Comparable Sales and Your Offer Price

Determining Your Offer Price

When you prepare an offer to purchase a home, you already know the seller's asking price. But what price are you going to offer and how do you come up with that figure?

Determining your offer price is a three-step process. First, you look at recent sales of similar properties to come up with a price range. Then, you analyze additional data, such as the condition of the home, improvements made to the property, current market conditions, and the circumstances of the seller. This will help you settle on a price you think would be fair to pay for the home. Finally, depending on your negotiating style, you adjust your "fair" price and come up with what you want to put in your offer.

Comparable Sales

The first step in determining the price you are willing to offer is to look at the recent sales of similar homes. These are called "comparable sales." Comparable sales are recent sales of homes that compare closely to the one you are looking to purchase. Specifically, you want to compare prices of homes that are similar in square footage, number of bedrooms and bathrooms, garage space, lot size, and type of construction.

If the home you are interested in is part of a tract of homes, then you will most likely find some exact model matches to compare against one another.

There are three main sources of information on comparable sales, all of which are easily accessed by a real estate agent. It is somewhat more difficult for the general public to access this data, and in some cases impossible. Two of the most obvious information sources are the public record and the Multiple Listing Service.

Comparable Sales in the Public Record

The most accessible source of information on comparable sales is the public record. When someone buys a home the property is deeded from the seller to the buyer. In most circumstances, this deed is recorded at the local county recorder's office. They combine sales data with information already known about the property so they can assess property taxes correctly.

Provided there have been no additions to the property, the information available from the public record is usually correct regarding sales price, square footage, and numbers of rooms. This makes it easy to use the public record as a source of data for comparable sale information.

Accessing the data is another matter, at least for the general public. Realtors can generally look up this information through title insurance companies. The title companies either compile the data directly from the county recorder's office or purchase it from other companies.

One problem with the public record is that it tends to run ***at least*** six to eight weeks behind. Add another four to six weeks for the typical escrow period and you can see the data is not current. The most current information is the most valuable.

Comparable Sales in the Multiple Listing Service

Most of the public is aware that the Multiple Listing Service is a private resource where Realtors list properties available for sale. Recently, the public has been able to access some of that information on such sites as Realtor.com, MSN HomeAdvisor, and others.

Once a property is sold and the transaction has closed, the selling price is posted to the listing in the Multiple Listing Service. Over time, it has become a huge database on past sales, containing much more information on individual homes than can be gleaned from the public record. This information is only available to real estate agents who are members of the local Multiple Listing Service.

Your agent will provide you with this data to help determine your offer price.

Comparable Sales – Pending Transactions

The most valuable information would be the most current, of course. A sale last week has more validity in helping you determine a purchase price than a sale from six months ago. The problem is that there is no actual record of the sales price until the transaction is completed. The information is not available in the public record because no deed has yet been recorded.

Neither is the information available in the Multiple Listing Service. Once a property is sold, it becomes a "pending sale" and all pricing information is removed from the listing. Prices are not posted until it becomes a "closed sale." This protects the seller in case the transaction falls apart and the property is placed back on the market. It would give an unfair advantage to future potential buyers if they already knew what price the seller had been willing to accept in the past.

However, if a Realtor has a reason to know the sales price, they can usually find out through professional courtesy. Also, some real estate brokerages post sales information on a transaction board in their office.

Other Factors Influencing Your Offer Price

Gathering and analyzing information from comparable sales helps to establish the range of prices you should consider when making an offer to buy a home. More weight should be given to the most recent sales, but even so, you need to do a bit more analysis before setting upon the price you will offer. That is because you also need to consider the condition of the property, improvements, the current market, and the circumstances behind the seller’s decision to sell.

Major Factors Influencing your Offer Price

How Property Condition Affects Your Offer

Since you have toured the property you are interested in, you should know how it compares to the general neighborhood. All you have to do is put the home in one of three categories - average, above average, or below average.

When evaluating a home’s condition, there are a number of things you should consider. Structural condition is most important - items such as walls, ceilings, floors, doors and windows. Then paint, carpets, and floor coverings. Pay special attention to bathrooms and bedrooms and whether the plumbing and electricity work efficiently. Look at the fixtures, such as light switches, doorknobs, and drawer handles. The front and back yards should be in reasonably good shape.

The missing ingredient will be information on the condition of the homes from your comparable sales list. Provided you chose the right agent to represent you, they will have actually visited most of those homes and be able to provide key insights.

