CHAPTER SIX

BUYERS

It's a Good Buy or It's Goodbye

Buyers. You gotta love 'em. They know everything. They know exactly what they want to buy and exactly what they want to spend. The only problem is, they speak a language called buyerese that is a variation of liarese.

Liarese is the language of liars, a group of people who at times distort or twist the truth, usually for their own benefit. Buyerese, however, differs significantly from liarese, in as much as buyers are really trying to tell the truth. For some reason, though, when people begin looking for a house, the truthful needs and impulses swimming around in their vast neurological ocean somehow don't flow over their vocal cords. To the untrained observer, it would seem that these people are liars. But they're not really liars—at least, not on purpose. They're simply buyers.

I have some dear friends who returned to our hometown of Nashville after having lived in another city for several years. He's a lawyer and she's an architect. It might seem that they wouldn't require a real estate agent because, between the two of them, they should know everything. Nevertheless, they couldn't find the house they wanted, so they asked me to assist them in their search.

At our first meeting, they laid out their criteria. They had a young child, so they didn't want to be on a busy street. As a gauge, they ruled out any property on a street with a double yellow No Passing line. She had designed a number of homes and was partial to frame construction, although brick would be considered. They did not want stone. They refused to live on a corner lot. They wanted all the living area on one floor and they did not want to spend over $125.000.

It was obvious to a person schooled in buyerese why they had been unable to find their dream home. They were speaking buyerese and didn't know it.

Where are they now? They are happily settled in their new home. It is a beautiful one-and-a-half-story stone house with a basement (three floors)—comfortably situated on a corner lot bounded by a street with a double yellow line. And they paid $126,000 for it.

If you're the Buyer

Once they get past the language barrier, sellers find that buyers really are good people. And some buyers actually do, in fact, know what they want. Many buyers think they know what they want, but really haven't approached enough houses from a buyer's perspective to be able to contract and compare the multitude of possibilities.

As a buyer, you may initially feel intimidated. You are swimming in uncharted waters, armed only with horror stories from friends and bits and pieces of information garnered from newspaper articles, late-night television promotions, and a how-to book (not this one!). You may get so distracted by all this "advice" that you may find yourself unable to differentiate between a well-built, nicely designed, functional, but messy home and a clean, shiny, meticulously organized, structurally nonfunctional dwelling. You may worry more about roof color than roof condition. A common settlement cracks will scare you to death. At first. But you need to hit the streets and get the hang of looking at other people's houses, with an eye toward making one of them yours.

Hints to Buyer

Begin your hunt with an open mind. Cull as you go. Unless you're a veteran house hunter, allow yourself to be schooled by a trustworthy agent and the realities of the marketplace.

Try to remember why you want the things you do. The reasons may be trivial.

Explain to your agent why you don't like a particular house you visit. Be specific, so that the agent can rethink your needs and wants. On the flipside, if there is something about a house you absolutely love, speak up.

There's no reason to be embarrassed about changing your mind. After seeing several homes, many people realize that they were completely wrong about what they wanted. Change is good. You are going to have to live in your house. You're going to have to write the checks. Tell your agent.

Never lie or speak buyerese. If you can't stand a particular home, tell your agent (even if she is the one listing it).

Don't be afraid to find the house you want. When you find it, buy it—even if it's the first house you see. Now, this advice may fly in the face of what first-time buyers are frequently told: don't buy the first house you see. But if you truly love the first house you see, and it's priced right for you, then go for it. If you're more cautious, go ahead and look at more houses after that, but be aware that the first one—especially if it's a great buy—may vanish quicker than you can say, "Let's drive back there and look at it one more time". I've worked with many a client who loved the first house she saw; all the properties she saw afterward paled in comparison. In some cases, that first house is still waiting for the buyer after she feels she's seen enough listings. But often it's gone, and the disappointed buyer can't shake the feeling that she's settling for whatever she winds up with (even if it's a fantastic house). Nothing is ever as good as the one that got away.

If you're the Buyer's Agent

Normally, a potential buyer is referred to an agent or vice versa. The agent then meets with the buyer to establish his financial capabilities, a process sometimes called prequalifying. (I fail to see what's so "pre" about it.) Using the financial profile provided by the buyers, the agent determines what they can afford. They then define, to the best of their abilities, their dream home.

As the buyer's agent, you are just that. . . an agent. You are not going to pitch any homes. You will run a CMA to learn whether they can afford the kind of house they want. You will point out benefits and features of such a home or neighborhood, as well as deficiencies. Price range often eliminates some areas, and the agent must then search the remaining areas for homes that meet the standards set by the prospective buyers.

Next comes the showing mission. The first few days are devoted to reconnaissance expeditions that familiarize the buyer with the territory and natures of the beasts in the realty wilderness. Then the short list is made. At this time, spouses or significant others join the fun, if they haven't piled on already. When the dream house finally emerges from the pack of listings, pencils are sharpened, ballpark figures for financing turn into estimates, and magnifying glasses appear. The work "contract" (gulp) is used.

Hints to Buyer's Agent

Listen.

Translate what buyers are saying into what they mean. Be thorough with your comparable sales and financial representations.

Don't be afraid to give buyers a subtle push if they find the right home. Sometimes they're begging for it.

Keep 'em happy.

If you're the Seller

The buyer is your friend. The buyer is the person for whom you have waited and toiled. Every person who sees your home is not a buyer. There will be only one. Every home has its good features, along with several characteristics that might put some people off. Most homes have flexibility but are not structural every person. So when that buyer comes along, play nice.

Sellers should not talk to the buyers before the closing. Even if you have good intentions and are trying to "help" the sale along, every word may be held against you at a later date. Realize, too, that if prospect traffic is good through your home, but no buyer surfaces, the house is not a good buy.

