

Companies That Buy Houses and How They Work



That's a pretty tempting industry advertisement!

In today's business world, consumers have to come to rely on companies that can provide fast and efficient services. Companies that buy houses have changed the real estate landscape and are challenging conventional home marketing practices.

Before the days of relying on the internet, selling your home was a straightforward process: You listed your home with a licensed agent, put a "For Sale" sign in your front yard, and waited for buyers to come knocking. With the innovation of internet-based resources, iBuyers (online real estate companies or instant buyers) are investors or real estate brokers who have introduced new ways to sell and buy a home. While individual buyers are still the norm, companies that buy houses are changing the landscape.

Here are some facts to help you understand how iBuyers work along with the pros and cons to help you determine if this is the best option for you.



Caveat emptor, which means *buyer beware*, is often a warning given to buyers to encourage them check on all aspects of the home before they sign a contract. Otherwise, you may be stuck with an adverse condition and no way to remedy it. However, when it comes to selling your home to an iBuyer you need to understand the economics of this transaction and how this process may or may not be of value to you.

The idea of a quick and easy sale is very tempting. With the increasing demand for “instant gratification” that the internet can satisfy, sellers are looking to sell their home quickly while minimizing the transactions associated with the traditional home marketing and sale. Our high-tech economy can offer quick and efficient solutions to selling your home. Homeowners can sell their home without the hassle of an open house, multiple showings, and the dreaded negotiation process. But this convenience comes at a price that is not always understood.

In a stable real estate market, the best chance of getting top dollar for your home is driven by the buyer’s ability to envision living in that home. This emotional attachment could compel a buyer to present their highest and best offer. This then provides leverage to the seller to stand firm on their listing price and to potentially ward off requests for buyer concessions. With an iBuyer, negotiating for a better offer on your home is not an option afforded to you.

In a hot market where the sellers have the advantage, it is common to experience bidding wars from multiple buyers. In this situation utilizing an iBuyer may not be the best financial option for you.

So How Does It Work?

If you are considering working with an iBuyer, you will be happy to know that there are plenty of companies competing for your business. iBuyers can range from a local broker/agent to a nationwide company.

So how can you be sure you are working with a reputable company?

- After doing some digging to find suitable options, contact the Better Business Bureau to confirm it is a legitimate business.
- If a realtor or broker owns the company, ask for their real estate license number, and verify their qualifications through the Association of Real Estate License Law Officials (ARELLO) database.
- If the iBuyer is also a lending institution they should have a Nationwide Mortgage Licensing System (NMLS) number, you can ask to see and use their consumer access website to ensure the company you are working with is authorized to provide financial services in your state.
- Finally, although the iBuyer must hold a valid real estate license, this does not mean they are advocating on your behalf. In this transaction you are not their “client” which would require them to demonstrate 100% loyalty to your best interests. Be sure to understand the terms of the agency agreement that you enter with any iBuyer.

Overall, these typical iBuyers (investors) have a few things in common:

- A specialist will contact you to inquire about the condition of your property.
- Based on your acceptance, they will make a cash offer on your home, usually at or below market value.
- You will have a short time window in which you can accept or reject their offer.
- If you accept, they will schedule a home inspection to determine whether there are any repairs that might impact the value of your offer. You may have the option of making repairs yourself to avoid lowering the offer price, or they may employ an in-house or third-party repair company. This is all determined by the company’s policy.
- Once you accept the offer, closing is usually quick and takes between 7 and 90 days.

“Nothing in life is free, everything has to be paid for”.

Now that we know how they work, how do they make money?

The company will charge a fee for selling your home, usually 6% to 10% of the offer price. As compared to a traditional agent commission and seller’s closing costs, the iBuyer fee is typically higher. In addition, the offer is typically at or below market value, which in turn provides the profit to the investor.

A simple demonstration tells the story...

Revenue = Service fee + Price appreciation

The fee is charged
to the home seller

The difference between what
an iBuyer pays for the house
and then subsequently what the
house sells for

Are you a company providing relocation support to your employee? This may not be a good fit for you!

While this option may be a good fit for an employee receiving a lump sum, it would most likely be a detrimental choice for other move types:

- The tax protected BVO or GBO program would not be applicable and thus makes the transaction taxable to the employee.
- With an average of 6% - 10% in selling fees, this would increase program costs.
- The inability to negotiate on price or repairs would result in lower equity pay out.
- Generally, only properties under \$600k and homes on no greater than one acre would qualify.

