult to work with that other agents shun him. If that is the case, he could lose you the deal. In a sale where there are close multiple offers on a property, the agent who is easier to work with will probably win out over the difficult agent. In such an instance you would have been much better off having someone who is not such a fighter.

Why Do Home Values Sometimes Increase and Decrease?

Just like nearly everything else, it is supply and demand that influences home prices. The demand for the prices of homes in an area is driven by the economic health and vitality of the area. When there is an increase in jobs, especially higher paying jobs, there will be an increase in the price of homes in that area. The real estate market will usually experience several up and down times during the average time that a person owns a home. It is difficult to ever try to "time" the market and buy when it is at rock bottom and sell when prices have reached their peak. More importantly, homebuyers should look at their own individual situation. If you expect to move within a very few years after purchasing a home, you need to take a good look at market conditions. Is housing a good value right now? You would not want to buy for just a few years and have housing prices fall.

What Drives the Market?

When you look at the purchase of real estate as an investment you need to look at several things. Of course, when you buy a home you are not just looking at the purchase as an investment alone. There are other more personal reasons for buying a particular property.

Jobs

The abundance and quality of new jobs in a community directly effect the demand for housing. People often relocate where there is employment, especially if it offers better pay. Better pay and demand for housing, will drive the cost of housing up.It is also important to look at the diversification of jobs. If the community only offers jobs in one or two industries, what happens if those industries start to go under?

Housing Availability

If there is an over-abundance of housing, home prices may remain stagnant even in an area with considerable job growth.You might want to check vacancy rates in the community in which you plan to live. A low vacancy rate is usually a good indicator of lower housing availability, and therefore appreciating prices. The vacancy rate is calculated by dividing the number of empty rental units by the total number of units available. A vacancy rate of 5% or lower is a good indicator of future appreciation. It is the competition for rental housing that drives rental rates upward. When renting becomes more expensive it is no longer as attractive to rent. You also might be concerned if there is a significant increase in the number of building permits being issued. This could be signaling a future glut in the market. This can often happen after there has been a sustained period of appreciation in housing. Builders will rush out for building permits to take advantage of the increased prices.The supply of housing is also determined by the amount of land available for development. If there is little land available, demand will often rise.

Properties Listed For Sale

The number of properties that are currently being listed for sale usually remains fairly constant. As homes are purchased, new houses usually are listed to take their place.If housing prices increase significantly however, you may start to find more and more homes being listed. This is because current homeowners want to take advantage of this increase and sell now. It is the competition between new sellers for the available buyers that will start to lower the price of housing.If the local economy is strong, interest rates are low, and the cost of homes is almost the same as the cost of rentals, there is a high incentive for renters to become buyers.

The Market

Ultimately, it is the market the will dictate who comes from a position of strength. In a buyers market, sellers are often heard complaining about how they can’t get a fair deal. In a sellers market, a seller can ask for the moon, and have several different buyers willing to try and get it for them.In a sellers market, a buyer can be easily caught up in a bidding

war over a property. A smart buyer should not try to play that game. Too often the winner becomes the loser. In a bidding war the price that is finally accepted can often be well over the fair market value of the property. There are ways to improve your chances in a sellers market. Go over the comparable sale data and use it to determine the maximum you will pay. This will help you to stay realistic and not get caught up in a bidding frenzy.Try to find out what you can about the seller's needs before making an offer. Maybe you can offer some need that has not been considered by any of the other offers. You could offer an extra long close of escrow or maybe agree to purchase the home "as is". If you do offer to accept a property "as is", make sure you go over all inspections very carefully, so you can get out of a deal if the work that needs to be done becomes more then you ever envisioned. Always try and make your best offer your first offer. In a bidding war, you may never get a chance to make another.Have your loan approval in hand. You should always come out ahead of buyers who do not. Sellers do not want to worry about whether or not a buyer will get a loan.Have your home sold if you need to sell one. If your offer is subject to the sale of another residence you will almost always lose out in a bidding war. Sellers do not want to wait around for that if they don't have to. Also if your home is already sold, you will know how much money you have to negotiate with. Try not to let the seller know if you have any urgent time constraints. If you waited until the eleventh hour to purchase a property in order not to pay Uncle Sam any capital gains taxes, don't let that be known if possible. Lets say you're only 10 days away from the deadline and you need to close escrow by that time. The seller can hold that over your head and make you pay for everything not already agreed upon up until that time. Keep personal information as much as possible to yourself.

Sellers Concessions

In a buyers market, the seller often finds that he must do more than negotiate a fair price with the buyer. He sometimes needs to offer concessions. Concessions are credits to the buyer for items such as non-recurring closing costs or corrective work.Non-recurring closing costs are one-time charges. They cover such things as charges to obtain financing such as appraisal fees, credit report fees, and loan points. This can total from 3 to 5% of the purchase price, so having someone pay those costs can be a major concession.Now it's always possible to request a reduction in the purchase price by that amount too. A reduction in the purchase price would also save you money on property taxes since taxes are computed by the purchase price. But if your finances are tight, coming up with the down payment and all of the closing costs and recurring costs can be hard. This is especially true if not paying for the closing costs would allow you to put 20% on the property. By putting the 20% down you will save yourself additional monthly costs that could really save you some money. It is also not a good idea to use all your available funds to buy a house. Lenders often require (and it's also in your best interests) to have additional funds available to you after close of escrow. During the course of the transaction, it may become evident that some work needs to be done on this property. The cost to complete that work can also be a concession given to the buyer by the seller. The seller has to take into consideration that if you back out of the deal because there is too much additional cost involved to complete the work, the seller has to find another buyer and disclose the whole situation to that buyer as well. It might just be easier to negotiate

with the buyer at hand and get the deal closed. Fund's can be left by the seller in escrow to cover the estimated cost of repair. The seller can also issue a credit directly to the buyer and the buyer can have the work done at any time. Lenders as a rule do not like to do this. It places doubt on whether or not the work will ever be completed. Throughout the transaction make notes on conversations. If a lender quoted you a certain rate make a note of the day and time. If a deadline may have to be moved up a week because of some unforeseen circumstance, make a note of the request and the response. If the seller agrees upon an extension of time, obtain the extension in writing to protect yourself.

