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Selling House May Have to Satisfy Three "Buyers"

by M. Anthony Carr

When placing a house on the market, the seller must remember early and often that there are going to be three "buyers" who must be satisfied with the eventual price of the property. The buyer, appraiser and underwriter must all agree with the price of the house before it can go to settlement (particularly if there is no large down payment involved.) Here's how it happens.

The Buyer

When you go to the grocery store and look at prices of produce, you normally don't walk up to the check out and offer less than what's on the sticker. The eggs are \$1 per dozen all day long and most everyone will pay that amount or go without eggs.

In real estate (and other large ticket items), the price is not necessarily what you're going to pay. It's the list price or asking price. While real estate agents may have a handle on if a house is overpriced or under priced, they're not buying the house -- so the real decision maker is the buyers. Thus, the buyers must be convinced that the value of the house is reflected in the price and/or terms.

The smart seller will make sure the price s/he is asking for is as close to the realistic price to draw offers. In particular, in a transitional market or dropping sales price environment -- don't waste time "waiting for the right buyer" to come along and pay your price. Price trending is price trending both ways -- up and down. Thus the smart seller will recognize the trend and move in front of it.

For sellers over the last few years in various markets -- they have had the benefit of price trending upward. Negotiation for buyers kind of went up on its head -- "You want \$350,000. What, are you crazy? I'll pay \$375,000 and not a dollar less." Of course, they got beat out by the guy willing to pay \$400,000 and include a vacation for the sellers.

When a market levels or begins trending downward, get in front of the trend. This is even more important than a market heading upward if you don't want your house sitting on the market. Every week you wait you literally lose money -- sometimes thousands of dollars each week. Don't wait. When prices trend downward, sellers must forget what their neighbor's sales price two months ago -- it has no bearing the day you receive your contract.

Thus the buyer must believe the house is worth the asking price. Next, you have to convince the appraiser.

The Appraiser

Despite what others may say, this is the most important visitor you're going to have come by your house. Sometimes even the appraiser downplays his/her visit to the property. I've had some say, "Oh, don't worry about cleaning up. I'm going to just be a few minutes." Famous last words.

If you have to "wow" the buyer to write a contract, then you better "mesmerize" the appraiser. This is

the person who is going to take a first stab and confirming that the seller and buyer have come up with a realistic price for the property.

With a contract price of \$351,990 you want an appraisal of \$351,990 or higher. If the appraisal is high, it has no bearing on the contract. If the price comes too far below, and the buyer doesn't have enough down payment funds to cover the difference, then the buyer and seller will have to renegotiate who is going to take the financial hit to make the loan work. Is the seller coming down in price, the buyer up in price or are they going to split the difference?

The Underwriter

Finally, you have to satisfy the person in the back office, the underwriter of the mortgage. Underwriters are determining risk factors for the lending company or group of investors. If they underestimate the risk of default on a loan and the buyer defaults on the mortgage in the future, their investors lose or they must sell the loan at a loss. Because of this, while they are not on the street watching housing prices increase, if their analysis demonstrates that the house may not be worth what the contract is asking, they can halt the loan process and the negotiations must begin anew. (By the way, here's an informative, yet, tedious, document from the University of Illinois' business college on the underwriting rules. [Click here.](#))

So, for example, I could love to sell my house for \$1 million. The problem is, while I might think it's worth that amount, I keep running into buyers who don't agree. Thus it's worth \$1 million in my mind alone. I must satisfy three other people to get my price. In pricing my property, I must keep these three other people in mind if I want my "asking" price to become my "sold" price.

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