

Incentive To Buy

Price is King, but these extras also might catch a buyer's attention

"Serious buyers are looking for a place to buy a home, not a trip to Tahiti," said Dave Ledebuhr, owner/broker of Musselman Realty in East Lansing, Mich. On top of that, lenders are leery of gimmicky incentives, fearing that they're built into the price of the home and that loan dollars are being used to pay for that tropical trip, he added.

Instead, effective incentives get to the heart of what's on the minds of potential buyers -- the overall cost of the home and the monthly payments they'll have to manage, he said.

Help in bringing down the interest rate of the mortgage for a year or two by paying points, for example, can go a long way in giving one home an advantage over another, said Dave Dalzell, owner/broker of Dalzell, Realtors in Abilene, Texas. Contributions to the down payment and common closing costs could especially be of help to a first-time home buyer, said Greg Zadel, owner of Zadel Realty in Firestone, Colo.

Incentives can be considered when the home is first listed as a way to distinguish it from the start, Dalzell said. They can also be added when the home hasn't sold in two or three months as a way of enticing a buyer without lowering the cost. Or incentives could arise in negotiations, when a buyer needs that one extra little nudge to commit.

Make no mistake, the location and condition of a home are going to be its main selling points. But if sellers "put on their buyer's cap" and really consider what issues the buyer might have, it could make all the difference, Dalzell said. "I tell my seller to look at his bottom line," said Susan Ramsey, a Realtor with Re/Max Integrity Realtors in the Phoenix area. A seller should figure how low he or she is willing to go, factoring in both the selling price and other incentives used to get a buyer to commit.

But also be aware that most seller concessions need to be disclosed. "Everything should be in writing and attached to the contract," Dalzell added.

In addition, buyers and sellers need to make sure that they don't exceed the lender's allowable seller-paid assistance, Ledebuhr said.

Below are six of the most common incentives being used in markets today:

1. Reducing the price - A price reduction might be the most common buyer incentive, and often it is the one that is looked at first, said Delores Conway, director of the Casden Forecast at the University of Southern California's Lusk Center for Real Estate. "The price is something that is a common currency -- it appeals to everybody," she said.

Gene Rivers, who owns four Keller Williams offices in Florida, agreed. If a buyer has in her mind that she'll pay \$350,000 for a home and the seller won't budge from \$375,000, "\$5,000 in closing costs and a plasma TV ain't going to get it done," he said.

But those extra little perks can grab the attention of a buyer; it also might inspire a commitment from someone on the fence between two similarly priced properties, Dalzell said.

"What we usually recommend before you reduce the price ... think about what you can do with the same dollars in an incentive," Dalzell said.

2. Paying points - Sellers can offer to pay mortgage points for a buyer, an incentive that Dalzell tends to use in environments like today's, when rising interest rates are at the front of a buyer's mind. One point is 1% of the loan amount, charged as prepaid interest.

For example, instead of having an interest rate at, say, 6.5%, a seller might be able to pay points so that the rate is at 4.5% for the first year, Dalzell said. "When a buyer sees a lower interest rate or monthly payment, that's something they can relate to," he said. The setup makes sense for a buyer who has furnishings to buy for the new place; it also can make for an easier monthly-payment transition for families that are upsizing.

A word of caution to buyers considering this tactic, however: This assistance doesn't last forever and usually spans about one to three years. Before accepting, understand and plan for the point in time when the window closes and payments return to their normal levels.

3. Down-payment aid - For some buyers, the hardest part of entering the ranks of homeownership is the down payment -- also an area where a seller can help. It's mostly first-time home buyers interested in this kind of assistance because they're often the ones lacking in funds to complete a deal, Zadel said.

"It gets people into homeownership," he said. "The disadvantage is that the buyer is financing that additional amount," he added, because a seller would likely come down in the price of the home if a chunk weren't dedicated to down-payment assistance.

"Flashy buyer incentives like a new car parked in the driveway or a flat-panel TV might grab headlines but when it comes to actually enticing someone to buy a home it's the more practical perks that count"

4. Help with closing costs - Closing costs include items ranging from taxes to title insurance and can add up, ranging between 2% and 7% of the loan value, according to Freddie Mac. So many buyers, especially those stretching to make a down payment, will be interested in having a seller help out.

In Phoenix, buyers in every price range have been asking that these costs be covered, according to Ramsey. "They ask for it because they know that they'll get it," she said.

5. Adding a home warranty - A residential service contract is sometimes thrown in as an incentive because it acts as insurance for a home's systems, often including plumbing, heating and cooling.

At a cost of a few hundred dollars, some real-estate agents consider it an inexpensive add-on that affords a buyer a little extra peace of mind, Dalzell said. That peace of mind can be especially welcome during the first year in a house.

Others take a different view, and say there's often confusion over what elements are covered. If a problem is considered a pre-existing condition, assistance could be limited.

Plus, a warranty might not be necessary for a handy buyer who would likely take on projects himself, or "if you're buying a condo that's two years old, a home warranty might not be that big of a deal," added Zadel. Those who accept a warranty should read the service contract and call the 1-800 number to ask questions, Dalzell said. If the seller pays for this add-on, he recommends having the buyer choose which company to use.

6. The little things - Other perks will appeal to buyers such as payment of homeowner association fees -- typically associated with condo developments -- are sometimes offered. Sellers with pools might also offer a year's worth of upkeep for it, a welcome help to those worried about the maintenance of the backyard attraction.

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