THE GOVE GROUP REAL ESTATE

House Buying Strategies in a Buyer's Market

Here are some special considerations when looking to buy a home in a buyer's market.

Need Professional Help? Talk to a Real Estate Attorney.

When the housing market is slow, referred to as a "buyers' market" there are typically more houses for sale than buyers interested in purchasing them. Anxious sellers may reduce their prices and offer concessions to lure buyers in. That can make it a great time to bu, but don't throw caution to the wind. To get the best deal, evaluate whether you're truly read to buy, learn the ins and outs of the market, consider the pros and cons of buying a foreclosed home, and take advantage of market conditions when negotiating the deal.

Is It Your Time to Buy a House?

Your first step to buying a home in a buyer's market is a little soul searching: Why do you want to buy? If you're tempted by low prices and would stretch beyond your means even for a home with a discounted price, you could be setting yourself up for failure. The U.S. housing market is littered with the former homes of millions of consumers who borrowed more than they could afford. To figure out what's realistic for you, start by reading Nolo's article Qualifying for a Mortgage, and then plug some numbers into Nolo's online calculator How much home can I afford?

Of course, no one knows when prices will hit rock bottom, and if you wait for prices to fall further, you could miss out. Because of this uncertainty, it's best to buy a home because you need a roof over your head—if the price is comparable to renting—and you plan on sticking with the home long enough to make the deal pay off. Buy because home ownership is a good fit for your lifestyle, personal goals, and, of course, your budget. (For more help in determining whether you're ready to buy a home, read Nolo's article Are You Ready to Buy a House?)

Know Your Local Housing Market

Don't get swept up in what you see in the national media about the state of the U.S. housing market. Find out what's happening in your local market, even down to the neighborhood you want to buy in. In some regions, one block may be a buyer's market with a slew of available reduced-price properties, but the next can be competitive, perhaps because the school district is better. You're more likely to see this in metropolitan areas with diverse neighborhoods than in suburban communities or planned-unitdevelopments that focus on uniformity. Your real estate agent should be able to give you important market data pinpointed to the locale you hope to make home. These factors will tell you whether it's a buyer's market:

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- High inventory. If there are many available properties, this is a good indicator that it's a buyer's market. You'll have a lot to choose from and can be pickier about which property you select.
- Slow appreciation. Your real estate agent should be able to show the economic trend, that is, whether properties have gone up or down in value and at what pace. When properties stop climbing or have started falling, that's an indicator that you're in a buyer's market.
- Days on the market. Find out how long properties in your area stay on the market, on average, before they sell. If the time is very short, it's still a seller's market in that area. But if properties languish for months, and particularly if prices drop, that's a good indicator that you're in a good bargaining position.
- Selling prices. Your real estate agent will be able to show you not only what prices homes are listed at, but how much they're actually selling for. Often, this ends up well below the list price. These figures will tell you how competitive a market is, if properties sell above their list price, that's that's an indicator that the market is not doing too badly in that area.

Learning about your particular real estate market will help you learn the true value of a property. This helps you set a realistic offer price and prevents you from overpaying. But, even in a buyer's market, you shouldn't assume that you can get a house for well below its value. Unless the seller is truly desperate, you risk alienating him or her by a giving a lowball offer, and you may lose out on a good deal that will instead go to a more realistic buyer.

Get Preapproved for a Loan

Even in a buyer's market, it's crucial to know for certain what you can afford. The seller has a lot at stake in a down market. He or she doesn't want to enter into a deal with someone who can't carry through, given that selling a house that's been on the market for a while is even harder than selling one that's still fresh. It will help your chances of snagging a great deal if you can show the seller right away, that you're in a financial position to make the transaction happen. Be sure to get preapproved for a mortgage in advance. Preapproval means a lender has agreed to lend you a certain amount (subject to final review and confirmation). Don't get this confused with prequalification—that's just a lender's speculation about what it thinks you'll be able to borrow. But also don't assume that preapproval is an iron-clad guarantee. Even a preapproval comes with conditions, and you'll need to satisfy the lender—who's scrutinizing borrowers harder than ever—that you're financially stable and still employed right up to the day the house closes.

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Should You Look in the Distressed Housing Market?

Foreclosed or repossessed homes may have bargain price tags, but remember that they may also be more neglected and in disrepair than typical listings. That's part of why they're called "distressed properties." Worse yet, they are often sold "as is," which means you aren't protected from problems you eventually discover. If you decide to look at distressed properties, get help from a real estate agent knowledgeable about foreclosures, auctions, and short sales. There are bargains to be had, but only if your agent has the sophistication to deal with the inner workings of this esoteric sub-market.

Negotiating Tips in a Buyer's Market

Although you may be able to negotiate concessions from the seller, you need to do so intelligently, based on tailored market research. Don't make the mistake that some would-be buyers have and alienate a prospective seller by offering an insultingly low sum -- one that suggests you don't have the market savvy or financial wherewithal to be worth negotiating with any further.

Research comps and just-closed sales. When you're ready to make an offer, it's not enough to gather a stack of comparable sales (recent sales of homes as identical as possible to the home you want to buy). Your agent should also get the list prices of similar homes currently for sale and the sales-price-to-list-price (SP/LP) average of just-closed sales. If list prices are trending lower than recent comparables and the SP/LP average is below 100%, you have a good shot at getting a lower-than-list-price offer accepted. Your agent should be able to help you make market-based calculations and zero in on a good target number.

Seek monetary concessions. You can ask the seller to cover some of the transaction or other costs you incur in a home sale (on top of submitting a reduced-price bid). Virtually every cost is open to negotiation, including who pays title insurance, closing costs, transfer taxes, and even the points on your mortgage. Motivated sellers also have been known to make the buyer's first few mortgage payments, pay a year's worth of homeowners' association dues, cover property taxes or insurance premiums, and even help with the down payment or financing a second mortgage.

Think twice before accepting a home-improvement offer. Some sellers may try to entice you with a new kitchen or bath. Unless you're dealing with a professional developer, however, it's a better idea to get a cash concession worth the cost of the improvement. Your tastes may not be the same as the seller's, and choosing your own contractor for home improvement work prevents muddying the transaction with any construction complaints.

Ask for tangible things, instead. Instead of home improvements, you might ask for things you need (or just want). If you're dealing with a professional developer, they've been known to throw in new kitchen appliances, a flatscreen TV, a fuel-efficient Vespa, a cruise or other vacation, or a golf cart. If you're dealing with an individual homeowner, you might ask for furniture or equipment that's already in the home and fits perfectly, moving expenses, ora home warranty.

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