

SECTION 12: UNDERSTANDING PRICE NEGOTIATION FOR A MANUFACTURED HOME

In previous sections, you determined what you could afford to pay for a manufactured home. After you have look at a variety of manufactured homes, narrow down your search to a few homes, and look at your top choices very carefully, you will need to decide what you are willing to pay for a home. You will want to make your offer to purchase based on a home's asking price and research. This section will sharpen your price negotiation skills and help you navigate the purchase process for a manufactured home.

How to Negotiate

When you find the manufactured home you wish to buy, you will probably want it to be yours as quickly as possible. However, you must be patient to negotiate for the best price. Just as with other types of homes, most sellers and retailers will negotiate on the asking price of a manufactured home. Negotiation involves knowing the asking price, researching the home's value, deciding what you are willing to pay, making an offer, and agreeing with the seller or retailer on a final purchase price. When you are negotiating, be sure to have a maximum price you are willing to pay in mind. Be prepared to walk away from any retailer or real estate agent who pressures you to agree to a purchase price that is higher than what you are comfortable with. Remember, no "deal" is available only at the moment it is offered to you.

This section is divided into negotiations with retailers for unsited homes and negotiations with real estate agents for sited homes because the two processes differ. Negotiations for sited homes generally follow the traditional homebuying process.

Negotiating with a Retailer for Purchasing an Unsited Manufactured Home

Negotiating with a retailer for a manufactured home begins with the knowing the asking price and understanding what is included in the price. Here are some ways you can research a manufactured home's value to help you make the right offer:

- *Get firm asking prices for the same or similar type of manufactured home* from at least three retailers. Make sure the asking prices include similar features, options, upgrades and services (such as transportation and installation), and ask for copies of the base price and options sheet.
- *Check appraisal guides* to estimate the value of an existing home. These guides, which include the National Auto Dealers Association (NADA) Manufactured Housing Appraisal Guides, are typically available at your public library. The guides list approximate values for existing manufactured homes by manufacturer, year and model, excluding the lot and site-built improvements. The guides can help you get a "ballpark" estimate of a home's value, although the actual value of a home will vary based on the options you choose.

➤ *Important Note About Negotiations with a Retailer*

Below are some things to avoid in the negotiation process with retailers.

- *Do not* name a price or a monthly payment you would be willing to pay or are prequalified for before knowing an asking price and doing research about a home's value.
- *Do not* make a deposit before you have compared prices and done research.
- *Do not* make a large cash deposit to place a hold on a home. A deposit should be relatively small (\$100–\$500) and may not be necessary. Sometimes buyers confuse



deposits and down payments. A down payment, the buyer's cash investment in the home, usually ranges from five to 20 percent of the purchase price and is paid at closing.

- If you are paying cash for a manufactured home, *do not* pay the full amount to the retailer until the home has been delivered and installed to your satisfaction.

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- *Ask to see the factory invoice, stating the retailer's cost.* If a retailer balks, look elsewhere. It is better to negotiate up from the invoice cost than down from the retail price. Retailers generally sell manufactured homes at a base price that is higher than what they paid for them. The retailer's markup is the difference between the retailer's cost and the base asking price, including transportation and installation costs. Markups vary and generally range from 10 to 35 percent. Naturally, options and upgrades would add to the base price.
- *Check the prices of other types of housing* available in your area, such as site-built homes, condominiums and modular homes, to see how the price of a manufactured home with land and installation compare.
- *Hire a third-party appraiser* who is qualified to determine the fair market value of manufactured homes in your area, especially if you are using personal property financing and your lender will not be ordering an appraisal as part of your loan application. Appraisals for manufactured homes usually cost between \$300 and \$500. It is in your best interest to be sure that the value of your home is more than the amount of money that you are borrowing from the lender.



