

How to Buy a FSBO Property

By
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Here's the myth: The seller pays the real estate commission, while the buyer pays nothing.

The truth is that the commission serves as a wedge between what the buyer pays and what the seller receives, and that each pays a share of it. These shares vary with each transaction, since they depend on market conditions and the negotiating skills of the seller and buyer. But take away the commission and the buyer will usually pay less and the seller will usually get more.



Eliminating the commission gives the seller and buyer more wiggle room to find a mutually agreeable price.

Though both parties "pay" the commission, it's the seller who negotiates the commission rates. But buyers have control over commissions, too:

- Buyers who wish to use the services of a real estate lawyer or discount real estate brokerage can often get commission rebates of up to 2% of the final sales price.
- Buyers who find FSBO properties on their own can often save even more money by making offers without an agent.

Here are examples of the buyer rebates you could get from some discounters, assuming the seller offers a 3% commission to the buyer's agent:

- BuySideRealty.com: 75% of the buyer's agent's commission, or \$11,250 on a \$500,000 house.
- BuyerRebatesRealty.com A rebate of 1.5% of the sales price assuming a 3% commission, or \$7,500 on a \$500,000 house.

If you find a FSBO property that you want to buy, I recommend that you contact either a lawyer or a discount brokerage to help you prepare an offer. To find a lawyer, go to Lawyers.com and look under REAL ESTATE>Buying or Selling a Home, or go to Findlaw.com and look for a real estate lawyer who specializes in transactions.



Even though the buyer "pays" a share of the commission, it's the seller who typically negotiates the rate. Buyer rebates allow buyers to "pay" a lower commission if they want to do some of the legwork themselves.

If the seller is offering a commission to real estate agents who bring offers from buyers (as many FSBO sellers do), the lawyer may agree to work for a share of that commission. If the commission is 3% of the sales price, for example, the lawyer may agree to represent you for 1% of the sales price and give you the balance of the commission (2% of the sales price) as a rebate to be paid at the close of escrow. Alternatively, the lawyer may charge a flat fee or an hourly rate.

Since lawyers usually charge several dollars a minute, I suggest you arrive at the lawyer's office well prepared. Begin by getting an "Offer to Purchase Real Estate" standard contract for your state (you can usually download these over the internet), read it carefully, and fill it out to the best of your ability. The lawyer's job will be to go over the contract with you and look for problems. Here's what to expect:

- You'll be asked to write a check for an earnest money deposit, usually for about 1 - 5% of the amount offered. The lawyer will hold the check during the price negotiations.
- Your lawyer will probably add some contingencies to the contract that will let you walk away from the deal if something goes wrong. For

example, you'll want to get out of the deal if you can't get financing, or if there's something wrong with the house that wasn't disclosed.

The hardest part of making an offer is coming up with an offer price. Here are some tips:

- Find out how much you can afford to pay. You can get a rough estimate of this by going to the Mortgage Professor website (mtgprofessor.com). Click on Calculators, then on the Housing Affordability Calculator.
- The asking price is usually higher than the amount the seller expects to receive.
- One way to estimate the property's market value is to get free online appraisals from websites like Zillow.com, realestateabc.com, and Ditech.com. (On the Ditech website, click on "Calculators," and then click on "Free eAppraisal.") Don't put too much confidence in them, though—they don't seem to give accurate estimates for homes that have been extensively remodeled or that have hard-to-quantify features, like a scenic view or charm. Another way is to look at comparable homes in the neighborhood that have sold recently. You can get this information from Zillow.com or realestate.yahoo.com (click on What's My Home Worth? in the Tools section on the left hand side).
- Try to figure out what the property is worth to you. Of the properties you've looked at, what are your second and third choices? Estimate their market values and, using them as comparables, think about how much your first choice is worth to you given these alternatives. This figure will tell you the maximum amount you should offer for the house. It may be higher or lower than your estimate of the home's market value.
- You should have two separate numbers: the property's estimated market value and the value of the property to you. Take the *lower* of these two numbers and, unless the market is very hot, make an offer that's lower still.

For more advice, visit www.fsboprimer.com

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