



WASHINGTON HOMEBUYER'S ASSOCIATION

# Home Buyers:

*How To Avoid  
Paying Too Much*

*Finding the right home to meet your family's needs is hard enough. But knowing how to avoid paying too much for that home once you've found it is another job entirely.*

**Whether you're a first-time buyer or an old pro at the real estate game, buying a home can be a daunting process. It's an emotional time filled with difficult choices---and each decision you make has money riding on it.**

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⇒ **Tip No. 1** Know what you're shopping for before you start: *Before you begin shopping, understand that there are two homes out there vying for your interest—the one that meets your needs vs. the one that fulfills your desires. In a perfect world, you're going to find yourself confronted with choices.*

*Do you choose the three-bedroom home with room for your family to grow, or the one with the big back yard and deck that's perfect for entertaining? Is having a big kitchen more important to you than a few extra rooms?*

*When you start shopping, you're going to find homes you fall in love with for different reasons. That's why you should list the features you want before you start shopping. Use the form provided at the back of this report and break your list into two categories—“Needs” and Desire”—and prioritize the items you come up with.*

*Understanding what you really need as opposed to what you'd like to have will help you keep your priorities straight as you shop around. I've seen people fall in love with a home for the wrong reasons, then regret their purchase when the home fails to meet their needs.*

*Don't let emotion cloud your judgment. Satisfy your needs first. If you find a home that meets your needs and fulfills some of your desires, so much the better. The important thing is to know the difference before you get caught up in the excitement of the hunt.*

⇒ **Tip No. 2.** Shop for a mortgage before you shop for a home: *Getting a loan preapproval is the smart way to shop for a home. It tells sellers that you're a serious prospect and you know in advance the maximum mortgage you can afford. Make sure you get a commitment in writing. I've seen many buyers make the mistake of learning what they qualify for but not getting that preapproval in writing.*

The good news is that it's easier than ever to qualify for a home loan. Lenders have modified qualification rules and created programs designed to help people even if they have problems in their credit or employment histories. Many programs call for dramatically reduced down payments—the biggest obstacle for first-time buyers in particular.

⇒ **Tip No. 3.** Pick a winning team to help you: *From picking a mortgage to finding the right home to inspections to negotiating the best deal, it can be exhausting for even the hardiest souls. That's why most people have a Realtor in their corner.*

A good agent has the knowledge and experience that come from years of helping buyers. He or she also has a team of other professionals to put at your disposal—lenders, lawyers, home inspectors, movers, etc.

*Most sellers you encounter are certainly going to have professionals in their corner. Having a pro on your team is the best way to make sure you get the best deal possible.*

⇒ **Tip No. 4** *Make sure your Realtor knows what you are looking for:* Once you have a clear, detailed picture of the home you want, make sure your agent has the same picture. This communication is critical. Otherwise, you'll both waste your time looking at homes you're really not interested in. Also, make sure your Realtor knows your priorities. Your shared goal is to find a place that meets all of your needs; your Realtor will then try to satisfy as many of your desires as possible.

*A good Realtor will ask you several questions about what you're looking for and what you can afford. And they'll listen carefully to your answers.*

⇒ **Tip No. 5** *It's a cliché, but... location, location, location:* The desirability and resale value of your home-to-be depend on location more than any other single factor. Again, don't let emotion get in the way of wise investment. No home is an island, and the value of yours is affected by the homes that surround it.

*Assuming you've already considered the elements that make up a desirable community—character, quality of schools, access to work places and services, recreational facilities, etc. ---there are several elements that combine to create a good location.*

Your first consideration is the neighborhood. Every neighborhood has its own unique character; you need to make sure you'd be comfortable in the one you're thinking of living in. Take a long walk and observe carefully. Do people take care of their yards and homes? Are the yards fence? Do children play in the streets? Talk to the neighbors and ask questions that give you a better feel for the area. But be careful not to appear judgmental---you might be talking to a future neighbor.

If the neighborhood is to your satisfaction, look at homes on the market in the area. Extremely large homes surrounded by smaller ones tend to appreciate less than a large home among other large homes. Conversely, the smallest home in the neighborhood tends to be “pulled up” by the other homes on the block. However, it might take longer to sell a smaller home when the time comes because many people are unwilling to pay extra for the neighborhood.