Negotiating with a Real Estate Agent for Purchasing a Sited Manufactured Home

Negotiating for a sited manufactured home also begins with the seller's asking price, but you will have help researching the home's value and making your offer from your real estate agent. Your considerations include:

- *Fair market value.* Fair market value is a term that bankers, appraisers and real estate professionals use to describe the price a typical buyer is willing to pay to a seller who is not under pressure to sell nor personally related to the buyer. A manufactured home's fair market value is generally based on the price of comparable homes in the area based on recent sales and current asking prices in the area. The physical condition of a home affects its market value, as do a home's special features that others in the area do not have. Your agent can help you determine the home's fair market value by telling you the square footage of the manufactured home you like and giving you the addresses and prices of comparables that have sold or that are currently available for sale in the area.
- *What is it worth to you?* Fair market value is what the typical buyer is willing to pay, but only you can determine how much you are willing to pay. In deciding how much to offer, start with fair market value and subtract the cost of things that you will have to buy, repair or replace within the first few months. Then add dollars for things this house has that are important to you: for example, a pleasant location. Subtract dollars if the sellers are anxious to move quickly and add dollars if it is the only house of its kind that is available in the neighborhood. There is no exact science to this. It is your decision.

After you have considered a manufactured home's asking price, fair market value and value to you, you can make your offer. Your agent can help you reach a decision, but should not tell you what you have to offer. The average sales price is between four to six percent less than the asking price, but this percentage can vary considerably depending on your local real estate market. For example, if there are many other homes for sale similar to the one you want, it is a "buyer's market" and you can drive a harder

bargain. If homes like the one you want seldom become available in this area and many people are interested, it is a “seller’s market” and you may pay a slightly higher price to get what you want.

The Sales Transaction

Again, this section is divided into the purchase process for unsited homes and the purchase process for sited homes because the steps involved differ. The steps for buying a sited home are basically the same as the general homebuying process.

Purchasing an Unsited Manufactured Home from a Retailer

Once you have settled on a price and worked out the details about the options you want, you will meet with the retailer to sign the purchase agreement. Carefully review the documents to make sure all of the costs and terms match the commitments your retailer made verbally. If something appears to be different, ask questions. If you are not satisfied with the answers or do not fully understand the terms, do not sign anything. Also, never sign any forms that are missing information. A signed purchase agreement becomes a legally binding document. If you feel that you need professional advice before signing the agreement, consult a trusted real estate attorney.

Your purchase agreement should:

- *List details about the manufactured home you are purchasing.* Make sure that all of the information is correct, including your home’s dimensions, manufacturer, model numbers, serial numbers, year of manufacture, and options and upgrades.
- *Include a financing contingency* to ensure that you get a loan at a specific amount and rate.
- *State clearly whether transportation and installation are included in the price.* If installation is included, details should be specified on site preparation, anchoring, leveling and skirting, or perimeter enclosure for the foundation. The contract should give you the right to choose your own transportation and installation contractors. Before you buy your manufactured home try to talk with the leader of the installation contractor your retailer will use. Find out how much experience the crew has with the kind of installation you need for the type of home and foundation you have selected.
- *Designate ownership of the wheels and axles after installation* — they are worth from \$500 to \$700 to a recycler.
- *Specify the length of time allowed for construction and transportation to the retailer* and that the retailer will pay for repairs due to any transportation damage before a special-order home leaves the retail sales center.
- *Give you the right to inspect the home* at the retail sales center to verify that the home is in good condition, meets your expectations and includes all the options you ordered. Hire a professional housing inspector to accompany you.



➤ *Important Note*

About Custom Homes

By ordering a custom, or “special order,” home you can upgrade the construction fundamentals that will improve the long-term value of a home, but the process has some pitfalls:

- A signed purchase agreement, which could appear informal but locks you into the purchase, may be required earlier in the process.
- Depending on your state’s deposit laws, you may sacrifice a significant deposit if you must cancel the order because you were denied credit. If you are already a homeowner and you use the title of your existing home as your deposit and are denied credit, you will have neither a new home nor a clear title to your existing home.
- Any home that is available but is not on a retailer’s lot could be called a “custom” home, even if the home looks similar to homes on the lot.

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- *Allow you to withhold a part of the purchase price* until after your manufactured home installation is complete and inspected to your satisfaction.
- *State clearly under which circumstance any cash deposits are fully refundable* to you, such as if you are denied credit. If you have any problems getting your deposit back after you have been denied credit, contact your SAA.
- *Guarantee the total purchase price* through closing. The total purchase price includes options and services.