Hints to Seller

If you priced your house too high in hopes of gaining an unusually large profit and the house hasn't sold in two months, reduce the price. When you reduce the price, put a "Reduced" sign on your "For Sale" sign, and note this fact in any ads or flyers that are in circulation. Otherwise, John Q. Public will be unaware of the reduction. It does not reflect a "fire sale" attitude on your behalf. The price is reduced. The house is for sale. Let drivers-by know it.

Try to view your home objectively. Clear your mind, drive to a real estate office, and then drive back to your home and pretend you are a prospective buyer. See how it looks as you approach and how easy it is to enter. Sticking locks or squeaky, inoperable doors suggest more inoperable things to follow. Walk through each room as you would someone else's home. View it through a visitor's eyes. Open your senses. Sniff. Are there any strong and distinct smells in your home? If so, whether it's perfume or last night's fish sticks, neutralize the odors; they will not appeal to everyone. Trust your nose. It knows.

A sound analogy: in the multimillion-dollar recording studios in Nashville, after all the tracks are laid and engineers have spent hours upon hours getting each note of every instrument and each voice mixed perfectly while listening on zillion-dollar sound systems, they flip a switch to see how the song will sound on a cheap car radio. That is where the decision is made. The sone must pass the test of the keen ear of the engineer, but the not-necessarily keen ear of the consumer is what maters most.

The same applies to your home. The little details are great, but don't forget the basics. If your house smells, your neighbor's sells.

If you're the Seller's Agent

The seller's agent must work with the seller to make the property as easy to show as possible. The property should be priced competitively, be easy to show, and be free of any petzillas or reminders of them, as well as free of glaring deficiencies. Reread the first half of Chapter 2, "The Listing", for a quick refresher on this topic. As the seller's agent, you must cooperate with other agents and agencies in the sale of the property and use every resource available to transform prospects into buyers. You will arrange the showing, open houses, inspections, contract negotiations, appraisals, and closing. Only then do you get paid.

Hints to Seller's Agent

Make the property showable.
Make the property sellable.
Make the seller negotiate.
Work it till you drop.
Make it a good buy or it's goodbye.

REALTY CHECK
The Changing Face (and Rates) Of Today's Mortgage

In the early 1980s, interest rates for home loans were hovering at about 18 percent for 30-year fixed mortgages. For those who are unaware of current financial trends, as of this book's writing, interest rates are at about 6 percent. In the 1980s, as rates rose to catastrophic highs, home sales and new home construction declined to the lowest levels since the Great Depression.

Thanks to the staggeringly high interest rates, homeownership became the American Nightmare rather than the American Dream. Monthly payments were prohibitive for the average person. For example, a $100,000 loan at the 1981 rate of 17 percent requires a monthly payment of $1,425. The same loan amount at 5.85 percent (the 2003 rate) would have a payment of less than $600.

On the basis of financial ratios established by the Federal National Mortgage Association (FMNA, or Fannie Mae), a 1981 borrower would have needed an annual income of $60,000 in order to afford a $100,000 loan. In 2003, an income as low as $21,600 would enable her to afford the same loan. The persons making $60,000 today qualifies for a loan of $275,000.

As home sales diminished in the early 1980s, new construction followed suit. Ancillary industries that support the building industry began to erode financially. Sales of building materials plummeted. The rapid rise in the rates during the 1980s was unexpected and created a situation with which the country was unfamiliar. Seemingly overnight, carpenters, plumbers, architects and contractors—along with all the other home-building tradespeople—were out of work. Therefore, their ability to purchase goods and services vanished. The automotive industry soon felt the chill that would eventually freeze car makers, with the sales of cars and trucks slowing to a virtual halt. Quite simply, when Americans stop buying houses, they stop buying automobiles. When t hose two industries collapse, financial mayhem follows.

In an effort to save the free-falling housing industry and the economy as a whole, bankers, Realtors, and governmental policy makers convened to devise a new financing mechanism that would return homeownership to affordability. As a result of their collaborative efforts, the adjustable-rate mortgage (ARM) was born and introduced to the home buying public.

By the time ARMs were introduced, the interest rates had dipped to a whopping 15 percent. However, with an ARM, the buyer would be allowed to purchase a home with a first-year interest rate of 11 percent. Returning to the $100,000 loan model, the payments dropped from $1,425 to $952. A person making an annual income of $34,000 could buy the same house that would have required an income of $60,000.

The borrower takes a gamble, inasmuch as the loan adjusts on a specific day. In some cases, the day can be an aberration on which the rates spike for those 24 hours, and the consumer is locked in for the next twelve months (see Chapter 11, “Little House on the Variable”). Interestingly, a large number of loan officers have their personal residences financed on ARMs. To judge by the interest rate swings of the last fifteen years, they have backed the right horse.

Recently, a new product has entered the market that offers an incredibly low interest rate (in 2003, it was a mere 3.87 percent). This is an interest-only loan and its rate is based on the London Interbank Offering Rate, or LIBOR. According to John Stephenson, a mortgage specialist with World Lending Group, the interest-only loan originated in Europe because of the exorbitant prices of property there. Again, using the $100,000 loan model, the payment with the 3.87 percent LIBOR rate would be $315. Therefore, payments have dropped from $1,425 per month in 1981 to $952 per month in 1983; and then from $600 fixed rate in 2003 to $135 on the LIBOR—all for the same amount.

The LIBOR is adjustable, and remember, it is interest only. After a defined period, the borrower has to start paying the principal and the rate generally increases. When considering a mortgage, a borrower should compare apples to apples. Lending institutions offer a cafeteria-style array of products. Be aware. Be informed. And watch those rates.

From the book *Buyers Are Liars and Sellers Are Too!* by Richard Courtney

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