The outer edge of a neighborhood is usually not good for resale value. There are noticeable dividing lines between unlike neighborhoods. It could be a difference in architectural styles, home size, property use or something else. Look for a home in the middle of a community of similar homes: it will hold its value better.

An exception to this rule is a house on the edge of a neighborhood bounded by woods, park land, a golf course or other open space. Natural boundaries appeal to buyers, and these “edge” homes can actually command a better price. Of course,

*the exception to this rule is when there's an unpleasant use planned for the open space. An open field with a babbling brook is nice; a new freeway, strip mall or factory isn't.*

*Other things that can negatively affect property values are traffic, sounds, smells, etc. Be sure to give the neighborhood a long, hard look. The home you're interested in may be perfect, but if the neighborhood has problems, your investment won't be worth as much when the time comes to sell.*

⇒ **Tip No. 6** Use your agent to narrow the prospect list: *A good agent brings to the table an in-depth knowledge of the current housing inventory in his or her area, and continually updates that knowledge by touring homes as they are placed on the market. This is to your advantage. Trying to personally see every available home that might fit your needs would be an overwhelming process. If you are thorough in communicating your needs and what you can realistically afford, then your agent can help you narrow down the list of prospective homes to those that best suit your needs. This will save you much time and energy.*

*When the time comes to settle on one home, you can do it with the confidence that you've made a well-informed choice.*

⇒ **Tip No. 7** Show a little interest in everything you see: *As you tour the homes on your "short list," find something to admire in each one. If you don't show any interest until you've finally fallen in love with a home, then you've just put yourself at a competitive disadvantage. Never let anyone know how badly you want a home—it will cost you money!*

⇒ **Tip No. 8** Shop with your head, not your heart: *Don't forget the purpose of your "Needs" and "Desires" lists. Shopping for a home is an emotional process. Your heart will cost you money; using your head will save it.*

⇒ **Tip No. 9** Don't ignore red flags when evaluating a home's pluses and minuses: *When evaluating the advantages and drawbacks of a particular property, be sure you know the difference between acceptable and unacceptable problems.*

*Some issues—peeling paint, worn carpeting, and ugly wallpaper—are cosmetic and can be easily remedied. In fact, you can use these "problems" during negotiations to lower the asking price—after all, you'll need to spend money to bring the house up to snuff. Make careful note of what you see that can be used to your advantage. Don't nit-pick, however—if taken to extremes, you could end up alienating the seller and creating a hostile atmosphere.*

*Other problems may be warnings to walk away. Major foundation cracks, evidence of previous water damage, signs of serious dry rot or termite damage, antiquated electrical systems or plumbing—any one of these may be cause to reconsider your interest.*

*Don't let a house's positive attributes blind you to very real problems. If you do, the chances are good that you'll end up spending much more money than you ever expected down the line.*

⇒ **Tip No. 10** *Hire a professional home inspector: In my experience, spending money on a professional home inspection is the investment you'll ever make. A professional inspector brings experience in examining a great many homes, good evaluation standards and an unbiased perspective. And a written report can be an excellent negotiating tool.*

*Make sure you accompany your inspector on the tour. You'll learn a lot about the home you're thinking of buying.*

*Once you have your evaluation, the decision to proceed is yours. A home inspector only gives you a professional opinion of the home's condition, not advice as to whether or not you should buy.*

⇒ **Tip No. 11** *Not all fixer-uppers are good buys: You may be the sort of person who looks at a home in need of significant work as a challenge and an opportunity to make money. Many people have bought fixer-uppers at below-market rates, invested a little sweat equity or more than a little money on renovation, than eventually put it back on the market at a profit.*

*But if it isn't priced low enough, you won't recoup your investment of time, trouble and expense. Before you proceed, do a careful evaluation of what you'll have to invest and consult with your Realtor to learn what you can reasonably expect to make when you put the home back on the market. And be sure to include the unexpected---there's no such thing as a "sure thing."*

⇒ **Tip No. 12** *Choose a home with an eye toward future needs: Buying a home is a big investment. If you can stretch a little today to buy a home that you can grow in -- whether it's having a child, running a home-base business, or having room to build an addition--do it. In the long run, it will probably be less expensive than moving up to marginally larger home when the need does arise.*

