

How to Bargain for a House as the Real-Estate Market Cools

By Ruth Simon

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Home buyers are finally starting to catch a break.

After years of soaring real-estate prices -- not to mention periodic bidding wars for third-rate properties -- inventories of homes for sale are rising in many parts of the country. As a result, some buyers are regaining long-lost bargaining power.

That gives buyers in many markets more room than they have had in years to push sellers to sweeten the pot. Buyers are asking for, and often getting, concessions ranging from help in paying their closing costs to money for repairs or redecorating.

And sellers in many markets -- including once-hot areas like Phoenix, San Diego and Boston -- are finding that they can no longer just slap a price on their home and expect it to move quickly. Increasingly, they are being advised to set more realistic pricing expectations and to spruce up their property with fresh paint or some new plantings out front to stand out from the crowd.

In Rhode Island, where active listings are up 43% from a year earlier, some agents are going even further. Broker Ron Phipps recently offered the buyer of a 2,200-square-foot waterfront condo priced at \$550,000 a two-year lease on an Audi TT sports car. The buyer applied the \$18,000 value of the lease to the purchase price instead -- then bargained with the seller to kick in an additional \$7,000 for closing costs and a new air-conditioning system.

The re-emergence of tactics like these is notable because it could signal the end of a prolonged seller's market in some parts of the country.

Some sellers are even cutting list prices outright. In Phoenix, where the number of homes on the market has climbed to 17,000 from 5,400 three months ago, "we're now constantly getting emails that prices have been reduced," says Charles McLean, broker-owner of Century 21 Metro Alliance. His advice to sellers: go "all-out" with marketing tactics like open houses. As recently as this summer, that wasn't only unnecessary, it was often impossible -- properties sometimes were selling in as little as 24 hours.

In Northern Virginia, Elaine Raabe, the buyer for three stores run by the local Realtors association, says she's having trouble keeping signs that say "price reduced" in stock. For the previous two years, she says, "you couldn't keep an 'under contract' sign in the building."

In San Diego, Steve Krescanko of Century 21 Award is advising clients to offer the buyer's broker a 3% commission instead of 2.5%. On a two-bedroom, two-bathroom home in Escondido, Calif., that recently sold for \$420,000, the seller combined a 3% payout to the broker with \$6,500 toward the buyer's closing costs.

Of course, home sales traditionally slow in the fall. And if mortgage rates remain low, sales could bounce back in the spring. New-home construction surged in September, according to the Commerce Department. Sales of existing homes held steady at their second-highest level on record in September, according to the National Association of Realtors, or NAR. (That's partly because of a boost from Katrina refugees buying homes.)

And many "price cuts" right now are actually deceptive: Sellers who overpriced their properties are being forced to roll back expectations -- but they're still getting more than they probably would have for the same property a year ago.

On Friday, NAR said it expects sales of existing homes to climb 4.8% this year from 2004 to a record 7.1 million. Next year, however, it believes sales will fall 3.5%. NAR expects the median price of an existing home to climb 12% this year, but just 5.3% next year.

Already, there are indications the market is in transition. Rising oil prices and higher interest rates may finally be taking a toll, amid concerns about an overheated housing market. A recent survey of real-estate agents by Banc of America Securities analyst Daniel Oppenheim found that selling times were rising in 19 of 20 markets. Prices in 13 markets were flat or falling, up from four in July.

Although buyers in many markets have the newfound ability to start asking for concessions such as closing costs or repairs, whether they get them is another matter. It depends in part on the dynamics of the local market -- and the willingness of the seller to face reality. "We have sellers who refuse to acknowledge that the boom pricing is over," says David Lereah, chief economist of NAR.

For sellers, it heightens the importance of pricing a home correctly at the outset. Homeowners can no longer look at what their neighbor received and then simply tack on a big premium. Instead, pay attention to recent sales prices of comparable properties and also size up whether the local inventory of homes for sale is rising.

Sellers can also do other things to stand out, such as offering the broker a higher payout if the property is under agreement by a certain date or offering to pay the buyer's closing costs, one month's mortgage payment -- or even the heating bill, says Pat Rioux, broker-owner of ListForLess.com, a flat-fee multiple-listing placement service in Massachusetts.

Not every market is feeling the squeeze. In Charlotte, N.C., sales have been "very brisk," says Pat Riley, president of Allen Tate Co. In Seattle, inventories are down almost 19% from a year ago, says J. Lennox Scott, chairman and chief executive of John L. Scott Real Estate.

But in many areas, some of the excesses of the housing boom are fading. In Washington, D.C., the number of home inspections has climbed because buyers no longer feel they have to forgo inspection to get an offer accepted, says Bo Menkiti, president of the Menkiti Group of Keller Williams Realty.

Also, asking prices are dropping. Crystal Sullivan, an agent with Liz Moore & Associates in Newport News, Va., put a house she owned in Westhaven on the market in late August, priced at \$182,900. She sold it six weeks later after offering a \$2,500 credit for closing costs and dropping the price to \$169,900. "The hurricanes, the gas prices and the war, coupled with the time of year, have really taken its toll on our area," she says.

Alex Fiedorczyk, an investor in the Boston area, put a three-bedroom home on the market in September, priced at \$549,000. Since then, he's dropped the price twice, to \$499,000, and hired a broker instead of selling it himself. If a buyer doesn't appear before the listing expires in December, Mr. Fiedorczyk plans to pull the house off the market until spring. "It isn't worth another [price] cut," he says.

The average number of showings for homes in Massachusetts fell 25% in September, compared to a year earlier, according to Mapass, an appointment-scheduling service for real-estate brokers.

For some sellers, the readjustment has been painful. David D'Ausilio, an operating partner with Keller Williams Realty in Fairfield County, Conn., says one of his clients had to drop the price on an eight-year-old Colonial in Monroe three times, to \$664,900 from \$724,900, before accepting an offer this month. Nine to 12 months ago, the home would have sold for as much as \$695,000, says Mr. D'Ausilio.

"In certain price points, the market has corrected up to 10% already," he says. For the first time in several years, sellers are accepting offers that are contingent on the buyers selling their own home, he adds.

Linda Baron, an agent with Prudential Fox & Roach, Realtors in the Philadelphia suburb of Blue Bell, Pa., says that hiring a professional "stager" helped her to quickly sell a home priced at \$3 million. For about \$4,000, the stager brought in silk flowers, throw pillows, bedding and rental furniture and filled a basement storage area with furniture and boxes of collectibles so that the upstairs rooms looked more spacious. "Now that we're seeing houses staying on the market longer, we're going to do it across the board," Ms. Baron says.

The pressure on sellers isn't limited to coastal markets that have seen the biggest gains. In Chicago, where prices have risen steadily but not spectacularly, prices have begun to soften for higher-end properties. "A year ago, you never would hear about going back for a price reduction," says Stephen Baird, president of Baird & Warner. "Now you hear it a little bit." To move a full-floor condo with a view of Lake Michigan, his firm cut the price to \$2.975 million from \$3.5 million.

In Houston, where inventories are declining, higher energy prices are putting a dent in the sale of existing homes. Prices are down 3% to 5% over the past year or two, says Julius Zatopek III of Re/Max on the Brazos, with homes that were built a decade or more ago taking the biggest hit because they aren't as energy efficient as new construction.

Email your comments to ruth.simon@wsj.com.