

From the **WSJ Real Estate Archives**



Effective Incentives to Woo Buyers and Sell Your Home

Flashy incentives like a new car parked in the driveway or a flat-panel television hanging in the den might sound like a good way for home sellers to woo buyers in a dismal real-estate market. But when it comes to actually enticing someone to buy a home, it's the more practical perks that count, real-estate professionals say.

“Serious buyers are looking for a place to buy a home, not a trip to Tahiti,” says Dave Ledebuhr, owner of Musselman Realty in East Lansing, Mich. Moreover, lenders are leery of gimmicky incentives, fearing that they're built into the price of the home and that loan dollars are being used to pay for that tropical trip, he adds.

Instead, effective incentives address what's on the minds of potential buyers -- the overall cost of the home and the monthly payments they'll have to manage, he says.

Help in bringing down the interest rate of the mortgage by paying points, for example, can give one home an advantage over another, says Dave Dalzell, owner of Dalzell Realtors in Abilene, Texas.

And contributions to the down payment and closing costs could especially be of help to a first-time home buyer, says Greg Zadel, owner of Zadel Realty in Firestone, Colo.

Incentives can be considered when the home is first listed, as a way to distinguish it from the start, Mr. Dalzell says.

They can also be added when the home hasn't sold in two or three months, as a way of enticing a buyer without lowering the price. Or the incentives could arise in negotiations, when a buyer needs that one extra little nudge to commit.

Make no mistake, the location and condition of a home are going to be its main selling points. But if sellers “put on their buyer's cap” and really consider what issues the buyer might have, it could make all the difference, Mr. Dalzell adds.

“I tell my seller to look at his bottom line,” says Susan Ramsey, a Realtor with Re/Max Integrity Realtors in the Phoenix area. A seller should figure how low he or she is willing to go, factoring in both the selling price and other incentives used to get a buyer to commit.

But also be aware that most seller concessions need to be disclosed. “Everything should be in writing and attached to the contract,” Mr. Dalzell adds. When someone says, “let's not tell anybody” about an incentive, it could signal imprudence, he says.

In addition, buyers and sellers need to make sure that they don't exceed the lender's allowable seller-paid assistance, Mr. Ledebuhr says.

Below are six of the most common incentives being used in markets today.

Reducing the Price

A price reduction is often the incentive that is looked at first, says Delores Conway, director of the Casden Forecast at the University of Southern California's Lusk Center for Real Estate.

"The price is something that is a common currency -- it appeals to everybody," she says.

Gene Rivers, who owns four Keller Williams real-estate offices in Florida, agrees. If a buyer has in her mind that she'll pay \$350,000 for a home and the seller won't budge from \$375,000, "\$5,000 in closing costs and a plasma TV ain't going to get it done," he says.

Paying Points

Sellers can offer to pay mortgage points for a buyer, an incentive that Mr. Dalzell tends to use in environments like today's, when rising interest rates are at the front of a buyer's mind. One point is 1% of the loan amount, charged as prepaid interest.

"When a buyer sees a lower interest rate or monthly payment, that's something they can relate to," he says. The setup makes sense for a buyer who has to buy furnishings for the new place; it also can make for an easier monthly payment transition for families that are upsizing.

Buyers should understand, however, that the lower rate often lasts only from one to three years. Before accepting, understand and plan for the point in time when the mortgage bill will increase.

Down-Payment Aid

For some buyers, the hardest part of entering the ranks of homeownership is the down payment -- also an area where a seller can help. It's mostly first-time home buyers interested in this kind of assistance because they're often the ones lacking in funds to complete a deal, Mr. Zadel says.

"It gets people into homeownership," he says. "The disadvantage is that the buyer is financing that additional amount," he adds, because a seller would likely come down in the price of the home if a chunk weren't dedicated to down-payment assistance.

Closing-Costs Help

Closing costs include items ranging from legal fees to title insurance and can add up, ranging between 2% and 7% of the loan value, according to Freddie Mac. So many buyers, especially those stretching to make a down payment, will be interested in having a seller help out.

In Phoenix, buyers in every price range have been asking that these costs be covered, according to Re/Max's Ms. Ramsey. "They ask for it because they know that they'll get it," she says.

Adding a Warranty

A residential-service contract is sometimes thrown in as an incentive because it acts as insurance for a home's systems, often including plumbing, heating and cooling. At a cost of a few hundred dollars, some real-estate agents consider it an inexpensive add-on that affords a buyer a little extra peace of mind, Mr. Dalzell says. That peace of mind can be especially welcome during the first year in a house.

The Little Things

Other perks will appeal to buyers, too, ranging from the common to the unique. Payment of homeowner association fees -- typically associated with condo developments -- are sometimes offered. Ms. Ramsey says that a seller with a swimming pool might also offer a year's worth of upkeep for it, a welcome help for those worried about the maintenance of the backyard attraction.

Or maybe, if a corner of the home was designed for a grand piano, leaving that instrument behind entices a buyer to go through with the deal, USC's Ms. Conway says.



