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THE BOCA BEACH REPORT

February 2006

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In This Issue

What Is A *Buyers' Market?*

The home buying and selling market will always be swinging toward one of two directions, either a buyers' market or a sellers' market, or sometimes, a little of both. Sellers' markets force prices up because owners can ask whatever they want (within reason). Buyers' markets may force prices down as there are more sellers than buyers. In this market, homes are in supply.

Real estate professionals feel that a typical market is one in which homes take an average of a few weeks to a few months to sell. Agents keep track of this number by recording the days on the market (DOM) of every home listed and sold. This means that in the Multiple Listing Service, there may be at least six months worth of inventory (homes) on hand to sell for the number of buyers in the market. If the number rises above six months inventory on hand, then the market is swinging into a buyer's market. If it falls below, it is becoming a seller's market.

The typical buyer's market is one in which there are too many homes on the market for the number of buyers. Homes take longer to sell and prices may fall as sellers become anxious.

Seasons

Some owners think that winter-time is a buyers' market. It's true that there are fewer buyers, but there may be fewer homes on the market as well. Homes listed for sale during slower times of the year must be aggressively marketed.

Come the spring season, more homes come on the market. Buyer activity picks up as families with children buy homes so they can move during summer vacation. A buyers' market can easily exist in the spring, if conditions dictate - that there are more homes than buyers, falling prices, and longer DOMs.

Unusual conditions might cause a buyers' market to last for a long time. The closing of one of the major employers from a community or a natural disaster such as a flood or earthquake can affect home values in an area for years.

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If your property is now listed with a broker, please disregard this offer. We will cooperate with other brokers.

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Local conditions or seasonal, any time there are more than six months' inventory on hand, there is a glut of homes on the market. If there is a surplus of homes, and prices begin to drop, sellers will work harder to attract buyers, including adding incentives such as owner-financing.

As sales of homes become more competitive, buyers realize that their interest is at a premium and they will increase their demands on sellers. The nice furniture and appliances that normally would not be included in the purchase price of the home, now become bargaining chips for the buyer. The buyer may ask the seller to provide a home warranty at the seller's expense, or for the seller to pay more of the closing costs than usual out of the settlement proceeds, or any number of other contingencies.

Owners who have occupied their homes for many years may be able to sell their homes at a profit in a buyer's market because they have built equity, but they may find that if they have completed little or no improvements the home will compare poorly with the number of homes on the market and it will not get the best price.

There are always sellers who are in a must-sell position who may take little or no profit from the sale of their homes, or may even take a loss. The homeowners who are most hurt by a buyer's market are those with little or no equity built into the home. When they are forced to sell, they may have to come to the closing table with cash to pay their mortgage off or allow the home to be repossessed by the lender.

Historically, the one thing that can always be counted upon is that one side of the market will never stay on top forever. In fact, it can turn in a moment. The same area that remains depressed for a period of time can make a comeback as lower prices stimulate reinvestment.

Setting A Home's Price To Sell

The most critical thing in selling a home is setting the asking price. Set your price too high, and no one comes to look at it. Set it too low and you have a quick sale — but you short-changed yourself.

If an owner offered a house for sale at $1 million too high it would never sell (or it would remain on the market until inflation caught up with the price after years).

If you priced a $500,000 home at $100,000, you would have a sale instantly. Someone at the newspaper's classified ad department would be at your door five minutes after you called.

The home must be priced between these extremes, which will attract buyers and still bring you the most money possible.

There are factors that never influence your asking price:

- **Your cost.** Suppose you bought at a bargain from a relative – or inherited it. The cost cannot relate to anything.
- **What you paid for improvements.** Your improvements suited you, but may not appeal to anyone else. Just because you spent $20,000 on an improvement doesn't mean the home is worth that

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much more. Maybe the potential buyer is looking at it figuring how much it will cost to remove it.

• **Assessed value.** This is almost never a dependable guide to what buyers will pay. The figure is set by the taxing authorities for collecting property taxes but it usually has no relation to actual value.

• **Your needs.** You may want a certain amount for an investment or your next home. Just because you want that amount doesn't mean the property is worth it.

• **Emotion.** Don't ask too much for the home because all the children were raised there and it has wonderful memories. Also, if you have any negative feelings, like a divorce, or the need to settle an estate quickly, emotion can lead you to ask too little for the place.

So, how do we value it?

Use comparisons only. The only thing that matters is how your home compares to the others currently offered for sale or recently sold in the neighborhood. Buyers will be comparing.

The law of supply and demand in the open market determines your home's value. We can tell you what buyers are paying for similar property — and that's what counts.

Call us for help in establishing value.

Smart Negotiations Can Save You Big Money

When a purchase contract is written, the selling price is the first thing on which both buyer and seller look at. This is always the way, but the price isn't the only factor that determines the net bottom line for both the buyer and the seller. Who does the contract say pays for all of the transaction costs? What if the buyer is offering to pay near to the asking price, but is asking for all of the furniture to be included?

Here are some other bottom-line points that can change the transaction:

1. As we mentioned above, how much are the estimated transaction costs and who will pay for what?

The transaction costs can amount to thousands of dollars. It may be customary for either the buyer to pay for certain items, but all of them are negotiable. Here are some: The broker's commission. The home inspection. Escrow or attorney's fees. A termite inspection. Transfer taxes and recording fees. An owner's title Insurance policy and a title search.

2. How much money is the buyer putting up as a deposit? When? Who has the money?

The deposit that is paid when the offer is signed can be as little as $100.00 or the full down payment of thousands. This is an indication of whether the buyer is serious about completing the transaction. The seller wants the largest amount of money and wants it placed in an escrow account. Beware of a promissory note instead of money – it is just paper, not money.

3. Is the buyer financing with a new mortgage? What are the terms?

Few buyers pay all cash. Most need financing and a mortgage escape clause is a must for them. Buyers must have this contingency, as they can be legally obligated to purchase the home even if they can't obtain financing. Usually this contingency says the buyer will obtain a loan "at a certain rate of interest" within a specified time period. The seller's broker can advise the seller if these terms are reasonable in the current market conditions.

4. What personal property is the buyer asking for?

In most places, anything that's permanently affixed to or installed in the home is real property. Anything else is the seller's personal property. There is room for confusion here. Built-in appliances are usually real property but can be a problem if the seller removes them right before closing. It is best if the buyer carefully lists anything that is expected to stay. An expensive chandelier or window coverings are typical. Be specific – seller might substitute for an expensive item. The seller can counter-offer and remove something from the list that was not intended to be included.

5. What happens if buyer or seller breaches the contract?

When both the buyer and seller have agreed to the terms, it is a binding legal document. Unless an unmet contingency automatically kills the contract, a buyer who fails to perform can lose the deposit money. A seller who backs out can be sued for "specific performance," which can force the sale of the home to the buyer. Some contracts specify that disputes can be settled in small-claims court or presented for arbitration or mediation.

When we represent you as buyer or seller in a transaction, we will go over the small print in the standard contract, and all the written terms, so that you'll know what to expect and be prepared to negotiate all the possible variations to get you the best terms.