How Home Improvements Affect Your Offer Price

Even when comparing exact model matches within a tract of homes, you should note whether the previous owners have made any substantial improvements. Cosmetic changes should be largely ignored, but major improvements should be taken into account. Most important would be room additions, especially bedrooms and bathrooms. Other items, like expensive floor tile or swimming pools should be taken into account, too, but should be discounted. A pool that costs $20,000 to install does not normally add $20,000 in value to the home. Rely on your agent to give you guidance in this area.

How Market Conditions Affect Your Offer Price

A hot market is a "seller's market." During a seller's market, properties can sell within a few days of being listed and there are often multiple offers. Sometimes homes even sell ***above*** the asking price. Though most buyer's want to get a "deal" on a home, reducing your offer by even a few thousand dollars could mean that someone else will get the home you desire.

A slow market is a "buyer's market. During a buyer's market properties may languish on the market for some time and offers may be few and far between. Prices may even decline temporarily. Such a market would allow you to be more flexible in offering a lower price for the home. Even if your offered price is too low, the seller is likely to make some sort of counter-offer and you can begin negotiations in earnest.

More often than not, the market is simply "steady," or in transition. When a market is steady, no real rules apply on whether you should make an offer on the high end of your range or the low end. You could find yourself in a situation with multiple offers on your desired house, or where no one has made an offer in weeks.

Transition markets are more difficult to define. If the economy slows unexpectedly, as it did in the early nineties, people who buy on the high end of a seller's market (like the late eighties) could find their home loses value for several years. So far, no one has proven reliable in predicting when markets change or how good or bad the real estate market will become.

How Seller Motivation Affects Your Offer Price

Truthfully, it is rather rare that a seller's motivation will dramatically affect the price of a home, but it is often possible to save a few thousand dollars. The most common "motivated seller" is someone who has already bought his or her next home or is relocating to a new area. They will be under the gun to sell the home quickly or face the prospect of making two mortgage payments at the same time. Since that can drain a bank account quickly, most sellers want to avoid such a situation and may be willing to give up a few thousand dollars to avoid the possibility.

There are also family crises that can motivate a seller to make a quick deal. However, when you see a real estate ad that mentions "divorce," "motivated seller," "relocation," or something to that affect, beware. Although the facts may be true, that does not necessarily mean the seller is motivated to make a quick and costly sale. Most likely, the ad is more designed to generate phone calls and leads rather than sell the home.

However, there are times when a seller is truly distressed, willing to make a quick sale and sacrifice thousands of dollars. With the seller's permission, the listing agent will post this information along with the listing in the Multiple Listing Service. They may also inform other agents during office and association marketing sessions or by flyers sent to other real estate offices. Provided this information has been made generally available to Realtors, your agent should know when a seller is truly motivated and when it is just "puff" designed to elicit interest in a property.

The exception is when an agent is selling a home they have listed themselves or selling a home that was listed by another agent from their own company. In such a situation, the agent may be acting as an agent for the seller, or as a "dual agent," representing both you and the seller. In such a situation, they cannot legally provide you with information that would give you an advantage over the seller.

determine a base price range for a particular home. Adding in the various factors like property condition, improvements, market conditions, and seller motivation help determine whether a "fair" price would be at the upper limit of that range or the lower limit. Perhaps you will feel a fair price is outside of that price range.

The "fair" price should be approximately what you are willing to agree on at the ***end*** of negotiations with the seller. The price you put in your offer to ***begin*** negotiations is totally up to you and depends on your negotiating style. Most buyers start off somewhat lower than the price they eventually want to pay.

Although your agent may provide advice and guidance, you are the one who makes the decision. The price you put in the offer is totally up to you.

The Final Decision on Your Offer Price

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Offering to Purchase Real Estate- the Basics

Introduction and Overview

Once you find the home you want to buy, the next step is to write an offer – which is not as easy as it sounds. Your offer is the first step toward negotiating a sales contract with the seller. Since this is just the beginning of negotiations, you should put yourself in the seller's shoes and imagine his or her reaction to everything you include. Your goal is to get what you want, and imagining the seller's reactions will help you attain that goal.

The offer is much more complicated than simply coming up with a price and saying, "This is what I'll pay." Because of the large dollar amounts involved, especially in today's litigious society, both you and the seller want to build in protections and contingencies to protect your investment and limit your risk.

