



THE ULTIMATE GUIDE TO

# WIN THE BIDDING WAR

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By Alissa Meskinow  
and Nathan Beauchamp

## How to Win in a Seller's Market

In today's real estate market, it's not uncommon for buyers to find themselves in a bidding war in most metropolitan areas. And Denver's housing market isn't just hot—it's scorching hot. Between historically-low mortgage rates, lack of overall inventory, and strong buyer demand, this seller's market has left many buyers feeling discouraged.

Home prices in the Denver area climbed 8–12% from March 2020 to March 2021. The COVID-19 pandemic prompted many people to re-evaluate what they want out of their homes and look at upgrading or changing neighborhoods. Add to the mix historically-low home inventory, historically-low mortgage rates, and an estimated forty thousand people planning to move to Colorado from out of state in 2021, and we've entered a perfect storm in the Denver housing market. There simply aren't enough houses to go around, and that's unlikely to change in the short term. Buying a home in a hot real estate market presents many unique challenges.

It can feel daunting, or even impossible, to get under contract on any home, much less your dream home. So how do you win a bidding war and stand out from the other buyers in this market?

The good news is that there are strategies buyers can employ to elevate their chances of winning against a stack of competing offers. For starters, you need to have an experienced realtor and a qualified lending professional. Together, they can help you chart a successful strategy toward homeownership. With lots of patience and a strategic approach, you can and will win this battle and claim a new home for yourself in 2021!

## **Should I Wait for Prices to Fall before I Buy a Home?**

On the surface, it appears better to be a seller than a buyer right now. Since everyone wants a deal and multiple offers are driving up home prices, many buyers are left wondering if they should wait a year or two and buy something when the market cools down. It's easy to think in those terms, but you may be missing the bigger picture and could miss a great opportunity too. As home prices and interest rates continue to go up, it may become more and more difficult for some buyers to purchase a home affordably if they wait. And it's wise to be a buyer right now because the projected home prices show a nice solid increase across the board, which means you get instant equity for your new home!

The National Association of Realtors (NAR) estimates that a median-priced house will increase in value by approximately 8% in 2021. (Some areas may be in the low double digits!) Due to high demand and lack of inventory, there's no indication that the residential real estate market will have a sudden price drop. This is also indicated in NAR's 2022 projections, which predict the same single family home increasing by another 5.5%. Using this projected data, a home that costs \$500K in January of 2021 will, in turn, cost \$540K by January 2022 and almost \$570K by January 2023. If you combine that scenario with mortgage rates going up, it becomes pretty clear that buying a single family home right now makes a lot of financial sense.

## **A Realtor Who Works for You**

Working with an experienced and reputable real estate agent is one of the most important steps in having a smooth buying experience. A good realtor can provide many tips and tricks to help you stand out and win the bidding war. Additionally, their fiduciary duty is to you, the buyer—to protect your well-being throughout the process.

It's vital to have an advocate who can share ideas and strategies that will help set you apart. Top agents also think outside the box and will be looking for potential off-market home options too. There is no better way to avoid the bidding war than to find a house where you're the only one making an offer! An agent who works for their clients isn't afraid to knock on some doors; reach out to listings that are for sale by owner, withdrawn, or expired; or even cold call the top neighborhoods of your choice. This is what it means to be an active agent in the community who understands the competitive market and knows how to give their clients a competitive edge.

# Tips and Tricks to Help You Stand Out

**Communication** - It all starts with clear communication. It's essential for buyers to feel comfortable with the agent they hire. Feeling comfortable will help the buyer share where they stand on their finances, timeline, short- and long-term goals, and overall concerns. Likewise, agents must be fully transparent and honest about the state of the current marketplace, what it may take to win the deal, and if there are any red flags around the buyer's desired home and contract alike. What you share with your agent should always be kept confidential unless you give them permission to share this information or if you determine it is beneficial to you to share this information yourself.

To establish a smooth transaction, it's often imperative for your agent to create a safe platform for open and clear communication with the listing agent or seller. Knowing what is important or necessary for the sellers will help you align your offer with what they need. It's natural to think that the largest bid always wins, but sometimes there are other considerations of equal importance. Without understanding the seller's needs, how can you write an offer that speaks to those needs and stands out?

For example, if the seller has a new job that doesn't start for several months, they may want to sell their home and rent it back for that period before they move. A good realtor will help the buyer learn what is important to the seller and write an offer that meets those needs and expectations.

**A Strong, Well Written Offer** - The current Colorado State-approved contract to purchase real estate is over eighteen pages long! Needless to say, if you're having trouble sleeping at night, feel free to grab a copy and read it. You'll likely doze off in no time! All jokes aside, this contract is a critical document and has some real legal consequences. The good news for every buyer is that this contract was designed with you in mind, and there are many safeguards written in place to protect you from making a bad home purchase.

However, like all contracts, if not used properly, you may discover that you don't have the complete protection you thought you had. This is another reason to have an experienced agent who is familiar with these contracts and your options within them to ensure you're getting the best outcome. Likewise, it's evident to a listing agent if they're working with a buyer's agent who has less experience or lacks attention to detail after receiving a sloppy contract. The negative first impression from a messy offer may result in the listing agent discussing their concerns with the seller, and this could hurt your chances of winning the deal.