Pros of iBuyers



1. **Speed:** One of the biggest advantages is how quickly they purchase your home. Unlike using a realtor, iBuyers can promise a speedy buying process that doesn't require waiting on the interest of a potential buyer and you select the close date.
2. **No Realtors:** Finding the right person to sell your home can be a long process, and that's typically only the beginning. With iBuyers, there's no need for anyone other than you and the iBuyer.
3. **Efficiency:** There is no actual hassle during the process since the iBuyer takes on the typical responsibilities that selling a house requires, using their services can promise a simpler selling process of all the other options.
4. **All-Cash Offers:** The offer generated for your home is an all-cash offer. If you're in a time-restricted situation, such as relocating for a job opportunity that requires you to quickly purchase a new home, using an iBuyer is your best bet. An all-cash offer gives the home owners the monetary flexibility, which makes it less stressful to buy a new home and is typically provided within 24 hours.
5. **Inspections:** While the scope of inspections can vary by company, most iBuyers will require an inspection to be performed.
6. **Repairs:** Any repair that needs to be done after an inspection takes place, including any appliances that need fixing, down to any scratched paint on the wall, can be taken care of by the iBuyer. It is their job to do the repairs essential to make your home ready to sell.
7. **Staging:** Often times, people pay to stage their home, or they opt to do it themselves. Either way, it requires time, money, or both. iBuyers may later stage the home appropriately, increasing their chance of finding potential buyers.
8. **Showings:** Some people live busy lives, while some just don't want to deal with constantly having people in and out of their homes for showings. Either way, using an iBuyer will handle the showings of dealing with potential buyers, so you don't have to.
9. **Decluttering:** While it is the homeowner's responsibility to remove the items they want to keep from their home once it is sold, iBuyers can make the process easier by assisting in the decluttering of the home. This means removing any appliances, decorations, or any unnecessary items in the home that can impair the potential sale.
10. **Certainty:** If an iBuyer approves your home, it's then guaranteed that your home will sell one way or another. Since homes are bought by the iBuyer, it then becomes the iBuyers responsibility to sell. If your home is within an iBuyers requirements, they will buy it; that's the root of their thriving industry.

Cons of iBuyers



1. **Lower Offers:** Since iBuyers take a significant risk in paying quickly and closing fast when purchasing a home, the offer provided to homeowners is sometimes a little less than what the home is maybe worth and lower than the purchase price.
2. **Deductions:** After an inspection, if a homeowner chooses to have the iBuyers take care of the repairs, there is a deduction added to the final offer of the home that includes the payments required to do so. If the repairs are rather significant or extensive, this can lead to a much lower cash offer for the home.
3. **Realtors:** There are some instances where a realtor can provide the same amount of efficiency in a similar amount of time. While this isn't often the case, if you feel more comfortable using a real estate agent, you can typically receive some of the same benefits an iBuyer can offer as well.
4. **Availability:** The iBuying community is relatively new and there may not be iBuying options within your area of residency. Some iBuyers only perform in specific locations, cities, or states so be sure that there are reputable companies operating within the area you live.
5. **No Negotiation:** You can't negotiate the iBuyer offer for your home. When selling with a realtor, part of closing a sale is the conversation about the final price of the home and helping the buyer and seller come to an agreement. Once an iBuyer offers you their price, asking for a higher price is out of the question.
6. **Independence:** Many people don't feel confident taking on the task of selling their home on their own. With an iBuyer, there is no representation for you or the person buying your home. You, as the seller, will not be represented by an expert and will have to go through the process on your own with the iBuyer.
7. **Decisions:** The sentimental value of one's home can often influence the people they decide to let buy from them. Using iBuyer services, you don't get to determine the people who are going to be moving into your home. iBuyers will give you an offer for your home that doesn't consider parts of your house that made you want to buy it in the first place.
8. **No Renting:** An iBuyer only deals with buying and selling homes. If you're looking to put your home, apartment, or condo on the market for rent, iBuyers will not be able to help you do so. This is when using a real estate agent may be a better decision for you.
9. **Uncertainty:** iBuyers can be meticulous in determining which homes they want to purchase. They have the option to deny buying your home. While you're in the safe zone if an iBuyer has confirmed to buy your home, for those that don't qualify, using an iBuyer won't be an option.
10. **Non-interactive:** iBuying is a non-emotional transaction and may not include face to face interaction. Some may prefer to speak to an actual person rather than going through a website. Using agents can help make some homeowners feel more confident their home is being considered in the most personal manner.

CONCLUSION



How to choose an iBuyer if this option is right for you.

Not all selling options are created equal. Besides verifying credentials, be sure to weigh all the pros and cons as you choose a home buying company.

Commissions and fees

Companies that buy houses are taking a risk, so they typically offer less money than traditional selling and charge higher commissions. Get the full picture by making a list of selling costs, what the costs represent and compare the numbers to a traditional home sale transaction through a real estate agent.

Repair options

Many home buying companies provide as is selling options but making repairs yourself could be a more frugal option. Ask whether you have the choice of hiring your own repair team or going the DIY route.

Recommendations

There's no substitution for word-of-mouth recommendations. Consider companies that provide reviews through a third-party website like Yelp or Angie's List.

The traditional method of home selling has its merits but may not always serve owners dealing with unusual circumstances. List your priorities to weigh them against each option.

We hope this article educated you on the hot trend of iBuyers to help you determine if you want to use their services or stick to the more traditional options.

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