In an offer to purchase real estate, you include not only the price you are willing to pay, but other details of the purchase as well. This includes how you intend to finance the home, your down payment, who pays what closing costs, what inspections are performed, timetables, whether personal property is included in the purchase, terms of cancellation, any repairs you want performed, which professional services will be used, when you get physical possession of the property, and how to settle disputes should they occur.

It is certainly more involved than buying a car. And more important.

Buying a home is a ***major*** event for both the buyer and seller. It will affect your finances more than any other previous purchase or investment. The seller makes plans based on your offer that affect his finances, too. However, it is more important than just money. In the half-hour it takes to write an offer you are making decisions that affect how you live for the next several years, if not the rest of your life. The seller is going to review your offer carefully, because it also affects how he or she lives the rest of their life.

That sounds dramatic. It sounds like a cliché. Every real estate book or article you read says the same thing.

They all say it because it is true.

Contingencies in a Purchase Offer

In most purchase transactions there may be a slight challenge or two, but most things will go quite smoothly. However, you want to anticipate potential problems so that if something does go wrong, you can cancel the contract without penalty. These are called "contingencies" and you must be sure to include them when you offer to buy a home.

For example, some "move-up" buyers often agree to purchase a home before selling their previous home. Even if the home is already sold, it is probably a "pending sale" and has not closed. Therefore, you should make closing your own sale a condition of your offer. If you do not include this as a contingency, you may find yourself making two mortgage payments instead of one.

There are other common contingencies you should include in your offer. Since you probably need a mortgage to buy the home, a condition of your offer should be that you successfully obtain suitable financing. Another condition should be that the property appraises for at least what you agreed to pay for it. During the escrow period you are likely to require certain inspections, and another contingency should be that it pass those inspections.

Basically, contingencies protect you in case you cannot perform or choose not to perform on a promise to buy a home. If you cancel a contract without having built-in conditions and contingencies, you could find yourself forfeiting your earnest money deposit. Or worse.

Earnest Money Deposit

After you have come up with an offer price, the next step is to determine how large a deposit you want to make with your offer. You want the "earnest money deposit" to be large enough to show the seller you are serious, but not so large you are placing significant funds at risk.

One recommendation is to make sure your deposit is less than two to three percent (depending on your location) of your offered price. The reason for this is that if your deposit is larger than that, the lender will pay particular attention to how you came up with the funds. You might have to provide a copy of a canceled check along with a bank statement showing you had the money to begin with. Normally, this is not a problem, but if you have a short escrow period or are barely coming up with your down payment, it could pose an inconvenience.

Another reason to limit your deposit is "just in case." Although significant problems are the exception and not the rule, they do occur. "Just in case" there is a nasty or prolonged dispute between you and the seller, the less money you have tied up in a deposit, the fewer funds you have placed at risk.

As with practically everything in real estate, there are exceptions to this rule, too. During a hot market there may be multiple offers on the property that interests you. A large deposit may impress a seller enough so they will accept your offer instead of someone else’s, even when your unknown competitor is offering the same price or slightly higher.

Since large deposits do impress sellers, you may also find that by making a large deposit you can convince the seller to accept a lower offer. More money up front may save you money later.

There are also times when closing can be delayed by weeks, through no fault of your own. Have back-up plans prepared for such a contingency.

The Closing Date

It is absolutely essential that you include a closing date as part of your offer. This way both you and the seller can make plans for moving, and the seller can make plans for buying his or her next home. Though most transactions actually do close on the right date, do not be so inflexible that a delay creates insurmountable problems.

For example, if you are renting and need to give the landlord notice that you are moving out, you may want to allow a little flexibility. Otherwise, if your purchase closes a few days late you could find yourself staying in a motel with your belongings packed in a moving van somewhere while you pay storage costs.

There are also times when closing can be delayed by weeks, through no fault of your own. Have back-up plans prepared for such a contingency.

Transfer of Possession

A transaction is considered "closed" once the deeds have been recorded. Then you own the home. However, it is not always possible for you to occupy it immediately. This can happen for several reasons, but the most common is that the seller may be purchasing a home, too. Usually, it is scheduled to close simultaneously with your purchase of their home.

It is sort of like being at a red light when it turns green. Although all the cars see the light change at the same time, the guy at the back of the line doesn’t begin moving until all the cars ahead of him have started.

As a result, it has become customary to allow the seller up to a maximum of three days to turn over actual possession and keys to the home. When transfer of possession actually occurs should be clearly laid out in your offer to prevent confusion later.

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