⇒ **Tip No. 13** *Once you're ready to buy move quickly: Good properties move fast. Once you've made up your mind to buy a home and you've lined up your Realtor be prepared to make decisions quickly. If you find the right home today but aren't ready to buy until tomorrow, you may already be too late.*

⇒ **Tip No. 14** *Clarify who your agent is: Make sure you know who the agent you're talking to represents. Any agent has a responsibility to be open and honest with you and to let you know who he or she represents—the buyer, the seller or both.*

⇒ **Tip No. 15** *Ask for a written comparative analysis: One way to ensure that you don't offer too much for a home is to ask your agent to prepare a written comparative market analysis. A CMA will show you the sale prices of comparable homes in the neighborhood. It also lists the asking prices of other homes in the area currently on the market.*

*You may find that the asking price is above what comparable homes in the neighborhood are actually selling for. Or you might even find another home in the area that's a better bargain. When you make an offer, you can use the CMA as evidence to show the seller why you believe your offer is a reasonable one.*

⇒ **Tip No. 16** *Learn as much as you can about the seller's situation: It's true what they say: Knowledge is power. The reasons behind a sale can often be used to your competitive advantage during negotiations. For example, a seller whose company has transferred him to another city is probably more motivated to sell than someone who is still looking for a new home.*

*Other signs of a motivated seller include a vacant house, or a house that's been on the market for several months with several reductions in the asking price.*

⇒ **Tip No. 17** *Keep your own situation to yourself: Information can be used against you as well. How much you're willing to spend, the size of mortgage you can afford, your move-in deadline—it all can be used to extract more money out of your pocket. Be sure to tell your agent everything he or she needs to know to be effective on your behalf—how much you have for a down payment, the size of the mortgage you can afford, etc. However, keep your personal circumstances and timeline to yourself.*

⇒ **Tip No. 18** *Use time to your advantage: Just as you have a time frame in which you wish to buy, the seller almost certainly has a deadline of his own. If you can learn the seller's deadline, it's another piece of information that can be used to negotiate a better deal.*

⇒ **Tip No. 19** *Check your emotions at the door during negotiations: One of the costliest mistakes you can make is letting the sellers know how much you love their home. Once you've let it slip, you can just about forget about negotiating the price—the other side knows how motivated you are. In fact, a seller may see it as an opportunity to squeeze a little more money out of you even when you've made a good offer to start.*

No matter how wonderful a home is, no matter how much you want it, keep it to yourself.

⇒ **Tip No. 20** *Don't be pressured into a quick deal if it doesn't feel right: While you want to move expeditiously once you're in negotiations, don't let the other side pressure you into a quick close. It may be a sign that there's something you should know, but don't. And the reason could be worth money.*

⇒ **Tip No. 21** *Don't be afraid to negotiate: You may be the type of person who prefers a hard-and-fast price tag on everything. "I don't like to haggle," you say. But negotiation is the key to getting a good deal. If your goal is to get the best home possible for the least amount of money, then you had better be prepared to play.*

⇒ **Tip No. 22 Stay out of bidding wars:** *Sometimes, the seller's Realtor will try to scare a hesitant buyer with the threat of another serious potential buyer. Don't fall into this trap—it will only cost you money. If there is another buyer, then the seller's agent will try to get a bidding war going. In these situations, whoever wins also loses because the buyer ends up overpaying.*

*If there isn't another buyer, there's good chance that "the other deal" will fall through and the seller's agent will come calling. Be sure to let the other side know that you might be interested if that happens before you walk away.*

⇒ **Tip No. 23 Make sure you get a written disclosure of all known defects:** *The good news for buyers is that the law now requires sellers to make complete disclosure of known material defects. Make sure you get it in writing. And carefully consider how these defects might affect what you're willing to pay.*

⇒ **Tip No. 24 Know your hidden costs:** *There's more to buying a home than the mortgage. Don't forget to factor in mortgage insurance, appraisal fees, inspection fees, transfer taxes, title insurance and every other dollar you'll have to spend in order to know what you're really paying for your new home.*