

<http://www.chicagotribune.com/business/chi-0611010181nov01,0,913777.story?coll=chi-business-hed>

Sweeteners may sour home values

As incentives flourish in slow market, true prices can get blurred

By Mary Umberger
Tribune staff reporter

November 1, 2006

The proliferation of incentives--from flat screen TVs and cars to six months' free mortgage payments--to lure buyers into the residential real estate market is causing a potential headache: It's beginning to blur the true selling price of homes.

Appraisers and other experts say that when the buyer of a \$500,000 house agrees to the deal based on a throw-in like \$15,000 in mortgage payments, the discounted true value of the home may not be apparent. So anyone who comes along later to the neighborhood and makes a bid on a comparable house based on the \$500,000 figure--rather than the actual \$485,000 value--may overpay.

"The [incentives] can keep the prices looking higher than they really may be," said Naperville appraiser Chip Wagner. "The seller is giving away something to the buyer, and the buyer may be getting a better deal than is being reported."

The issue is a small but significant byproduct of a real estate market that has turned downward and made many sellers feel anxious.

The National Association of Home Builders recently reported that 55 percent of U.S. home builders are offering incentives, up from 37 percent a year ago.

The practice is becoming increasingly common in the resale market. Homes for sale in the multiple listing services and ads in print and online are chock-full of offers to pay buyers' closing costs or the points on their mortgages or even a number of the mortgage payments.

When that's not attractive enough, some are tossing in vacations, home theater systems or cars.

Real estate deals have always contained a certain number of negotiated add-ons, like a washer and dryer or money to replace worn-out carpeting, but the scale of incentives is changing.

Advertisement

American Airlines

Guess
today's
worldwide
mystery
destination

AA

CLICK TO PLAY

The advertisement is a vertical banner with a blue background. At the top is the American Airlines logo. Below it, the text 'Guess today's worldwide mystery destination' is written in a white, handwritten-style font. In the center, there is a white-bordered photo of the AA logo. Below the photo, there are two smaller photos: one of a globe and one of a city skyline. At the bottom, there is a red arrow pointing to a white button that says 'CLICK TO PLAY'.

A couple weeks ago, Cindy Gannon Buchholz decided to offer the buyer of her \$800,000 Glen Ellyn home a 2007 Ford Focus if the deal were to close by the end of the year. There have been no takers, she said.

"Everybody in my office was astounded," said Buchholz, who is a real estate agent and has been trying to sell her home for six months. "But I said, 'Well, why not?' If it's apples to apples--if it's between my house and somebody else's house--why wouldn't somebody want the incentive of the car?"

Such offers can pop up at all points of the marketing process, Wagner said. "Sometimes there has already been a price reduction, sometimes there's no price reduction at all."

Big-ticket incentives could raise tax considerations.

"From a tax standpoint, I'd say it's a pretty untested area," said Lincolnshire financial planner Scott Steiner. "People negotiate personal property all the time. My guess is that there would be no rule against it, but if it became commonplace somebody might scrutinize it."

Also muddying the appraisal waters are deals where the seller offers to give cash back to the buyer at closing. In certain instances, the practice could even run afoul of real estate settlement laws--or botch the deal, lawyers say.

Arlington Heights lawyer John G. O'Brien says cutting a "side check" for cash back is a contentious issue in legal circles because federal law requires that all the numbers show up on the closing statement.

"Let's say somebody is buying a \$200,000 house, and the seller agreed to give the buyer a \$5,000 decorating allowance," a routine practice, he said.

"You get to the closing and you find out that the lender won't allow it. The lender says, the guy isn't paying \$200,000, he's paying \$195,000," thus throwing off the ratio of the loan to the value of the house.

"In the real-life application, we're sitting there at the closing at 3 o'clock on a Friday afternoon. The buyer is looking for his \$5,000, and the lender says you can't show it on the closing statement," O'Brien said. "How do you get this \$5,000 from seller to buyer?"

Such glitches are magnified as the market softens, he said. In the heat of the housing boom, "this didn't go on because houses sold instantly," with major concessions unlikely, O'Brien said. "Those days are gone."

He said the issue isn't one of banishing incentives--just making them more visible. So last spring the legal community revised its standardized contracts to spell out such give-backs from the beginning, said O'Brien, chairman of the Illinois Real Estate Lawyers Association.

"It frames the issue," he said. "As soon as I see this [in the sales contract], I write a letter to the mortgage guy saying, 'We're counting on a credit of this much. I want you to sign off right now.' We're addressing it upfront, not at five minutes to midnight."

Tinley Park appraiser Timothy McCarthy agreed that such cash-back deals aren't necessarily a problem as long as all the conditions are on the table.

"Here's where concessions come into play, though," McCarthy said. "Let's say it sold for \$200,000, and with the cash back, the seller walked away with \$190,000. If I later decide to use his home as a comp, I

have to reduce the value of that property by the amount of the concession."

Naperville appraiser Wagner said that's the hang-up. Because not all real estate transactions are so transparent, he double-checks every comp he uses to get a true picture of neighborhood home values.

"We call agents now to see if there were incentives passed along that were different from what was reported," he said. "That's often difficult to confirm. Some don't openly share."

"It puts pressure on the appraiser," agreed La Grange Park appraiser Robert Napoli. "The next buyer comes along, and they get an inflated sale price that includes a non-real estate item," such as a car or a trip.

"When you look at the comparables, you're not seeing, say, a \$450,000 house, because [the sale included] the land, the house and a car," he said. "Somebody paid \$450,000, but the house is really worth \$425,000."

Overall, though, the incentives shouldn't be a long-lived phenomenon, as they've flared up during other slow markets and faded as sales picked up, McCarthy said.

"Most of these incentives [today] range from 2 to 5 percent [of the purchase price]," he said. "In today's market, that amount could be picked up in six to 12 months, unless we fall into a tanking economy."

- - -

Recent offers

A sample of recent advertised incentives on real estate:

- Buy a rehabbed bungalow listed for \$475,000 in the Beverly/Morgan Park area and get a 1990 Saab turbo convertible.

- In Bloomingdale, get all closing costs plus six months of mortgage payments on a \$550,000 four-bedroom home.

- Six months of assessments will be paid on a two-bedroom, \$350,000 Oak Park condo.

- A week's stay for four in a beachfront condo on Maui was offered with a \$739,000 home in Glen Ellyn.

- A Naperville seller was offering \$2,000 to any neighbor who could produce a buyer--on top of the commission to the real estate agent--until they were advised that it could run afoul of real estate licensing laws.

-- Tribune staff

numberger@tribune.com

Copyright © 2006, *Chicago Tribune*