Protecting Your Investment

Buying a home is usually the biggest expense you will ever have. It only makes sense to protect that investment by having it properly inspected and insured.

The Home Inspection

The condition of the home will have a tremendous effect on its value. It is important to have a professional inspect the property so you can ease your mind that there are no major problems.

Inspections of property come in two general categories- Latent and patent. Patent defects are obvious to see. A professional doesn’t need to tell you there are large water stains, or cracks in the walls. A professional will tell you if these things amount to major problems or are mostly blemishes.

Latent defects are hidden. The are located behind walls or underneath flooring. They can be plumbing or wiring defects and even effect your health, like lead in the water, or asbestos in the ceiling.

Problems with title to the property can also be something that a professional can help locate.

There are some things you can find yourself if you know what to look for. You should be aware of this information, but never let it allow you from not having a professional inspect the property. Money saved from omitting a professional inspection can amount to much more money lost down the road.

Moisture: Water stains on ceilings, walls and floors. Actually feel the basement walls for dampness. Does something smell moldy? Where is it coming from? Check for standing water both inside and outside of the property. This could indicate problems with drainage. If you see a sump pump in the basement or garage that should tell you right away that there are problems.

Cracks: Go around the foundation, interior and exterior walls, fireplace and chimney. Check the basement floors, garage, driveway and walkways. If you can stick your finger into the crack it is considered to be large.

Stickiness: Doors, cabinets cupboards, and windows should open and close easily.

Unevenness: Walls shouldn't bulge and flooring should appear even and free of any slopes.

Looseness: You shouldn't be able to see light around the perimeters of doorways or windows.

Termites: Check for long mud tubes along the foundation or in the basement. Any part of the house that comes in contact with the earth should be paid closer attention to. Check for decay and rotting wood.

Land Stability: Check the hillsides immediately behind the property. Do they have netting on them, or show any signs that the earth has moved?

Let your property inspector know of your concerns before the inspection. Get their opinion on what concerns you.

Don't assume because the house you are buying is brand new that it doesn't need to be inspected. Builders have been known to cut corners and make mistakes.

Types of inspections

General

The types of inspections you get depend on the type of property itself and its geographical location. Complete inspections of the properties interior and exterior. The inspector should cover such things as the roof, gutters, electrical work, heating and cooling, insulation, smoke detectors, kitchen, bathroom and the foundation. The inspector should be able to point out any items, which may affect your health and safety. An inspection such as this will last several hours and cost between $200 to $500. If there is something that causes a concern to the inspector, he could require another inspection by an expert in the field.

Pest

A pest inspector will only check for wood damage caused by wood destroying insects. If the presence of these insects is detected, the home will have to be specially fumigated to destroy the insects.

General Contractor

If you plan on purchasing a fixer upper, you should consult a general contractor or an architect for an inspection of the property. You would also do this if you have plans for a major renovation. A contractor or architect can tell you if what you want to do is structurally possible. They can also give you important time and cost estimates. Listen to

the recommendations given by these experts, but remember, they will usually provide an inspection free in the hope that they will be getting the work. In that case, their opinion would not be completely objective. Unfortunately, most home inspectors do not go through a certification or licensing process. If an inspector suggests doing any of the corrective work, this should send an immediate signal. This inspector many have an ulterior motive. Make sure you hire someone who only does inspections. That way there is no conflict of interest.

Friends and business associates can recommend inspectors. Your Realtor also should have a list of inspectors they use. Be on guard against the Realtor who uses an inspector because the inspector is so lenient that they never kill any deals.

The American Society of Home Inspectors (ASHI) requires that an inspector perform 250 home inspections and pass two written tests before they can join. Although that does not guarantee a good inspector it certainly helps. You can contact ASHI at 800-743-2744 or email at HQ@ashi.com.

You should interview several inspectors before you hire one. Ask them if they are doing this on a full time basis. How big is their company and how long has it been in business. Is there insurance against any error or omissions in the report? This way you will be covered in case something is missed or is incorrect. How many inspections has this inspector performed in the last year? Do they have any special licenses or certificates? Exactly what will be covered in the inspection? Make sure they will cover any structural and mechanical systems from the roof to the foundation. Will the inspection take approximately 2-3 hours? A proper inspection requires at least this much time be spent at the site. Also ask about the report itself. The report must be in writing and clearly explain the findings of every item of inspection. A good inspector should want you to accompany them while they make the inspection. That way they can point out certain things directly to you.

Always make your offer to purchase contingent on your approval of the property inspection. If the sellers have any inspections that they have already ordered or that were ordered by previous prospective buyers you should ask to see them. If any work is required to be completed, make sure you also obtain bids from qualified professionals for the work to be done.

If the inspection comes with a warranty plan to cover some of your homes major systems or appliances, that is fine. Do not pay any additional cost for this plan yourself. Such plans usually have very explicit stipulations. You would be better off using the inspection to have certain items corrected and spending your money there.

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