14 Ways to Win a Bidding War

"The key is not the will to win...everyone has that. It is the will to prepare to win that is important"

--- Bobby Knight, basketball coach

It's a seller's market! With so few homes for sale, every well-priced home generates a bidding war. You may be considering selling your home because you need to move, but you might be afraid you will have nowhere to go since it's so difficult to buy a home. Fortunately, we have 14 tips to help you as you are bidding on homes to help you be the winner!

1. Know Your Seller

Find out as much as you can about the seller. This is usually done through your Realtor asking the listing agent questions. Are there certain things that are important to the seller besides just price? Maybe the seller needs to find a home for themselves, and writing that clause into your offer where you give the seller plenty of time to find a home will be the trick that wins the bid for you. Maybe there is a tenant and the seller needs time to get them out and therefore wants a long escrow period. Maybe the seller is already in their new home and needs to sell fast and you've got a bank that can close a loan in 21 days rather than the typical 30 days. During this part of the process you can also find out whether the seller has needs that you can't meet, like they need to close within a week and you need time to get a loan. Some criteria might prevent you from even bothering to make an offer since your offer won't be competitive.

2. Set Your Budget...and Stick To It!

You aren't actually winning if you beat out the other buyers in a bidding war and you end up spending way more for a home than you wanted to pay. You may end up with a home but being "house poor" where you own your own home but the monthly payment hurts so much that you can't do other fun things with your life. Be sure that when you have a budget that you stick to it no matter how frenetic the bidding gets. You may even consider putting in your first offer at a slightly lower price than your maximum so you have room to go up. This is a good strategy if you get your offer in on the first day and the seller is considering offers as they come in and doesn't wait a few days for all the offers to come in before they counter any of them. That's not the best strategy if you're bidding against many offers at once, though. In that case, put in the highest offer that you are comfortable with.

3. Increase Your Offer

Many times the most important quality about each offer that the seller asks first is what amount will they net from the sale? The easiest way to increase that net profit for the seller is to increase your offer to the highest point that works for you. If you're in a very competitive situation, be sure you're offering your highest price, but don't forget that the highest price doesn't always win. Often other terms of the offer will win out over price.

4. Be Pre-Approved

Oftentimes the seller in these times won't even allow you to see his home if you don't have a preapproval letter from a lender. If you were a seller and had two offers in hand, one for $300,000 and the other for $320,000, but the lower offer came with a letter from the bank saying that the person was preapproved and it was guaranteed that nothing about the person or their credit would prevent them from getting a loan, which offer would you take? Often a seller will choose a lower offer because they have more confidence that the buyer will meet their obligations.

5. Use An Escalation Clause

An escalation clause, when written by a professional who has used them successfully before, in essence offers the seller a higher price if they have received a higher offer than your base offer. For example, your offer with an escalation clause might offer the seller $500,000 for their home, but if the seller receives another offer for $510,000 then your offer will automatically go up to $515,000 so that you beat out the other offer. If they only receive offers under $500,000, then you don't need to pay $515,000 for the home as if you had made $515,000 your original offer. This can be a very good technique to use when bidding against other offers when the listing agent says, "Please submit your highest and best offer" and doesn't give you a chance to bid against the others.

6. Increase Your Earnest Money

By raising the amount of money that you put on deposit with the title company, you show the seller that you are very serious about purchasing the home. Increasing your earnest money does not increase the final price of the home because it will be subtracted from the down payment amount that you will need to bring in at closing, but it shows the seller that you're willing to put more money on the line if they're willing to sell you the house. You just look more serious to the seller.

7. Make a Cash Offer

You may be in a position where you can make a cash offer for a home. Cash offers allow you to close much more quickly than a financed offer, oftentimes in a matter of just a few days. Sometimes you can borrow enough cash to make a full cash offer on a home, and then refinance the home as soon as your purchase it to pay back the person you borrowed it from.

8. Don't Be Afraid to Walk Away

It is very difficult, especially when bidding on a home that you are going to live in with your family, to walk away from a bidding war and not continue if the price has gotten too high for you.

Control your emotions. Some buyers will put up a mental wall until both their offer is accepted and the inspections are complete, emotionally blocking out the house and not thoughtfully considering how they would feel about living in it. That can make it difficult to decide on a home, but it makes getting outbid a lot easier.

9. Be Flexible

It's extremely important to consider the seller's needs when writing up an offer. Often the agent notes on a property will state that the seller needs to rent back their home after selling. If there's any way your Realtor can find out the answer to the question of why they need to rent back, that can help you in determining how to write up your offer. You can write certain clauses into the offer, like allowing the seller to stay in the home after closing for a period of time longer than what they're asking.

10. Consider Waiving Your Contingencies

The fewer contingencies that you have in your offer, the better the offer looks to the seller. In a very hot seller's market, when prices escalate above what the appraised values come back at, if you have a large down payment, you may consider waiving your appraisal contingency. It's important to get advice from your lender before doing that! Or if you know that you're not going to ask the seller for any repairs no matter what the inspections come back saying, then indicate that your offer is "as-is, buyer will ask for no repairs". Some people even go a step further and say that they will not do inspections on the home before buying it. That's extremely risky because as the buyer you're not totally sure what problems you're buying into.

11. Be Efficient With Inspections

The default time that a buyer gets to do their inspections as written in the California Board of Realtors Purchase and Sale Agreement sits at 17 days. That's over two weeks, and it's often possible, even during significantly busy seasons, to get a home and pest inspector in to look at the home easily within a week or 10 days. That shaves a whole week off the seller's waiting time, waiting for you to even figure out whether you want to buy the home or get your earnest money deposit back. The faster you can do your inspections, the better. A good Realtor has inspectors ready and has established good will with many different inspectors so they can get you in even if you're not next in line.

12. Write a Personal Letter

Use what you know about the seller from Tip #1 to carefully craft a letter to the seller with his best interests in mind. Assure him that you are flexible and easygoing, and will be easy to work with and willing to negotiate. Tell him a little about yourselves so he can feel a connection with you. Be careful, though, because a plea in a letter can just as easily turn away a seller as get them on your side. If you mention something political that the seller disagrees with, you may find yourself with the highest offer and losing. Other topics to stay away from include interests that portray you in a fair housing protected group. Fair housing law protects people from choosing your offer over another, based on identifiers such as sex, religion, or race. That means even if you think the seller is of the same minority that you are, it's important not to mention it in your letter.

13. Be Easy to Work With

The caveat to being easy to work with is to make sure that your Realtor is also easy to work with. If you're easygoing but your Realtor makes rude or mean remarks to the listing agent, the listing agent may downplay your offer even unintentionally. You want your Realtor to be very courteous and have a great working relationship with other Realtors, especially the listing agent. That way the listing agent will show your offer to his client in its best light.

14. Be Open to Putting In a Backup Bid

At the end, just because you lose a bidding war doesn't mean that you don't have a small chance still to get the home. If the seller rejects your initial offer, be willing to come back in with a stronger offer and ask if the seller will put your offer in the backup position. That way if the first buyer gets cold feet, you are the first in line for the home after it falls through.

Many more techniques besides these exist, some of which can only be done by a very experienced Realtor. Make sure your Realtor knows how to win your next home for you!

For more information on any of our innovative home seller programs,

call Trudy Hoekstra at (916) 201-0841.