How to Set an Offer Price

There is no set equation to determine how you'll reach an offer price. Rather, the process involves a range of research and comparison that will vary with each situation. You'll need to look at sales of comparable properties, and factor in additional data such as the condition of the property, the current market, and seller circumstances. With this information in hand, you will be able to determine a fair price range and, from there, establish the price you're willing to offer.

Concentrate on the following areas to help you determine an offer price:

1 Comparable Sales

• Compare prices of homes that are similar to the property you're considering in the following areas: number of bedrooms and bathrooms, square footage, lot size, type of construction, and garage space.

• The most comprehensive and in-depth information can be accessed through the Multiple Listing Service (MLS). Your REALTOR®, who will be working closely with you to set your offer price, can help you navigate this service.

2 Property Condition

• Observe how the property compares to the rest of the neighbourhood. Is it average, above average, or below average?

• Look at structural condition: walls, ceilings, windows, floors, doors.

• Pay close attention to: bathrooms, bedrooms, condition of plumbing and electricity.

• Also check the fixtures: light switches, doorknobs, drawer handles, etc.

• What is the condition of the front and back yards?

3 Home Improvements

• Cosmetic changes can be largely ignored, but any major improvements should be taken into account.

• Take special note of: room additions (especially bedrooms and bathrooms).

• Items such as swimming pools may be taken into account, but usually won't affect your offer. Your REALTOR® can offer your guidance in these matters.

4 Market Conditions

• Seller's Market:
A seller's market is considered a "hot" market. This type of market is created when demand is greater than supply—that is, when the number of Buyers exceeds the number of homes on the market. As a result, these homes usually sell very quickly, and there are often multiple offers. Many homes will sell above the asking price.

• Buyer's Market:
A Buyer's market is a slower market. This type of market occurs when supply is greater than demand, the number of homes exceeding the number of Buyers. Properties are more likely to stay on the market for a longer period of time. Fewer offers will come in, and with less frequency. Prices may even decline during this period. Buyers will have more selection and flexibility in terms of negotiating toward a lower price. Even if your initial offered price is too low, Sellers will be more likely to come back with a counter-offer.

• Balanced Market:
In a balanced market, supply equals demand, the number of homes on the market roughly equal to the number of Buyers. When a market is balanced there aren't any concrete rules guiding whether a Buyer should make an offer at the higher end of his/her range, or the lower end. Prices will be stable, and homes will sell within a reasonable period of time. Buyers will have a decent number of homes to choose from, so Sellers may encounter some competition for offers on their home, or none at all.

Comparable sales information helps you establish a price range for the home you're interested in. Adding in the additional factors mentioned above will guide your decision of whether you consider a "fair" price to be near the upper or lower limit—or the middle—of that range. Keep in mind, this price should be the one you'd be happy with once all negotiations are said and done. The price you decide to begin with depends on your particular style of negotiation. Most Buyers begin the negotiation process with a number lower than the "fair" price they've come up with.

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