

Low Ball Home Offers

Contributed by Steve Gillman
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Most real estate sells for a bit less than the asking price, but a "low ball" offer on a home is one that's lower than the usual discount. For example, if most of the homes in your area sell for two or three percent less than the asking price, and you try to get a house for 15% less, that will be considered a low ball offer. It will generally be frowned on by the real estate agent, which is irrelevant. If you have a good reason to do so, just make your offer.

{bot_wrgoogle}What's a good reason to make a low offer? It might be necessary. You may only be able to borrow a certain amount, and so you need a lower price for a given home. You might need to keep payments lower so you can get cash flow from a rental house. You might just want to buy low and sell for a profit. Whatever your personal or investment reasons, the idea is that you only get a deal if you ask. But will it work? Will the seller accept that low price? Very rarely, but that's okay as long as you understand the process.

If you need a home right now, don't go around offering 20% less than the asking prices. You probably don't have time to waste trying to find that one-in-a-hundred sellers who will say yes. On the other hand, if you are an investor and it takes two months and a hundred offers to get a deal you can make \$20,000 profit on, why not do it? Refine your technique and you might get one-in-thirty to say yes. That may sound like bad odds, but what if you made thirty offers per month? You would be making 12 profitable deals per year, right?

How To Make Low Ball Offers

Perhaps the most important point to make about low ball offers is that you don't need to ever have one accepted to make money with them. That's because a seller will often make a counter-offer. He is asking, \$210,000, for example, you offer \$162,000, and he comes back with \$175,000. If that suits your purpose you say yes.

One of the primary functions of a low offer is to lower expectations. I was once trying to sell my car and the first offer I had was for half of what I was asking. I was shocked, and said no. But it got me doubting my estimate of value, and I was ready to accept almost any offer higher than that first one. That's how the process works. Here are some other pointers.

Make a lot of offers. Some investors make offers without even looking at the houses to save time. They just write it up at 25% less than the asking price and include a good inspection clause so they can back out of the deal if the home has any serious issues. Of course most offers made this way are rejected, but the idea is to make the process efficient so that one-in-a-hundred can be found more quickly.

See uncertainty as an opportunity. Uncertainty does two things. It scares away buyers, or causes them to make really low offers. It simultaneously scares sellers into accepting less than they otherwise would. Both of these effects are good for an informed investor.

For example, I recently saw a fixer upper with a price of \$50,000 get an offer for \$5,000. The buyer probably guessed that it was worth more than that, but was uncertain about the repair costs. The seller said no, but was now probably even less certain about the asking price. An investor with the skills and knowledge to say with some confidence, "That will take \$20,000 to fix up and will sell for \$90,000, might have a profitable buy at \$30,000 (and the seller might jump on that offer after the first one).

With unique properties uncertainty is a given. This is why Donald Trump was able to buy a 25 million dollar home for 5 million, and why Richard Branson could buy a 3 million pound Caribbean island for just 180,000 pounds. With both islands and high-priced estates nobody can say for certain what the value is. The lesson is to go low when the property is not easily priced.

In fact, some uncertainty is almost a requirement. Why would a seller ever accept 20% less on a home if it is the similar to the other homes around it and they are all selling for close to asking price or appraised value? In other words, choose the right homes to make these offers on if you want to do better than one-in-a-thousand. The right homes include homes that are unique, have problems, have been on the market a while, have very motivated sellers, or have just been listed.

Let the sellers know why they should accept your low offers. List the problems you see, especially those that the sellers may not be aware of. But do this on paper; don't confront sellers with their home's flaws. You want to be nice. In fact, apart from the price, give them anything they want if it won't cost you much, like a fast closing, time to move, or a higher interest rate if seller financing is involved (and especially if you'll be selling soon anyhow).

To sum up, your goal is to get some of your low ball home offers accepted (maybe just one). So choose the right homes to begin with, see the first offer as a negotiating ploy, and be nice to the seller. Then keep trying until you have a deal.

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