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Negotiation 201: Terms Over Price

by M. Anthony Carr

Contrary to popular belief, the bottom line in contract negotiations is not always the bottom line. Obviously, how much you're going to pay for or gain from the sale of a house is on the top of the spreadsheet; however, there are a certain percentage of contracts that fall apart because of the terms or non-sales price parts of the contract, rather than the financial bottom line.

Let's take a \$350,000 offer on a house listed at \$350,000. You would think that's it. Full price contract, what more is there to talk about? Well - seller subsidies, sale of home contingency, settlement date, financing, earnest money deposit, inspections (and who's going to pay for them), appraisal, third-party approval, just to mention a few.

Any time the buyer starts asking for things, the seller has to sit back and weigh the costs ~ both financial and other. Seller subsidies, definitely affect the bottom line. In fact, most agents will say that a contract of \$350,000 with 3 percent seller subsidy is really a contract of \$339,500. The \$10,500 difference is the cost of the 3 percent in dollars. Thus, it affects the bottom line.

While many of the above items come with some sort of financial link, not all do, and that's where some buyers and sellers can't come together.

Settlement date is a big one. A "quick" settlement can sometimes be more of a curse than a blessing ~ especially if the buyer expects the seller to move out at that time. A contract written on the 1st of the month, for instance, requesting a settlement in three weeks (by the 22nd), can cause a lot of havoc in a household. If all we had to deal with were the financial ramifications ~ no problem.

Quick settlement, though, really means ~ find a home of choice, in the location you really want, for the price you want, with the amenities you want, convincing the home seller to your own negotiations, get it financed, get packed up, and moved in less than three weeks. Can that happen? Sure ... but with quite a bit of panic and stress.

At times, the terms are a matter of "principle," and sometimes "pride." While other times a seller may believe that, while the buyer surely can purchase his home, the buyer is just being plain old unreasonable.

Sometimes, it's the principle of the matter (in the seller's mind) about whether he should pay for the leaky faucet or leave it as is. "It's a leaking faucet, for cryin' out loud," he might say. "I just gave them \$5,000 in closing costs. Let them pay for their own leaky faucet." To which you may get the buyer to reply: "It's a leaking faucet, for cryin' out loud. I just paid him \$350,000 for a house" I think you get the picture.

Other non-money items could be something like rent-back to the seller, where the home seller becomes home renter for a month while they are trying to find a home of choice. Some buyers are okay with this type arrangement. Another buyer may want a clean break and want possession right after the settlement day.

Sometimes a contract can fall through or the offer not even gets out of the starting blocks, depending on a buyer's choice of financing and earnest money deposit. Consider two contracts: one is full price (\$350,000), with a \$2,000 deposit and 100 percent financing. The second one is \$345,000 with a \$15,000 deposit and financing of \$245,000 with a \$100,000 deposit. Which buyer do you think has more to lose?

Obviously, it's the second one, even though the sales price is \$5,000 less. While the seller may walk away with less money, he at least has a stronger sense of security that the transaction will go to settlement since the buyer knows if he messes up he could lose his \$15,000.

As you can see, it's not always about dollars and cents. Many times, it's about dollars and common sense.

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Home's Value Helps Owner with Financial Planning

by M. Anthony Carr

It's the illusive question for many a homeowner in today's market. "What is my home worth?" Homeowners need to know this information for many reasons. While there may not be a primary purpose, determining the value of your house can be useful in many financial decisions you'll make in the future.

The value of the house determines your buying power, tax bill, insurance premium and other financial planning aspects of your life. Let's look at each of them separately.

Real estate investing: When a homeowner wants to sell the house, it's not just that he wants to walk away with the most money and win the "I sold my house for more than you" award. It's mainly so he or she can move up to another property with as small an increase in monthly payment as possible. If you're scaling back, it would be wonderful if the price of your house, and the profit made from it, would actually pay for a home outright.

If the seller is moving up, he or she obviously wants as much from the transaction as possible to help with the down payment, closing costs and possibly even various debt reduction of other liabilities ~ auto loans, school expenses, consumer debt, etc. In addition, if you want to start investing real estate, a line of credit from your equity could be an option.

Your tax bill: The value of the house will also affect how much a homeowner will pay in taxes over the next year. This tax assessment process, however, is different jurisdiction to jurisdiction. For the Washington, D.C. area, it is assessed nearly every year. However, some jurisdictions across the country don't get assessed for years, therefore, the tax bill is stable for that time period.

In today's leveling home prices, the value of a house will save homeowners money each month on their mortgage payment since it means a lower tax bill, and thus, a lower monthly escrow payment.

Insurance purposes: If your house burns down, Lord forbid, you'll need to know the value of your house for rebuilding purposes. This number is more than .

likely going to be different than the "market" value of a house. The cost to rebuild your house will usually be lower than the amount a homeowner could clear from the sale of the house. Nevertheless, it's a good idea to periodically call your insurance company to make sure you are insured enough to rebuild or repair your house in case of damage or destruction.

Cash-out refinancing: Many refinancing programs allow homeowners to use equity from the house for cash. You may want to remodel or finish the basement, build an add-on to the structure, consolidate debt, send a kid to college or even retire, but that money coming back to you at settlement will depend, first of all, on the value of your house. Then, it will depend on your income and ability to repay the lender for the cash-out from the mortgage. Some people have a lot of equity in their house but will never be able to gain access to it until they sell the home because to borrow the equity in a mortgage is prohibitive since they don't have the income to qualify for a higher payment. For those who are nearing retirement, they could consider a reverse mortgage where the lender pays them in monthly payments for the equity (ergo, reverse mortgage); and then the mortgage is paid off once the house is sold, just like a traditional mortgage. Thus, the value of the house will help determine the annuity payout for the homeowner.

Finally, the equity in your house can be used to help determine your net worth. Your assets minus your liabilities determine your net worth. With that in mind, it's important to remember that every time you pull cash from your equity, you're depleting your net worth.



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