

Ideas Regarding Lowball Offers

Homebuyers are looking for a steal; home sellers are looking for an out, and homebuilders and banks are selling homes at cut-rate prices. Combined, these conditions have triggered a wave of lowball offers to buy homes in distressed U.S. housing markets.

[1] Conventional wisdom claims that lowball offers don't work. Homebuyers are warned not to insult sellers, who are counseled not to make counter-offers from disrespectful buyers. Real estate salespeople are stuck in middle, oftentimes unwilling to engage in prolonged negotiations that might not earn a commission. But conventional wisdom doesn't always hold true. With a severe slowdown in sales, some experts now offer new advice.

[2] The term lowball doesn't have a formal definition in real estate, though some realtors suggest that any offer that's less than some large percentage of either the fair market value or asking price of the property is a lowball offer.

[3] Wisdom for the current housing market: (1) Homebuyers deserve to make lowball offers. (2) Home sellers should consider every offer no matter how low. (3) Realtors should try harder to help buyers and sellers come together.

[4] Some realtors say any offer that's 25% less than the asking price falls into the lowball category. By this definition, an offer of \$375k for a house priced at \$500k would fit the bill, as would an offer of \$1.5M to purchase a house priced at \$2M. If an offer is that low, the sellers aren't going to be very happy, and most of the time, they aren't going to take it. Others say the term lowball is more subjective. Any offer could be labeled as lowball if it provokes the seller to outrage or anger.

[5] Brokers' negotiating skills benefit buyers and sellers. Buyers should consider offering at least 85% of the asking price because anything lower than that could be perceived as an insult to the seller.

[6] Sometimes buyer's agents offer a little pre-negotiation negotiation between themselves and the listing agent in lieu of a formal written offer. The agents verbally agree on a price that's close enough to open a formal negotiation with the proviso that that price may be adjusted as the terms of deal are discussed. This approach can move a lowball offer into a price range that's acceptable to both the buyer and seller.

[7] Another strategy can turn a lowball offer into an acceptable deal. Rather than discouraging lowball offers, buyers should be able to put in whatever offer they want and provoke a discussion. After that, it's up to the broker to present the low offer in a manner that's friendly and nonconfrontational. Today's tough markets mean brokers need to be adept at "schmoozing" and negotiating with their colleagues.

[8] If the seller is a financial institution, rather than a private homeowner, the risk of insult may be lessened. Homebuilders and investors also may be less emotional than homeowner sellers, but not always. Some builders put their heart and soul into each home they build and become emotional about lowball offers. Other builders can afford to wait until they get the price they want.

[9] Buyers may offer more if the seller responds to a lowball offer. The new thinking for sellers is similar. While a lowball offer may be unwelcome, it could be an opportunity to open a dialogue with a buyer who ultimately may give the sellers what they want. A seller who has a bad reaction to a low offer, may lose a good buyer who could make a deal. After all, it doesn't matter what the initial offer is. It is important for sellers to find out what the buyer's highest offer is. The only way to get to that point is by opening a friendly dialogue. The outcome could depend on the real estate salesperson's willingness to negotiate, a task that not all agents greet with enthusiasm. A lot of brokers dismiss the offer as too low when they should say, it's low, but let's discuss it and let's see what the buyer's highest offer is. Some buyers come in with a low offer, but then come up huge amounts if they really want to buy the house.

[10] Some sellers respond to a lowball offer with a counteroffer that cuts only a nominal amount off the asking price. Others refuse to counter at all or counter at a higher price just to make a point to the buyer. Some realtors suggest an alternative approach that aims to create goodwill. Thank the buyer for the offer and indicate that a counteroffer may be forthcoming if the buyer will come up with a little more at the outset.

[11] The bottom line on lowball offers is that each real estate deal, like each house, is unique. That means buyers and sellers need to know the strengths and weaknesses of their own and each other's negotiating positions. If a seller's home is in prime condition, has only just come on the market and is attractively priced, a lowball offer may be rightly dismissed from a position of strength. But if that same home is still on the market with no takers six months later, a motivated seller may be more inclined to give a lowball offer a second look.

[12] Here's a good tip for buyers and sellers: Don't let the deal die on your end. If the seller wants to sell the property, every offer deserves a counteroffer, and if the buyer wants to purchase the property, every counteroffer merits consideration. The objective is to keep the lines of communication open until a deal is agreed upon. It doesn't matter what the first offer is, it only matters what the last offer is. The question for sellers is, are they good enough negotiators to get there?