Seven Money-Stretching Tips *For* Sellers in a Cooling Market

By *LAUREN KIM*

A drop-off in buyer demand and rising home inventories has made putting a house on the market trickier for homeowners whose properties appreciated during the boom and who hope to retain their gains.

House hunters can now afford to be choosy. “Not everyone can set a price and figure buyers will come,” says Rob Gross, a senior vice president with Prudential Douglas Elliman in Manhattan. “It’s a transitional market.”

Sellers are lowering their price expectations. Take one South Kohala, Hawaii, homeowner, whom real-estate agent Ric Rocker of Kamuela, Hawaii, says he convinced to chop off \$10 million from his asking price. The owner, who is asking for \$35 million, lowered his price in part to speed the sale, Mr. Rocker says. “He wants to send the message that he wants a fair deal,” Mr. Rocker says. He adds, “We’re not in a market that buyers will pay what sellers want.”

Attracting a shrinking pool of buyers without losing too much financial ground can be tough. To make the most of your real-estate dollars, follow these tips:

1. Size up the playing field. Study your local market and investigate other homes for sale, local asking prices and what buyers are paying. “Be savvy to market trends and know what things are worth,” Mr. Gross says. Use Web sites like Realtor.com, or look up listings in your local paper or real-estate publication. Ask your realtor to show you area selling prices, or find them with RealEstateJournal.com’s Comparable Sales Tool, or Zillow.com.

Kayser Dixon, a real-estate agent with Coldwell Banker Hunt Kennedy in New York, suggests visiting area open houses to evaluate your competition. “If you look at a [price] on a piece of paper, it doesn’t do anything for you,” he says.

2. Price competitively. In recent years, sellers were able to set a price and wait for the bidding wars. No more. “If a home is overpriced, a buyer will dismiss it and move on to the next one,” Mr. Dixon says. Because of the growing number of properties on the market, buyers have a greater number of homes from which to choose, he explains.

Mr. Gross suggests pricing a residence just below what the market will bear. For instance, for a \$1 million home in Manhattan, he would ask for \$995,000 to “get traffic,” he says. “You want to be perceived as a real seller,” he explains.

Homeowners mistakenly think they can get housing-boom prices, Phyllis MacBeth of Main Street Realtors in Long Beach, Calif., says. “I have to work hard to convince people -- without offending them -- that their house isn’t better than the one that just sold for \$1 million,” she says. Again, check with your real-estate agent or go online to research local selling prices, and set your asking price accordingly.

3. Do legwork. Instead of letting his agent do everything, home seller William Casper, who recently put his Pikeville, Tenn., house up for sale, is using the Internet and some networking to locate a buyer. He has been emailing a property brochure to real-estate investment groups, he says, and encouraging friends and relatives to talk up his house to anyone interested in purchasing a vacation residence in the Smoky Mountains. According to the deal he worked out with his agent, he will pay a 3% commission (instead of a more typical 6%) if he finds a buyer on his own, Mr. Casper says. He used a similar deal four and a half years ago when he sold his former home in Port Washington, Wis., he says, paying his agent 3% on a \$176,000 sale.

4. Don't snooze. Time is money. The longer your house takes to sell, the more money you lose, Ms. MacBeth says. "I was talking to an agent whose client turned down an offer when her house first came on the market," she says. "That amount is what the homeowner has lowered her price to now, two months later, and the house isn't selling." Don't be too quick to turn down an offer, she suggests, because making a deal now, instead of later, can save you money in the end, especially if the housing market maintains its downward trend.

5. Negotiate. Offer concessions to potential buyers, such as making minor fixes, Ms. MacBeth says. These gestures will repay you and may earn you more money in the long run, she says. "People have to weigh the cost of doing minor repairs," she says. "All those little things, especially now that there is more inventory, are things that make a house more appealing. People forget that." Small expenditures, by possibly speeding a sale, can go a long way in preserving the substantial home-price gains that property owners experienced during the housing boom, she says. For example, in her area, she explains, some homes have appreciated a few hundred thousand dollars in recent years.

Strike a deal with your agent. Even if he can't find a buyer himself, Mr. Casper won't pay a 6% commission, he says. He has negotiated to pay 5% if his agent brings in a buyer, he says. "Homeowners don't want to spend the 6% -- it is a lot of equity," he says. You might also want to consider using a discount broker to sell your home -- these providers typically offer fewer services than traditional real-estate agents do, but in exchange, charge a reduced commission.

6. Play up assets. Now that there are more properties on the market, sellers must impress buyers, Manhattan homeowner Jim Savio of New York says. He says he hopes to sell his residence for \$1.2 million. In anticipation of putting his property on the market, the fiction writer and professor has repainted the interior and has pared down the artwork on the walls. "The strategy is to allow a new owner to imagine himself in the place," he says.

Ms. MacBeth encourages removing clutter. "Clean out the closets and the garage," she says. "Send it to storage, donate it to charity or have a garage sale. You want to enhance your home's appearance and make it look bigger."