Every offer should include a phone call and an email from the agent to express the buyer's total commitment and the many financial advantages the buyer can provide. And a good lender will help the buyer put forth the best offer possible from a lending standpoint. At [Nathan Mortgage](#), we call every listing agent when an offer is submitted and walk them through the following:

- The strengths of our buyer's offer
- Credit, employment history, and assets

- Details about the client that might be important to the seller: who they are, why they love this home, and how they will use the property's space and features. Sellers often have emotional connections to their property. Helping them identify with you as the potential buyer can help your offer win, even if it is not the highest one.

We want the seller to know that you are a reliable borrower they can trust and that we are a reliable lender who will deliver an on-time closing. We provide the seller's agent with contact information for realtor partners for whom we've done extensive work in the past. We also talk them through our inside processes so that they know that we're exceptional at what we do.

The goal is to give the seller confidence in you as a buyer and confidence in us as a lender. While that doesn't guarantee they will accept your offer, it will put you in the best possible light. If we are close on price and timeframe, we will get your offer accepted above those presented by agents or lenders who don't work as hard for their clients.

Recently, Nathan Mortgage worked with a first-time buyer we'll call Lindsay. Lindsay worked as a critical care nurse and had a special-needs son she wanted to keep in his current school district. She needed a townhome property at or below \$345,000 in a small search area. There were only four properties that met her needs. We needed to win one of them, so we helped her write a compelling offer. Nathan called all the listing agents and gave them the context for why their seller's home was so important to Lindsay and her son. We got her under contract on her favorite of the available homes, beating out eight other offers. Lindsay closed on her purchase and loves her new, beautiful townhome!

That's the difference that working with a strong realtor-lender team provides. We go above and beyond for our clients, giving them the best possible chance of landing their dream home. It doesn't have to be scary, and you don't have to do it alone.

**Your Highest and Best** - Before submitting an offer or even looking at properties, you must get pre-approved for a home loan or have cash in hand to purchase a property. With the current state of the market (fast under contract times, multiple offers, etc.), you need to be prepared to present financial proof of your funds and/or pre-approval letters along with your proposal. Without this additional piece accompanying your offer, it is incomplete and is merely a piece of paper without any proof of your financial intention or ability to purchase that property.

It is critical to put your best foot forward with your first offer in a seller's market. If you're paying with cash, you clearly know your limits. And if you're using a suitable lender, they should provide you with a budgetary range showing how much you can qualify for. You should also take some time to decide how much you are comfortable with in terms of monthly payments, your overall budget, and how best to utilize your cash in hand. There's nothing worse than overextending yourself on mortgage payments and becoming house poor.

Before submitting your offer, it's nice when your agent can connect with the listing agent/seller to establish that first layer of communication. Hopefully, that conversation will reveal what other offers may currently be in hand (or expected) for that property, so you can properly prepare your offer to compete. Presenting an offer you're comfortable with is always the right offer for you. You'll likely not be happy if you exceed your determined threshold and overextend yourself (both in monthly payments and cash in hand needed for closing).

Lastly, when you know there are multiple offers in hand but you cannot determine how many of those offers are over list price, you may consider using an escalation clause. An escalation clause allows you to offer a lower amount up front (say \$5K over list price). It also tells the seller that you're willing to pay up to x-amount (which you define) to beat out any additional offers that may be higher than your original offer price. This strategy shows the seller that you're serious. It also requires that the seller provide proof of the other offers in hand if they want to secure your higher offer price. Your agent will be able to describe this process in greater detail as needed.

**This House is Perfect, and I'm Serious** - It's so exciting when you finally find a house that meets your needs! Determining how important this house is to you will help you decide what additional incentives you'd be willing to provide along with your full-offer price. Sellers know they're in a seller's market and have the luxury of being choosy. Adding additional incentives for the seller can help your offer stand out. The easiest way to determine what incentives might be best for you to offer is to think about which terms would be safe and acceptable for you and if those would make you lose sleep at night.

Sellers will evaluate offers based on the following criteria and, generally, in this order of importance:

- Offer price
- Timeframe to close and flexibility on the closing date
- Strength of the other elements of the offer such as:
  - Down payment and earnest money amounts
  - Lender and loan program
- The presence of an appraisal gap rider (a promise from the buyer to pay the difference if the home appraises for less than the asking price)
- Waiving the home inspection or minimizing the inspection requests

Other items a seller will find appealing:

- Eliminating specific or all contingencies
- If getting a home inspection, doing it quickly (within 3–5 business days)
- Providing rent back (complementary or at a reduced rate)
- Communicating with the seller about your willingness to go back to the negotiation table as needed

As you can see, there are many options in writing a winning contract. The most important option is ensuring that your terms align with what you feel is necessary and, more importantly, with which you are comfortable. That way, you won't find yourself resenting this perfect home down the line.

## Position Yourself to be a Strong Backup

Sometimes, despite all your best efforts, you may not find yourself on the winning side of the deal. But, although most winning deals do generally close, there is a chance that the deal you lost can come back to fruition. Therefore, it's always wise for your agent to keep clear communication going with the listing agent/seller, even after they select another contract, and express your desire to be a backup offer. This may require touching base to see how the transaction is going for a couple of weeks. You never know when a deal might fall apart for some reason, such as an inspection concern or a buyer's job loss.

## You Will Win!

Losing a deal (or two) doesn't feel good at the time, but it will make you more resilient and more confident when the right home comes along. In the end, the right house will present itself, and you will eventually call it home! Hopefully, it is encouraging to know that most buyers ultimately discover that losing that perfect house may have happened for a good reason. They're usually happier about that loss after discovering an even better house or location in the end!



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