When you sign the purchase agreement, you normally make a small deposit of between \$100 and \$500 to reserve your specific manufactured home. Take a signed copy of the agreement and any other documents with you when you leave the retail sales center. Depending on your state, the purchase agreement could become a legally binding contract when you sign it or else after a short cooling-off period. If there is a cooling-off period, you can cancel the contract in writing within the legally defined time period and qualify for a full refund of your deposit.

After you sign a purchase contract, you can complete your loan application with your lender using your purchase agreement for your home, your purchase or rental agreement for the land and any bids for site preparation. Before the loan closing, you will need to set aside cash for down payment and closing costs, obtain homeowners insurance, hire contractors for site preparation if necessary, and perform thorough inspections at various points in the sales transaction. Refer to section 14, *Understanding Manufactured Home Inspections*, for more information.

Depending on your state and the type of financing you are using, the process for transferring a manufactured home's ownership from the retailer to you varies. Ask your housing counselor how the process works in your area.



Purchasing a Sited Manufactured Home with a Real Estate Agent

When you buy a sited manufactured home, your agent will help you make a written purchase offer. An offer is usually accompanied by an earnest money deposit, ranging from \$1,000 to two percent of the offer amount, to show your intention to complete the sale. In some states, an accepted offer becomes the purchase agreement, and in others, your agent or an attorney will prepare a real estate purchase contract with all of the terms you and the seller agreed to in the offer. Your purchase agreement should allow you to cancel the contract and get your earnest money back if certain conditions, or contingencies, written into the contract are not met, such as a satisfactory home inspection.

Between the time the seller accepts your offer and the time the sale closes, your contract is in escrow. Many things happen in escrow in order to close the sale by the date agreed to in the contract. You need to perform some of these tasks yourself and hire professionals to do others. For example, you will need to hire a professional home inspector to check the structural soundness of your manufactured home, hire a surveyor if a survey is needed, complete your loan application with your lender using your purchase agreement, obtain homeowners insurance, set aside cash for down payment and closing costs, and have any additional inspections that are required by your lender. Also, during this period, if you are

using a mortgage loan to finance your home, there will be a title search done by a title company or an attorney (depending on your state) to make sure that the seller really owns the manufactured home being sold, and a title insurance policy will be issued to protect the lender against any title defects.

Closing the Transaction

Though it may seem like a long wait, the day will finally come when you close on your home and become a homeowner at last.

The final step in a purchase and sales transaction is called the closing. At closing, you sign your loan documents and pay your down payment and closing costs. Usually, this takes place at an office of an escrow company, title company or attorney, depending on your state. As discussed in previous sections, you may have multiple closings for an unsited home.

Some tips for closing transactions include:

- *Bring a trusted advisor*, such as your housing counselor or an attorney, with you to the closing meeting.
- *Review your closing documents carefully*. Make sure that the APR, interest rate and purchase price are the same as was previously disclosed.
- *Do not sign* any documents with missing information, false documentation or terms you do not understand.
- *Take your time to read all of your documents*. If you feel rushed, do not sign anything, and schedule the closing for another time.
- Do not agree to schedule the final closing on an unsited manufactured home until *after the home has been installed to your satisfaction*.

➤ *Important Note About Arbitration Agreements*

Arbitration agreements are common provisions in manufactured home purchase contracts and personal property loan agreements. Arbitration agreements prevent you from filing a lawsuit against the retailer, manufacturer or lender for any reason. Rather, any conflicts or disagreements with the named parties must be resolved by arbitration.

Arbitration is a process where disputes are settled by referring them to a third party (arbitrator). The disputing parties agree in advance to abide by the decision of the arbitrator. There is a hearing where both parties have an opportunity to be heard, after which the arbitrator issues the decision.

You usually have to pay the costs of having your case arbitrated, while the defendants normally choose the arbitrator.

In order to avoid any provisions that make you feel uncomfortable, consult an attorney before you sign your purchase contract or loan documents.