To attract buyers, determine what the popular "look" for houses is in your area and mimic it, Mr. Rocker suggests. "I go to the most expensive model homes because they use interior decorators," he says. "I ask for the actual code of the paint they used and steal their colors. I put them in the exact same rooms they did."

Pay for landscaping, Ms. MacBeth says, but not too much. "Use the cheapest thing you can find," she recommends. For her own home, she opted for flowers at \$15 a flat instead of ones at \$30 a flat, she says. "Cost is an issue," she says.

7. Take the money and run. If local sales are sliding, you might want to get out while you can, Mr. Rocker says. "People don't know when it's time to take a loss and move on," he says. "They will keep their prices up for two years, and at the end of the day, lose 35%." If a cooling market translates into a smaller gain than you expected upon the sale of your home, consider relocating to an area with cheaper housing prices to make your money go further. "In California, people are driving an hour, two hours, to work so they can have more house for their dollar," Ms. MacBeth says.



What to Do When the Sale Price Leaves You Short

If you're thinking of selling your home, and you expect that the total amount you owe on your mortgage will be greater than the selling price of your home, you may be facing a short sale. A short sale is one where the net proceeds from the sale won't cover your total mortgage obligation and closing costs, and you don't have other sources of money to cover the deficiency. A short sale is different from a foreclosure, which is when your lender takes title of your home through a lengthy legal process and then sells it.

1. Consider loan modification first

If you are thinking of selling your home because of financial difficulties and you anticipate a short sale, first contact your lender to see if it has any programs to help you stay in your home. Your lender may agree to a modification such as: Refinancing your loan at a lower interest rate; providing a different payment plan to help you get caught up; or providing a forbearance period if your situation is temporary. When a loan modification still isn't enough to relieve your financial problems, a short sale could be your best option if:

- Your property is worth less than the total mortgage you owe on it.
- You have a financial hardship, such as a job loss or major medical bills.
- You have contacted your lender and it is willing to entertain a short sale.

2. Hire a qualified team

The first step to a short sale is to hire a qualified real estate professional and a real estate attorney who specialize in short sales. Interview at least three candidates for each and look for prior short-sale experience. Short sales have proliferated only in the last few years, so it may be hard to find practitioners who have closed a lot of short sales. You want to work with those who demonstrate a thorough working knowledge of the short-sale process and who won't try to take advantage of your situation or pressure you to do something that isn't in your best interest. A qualified real estate professional can:

- Provide you with a comparative market analysis (CMA) or broker price opinion (BPO).
- Help you set an appropriate listing price for your home, market the home, and get it sold.
- Put special language in the MLS that indicates your home is a short sale and that lender approval is needed (all MLSs permit, and some now require, that the short-sale status be disclosed to potential buyers).
- Ease the process of working with your lender or lenders.
- Negotiate the contract with the buyers.
- Help you put together the short-sale package to send to your lender (or lenders, if you have more than one mortgage) for approval. You can't sell your home without your lender and any other lien holders agreeing to the sale and releasing the lien so that the buyers can get clear title.

3. Begin gathering documentation before any offers come in

Your lender will give you a list of documents it requires to consider a short sale. The short-sale "package" that accompanies any offer typically must include:

- A hardship letter detailing your financial situation and why you need the short sale
- A copy of the purchase contract and listing agreement
- Proof of your income and assets
- Copies of your federal income tax returns for the past two years

4. Prepare buyers for a lengthy waiting period

Even if you're well organized and have all the documents in place, be prepared for a long process. Waiting for your lender's review of the short-sale package can take several weeks to months. Some experts say:

- If you have only one mortgage, the review can take about two months.
- With a first and second mortgage with the same lender, the review can take about three months.
- With two or more mortgages with different lenders, it can take four months or longer.

When the bank does respond, it can approve the short sale, make a counteroffer, or deny the short sale. The last two actions can lengthen the process or put you back at square one. (Your real estate attorney and real estate professional, with your authorization, can work your lender's loss mitigation department on your behalf to prepare the proper documentation and speed the process along.)

5. Don't expect a short sale to solve your financial problems

Even if your lender does approve the short sale, it may not be the end of all your financial woes. Here are some things to keep in mind:

- You may be asked by your lender to sign a promissory note agreeing to pay back the amount of your loan not paid off by the short sale. If your financial hardship is permanent and you can't pay back the balance, talk with your real estate attorney about your options.
- Any amount of your mortgage that is forgiven by your lender is typically considered income, and you may have to pay taxes on that amount. Under a temporary measure passed in 2007, the **Mortgage Forgiveness Debt Relief Act and Debt Cancellation Act**, homeowners can exclude debt forgiveness on their federal tax returns from income for loans discharged in calendar years 2007 through 2012. Be sure to consult your real estate attorney and your accountant to see whether you qualify.
- Having a portion of your debt forgiven may have an adverse effect on your credit score. However, a short sale will impact your credit score less than foreclosure and bankruptcy.