



**PRDS® ADVISORY REGARDING MARKET CONDITIONS,  
MULTIPLE AND NON-CONTINGENT OFFERS,  
FINANCING/APPRaisal AND PROPERTY CONDITION**

Revision Date 5/06



The residential real estate market is, and historically has been, cyclical. Bay Area housing values have experienced repeated up-turns - - with extraordinary price increases in some cases - - and down-turns, where home sale prices descend, in some cases dramatically. Factors contributing to these home price swings include national and local economic conditions and business cycles, and especially the significant and sometimes immediate influence that business advances and declines related to high-tech, bio-tech and other business enterprises exert on the housing sector. Beyond that, the fact that Bay Area housing demand often exceeds housing supply furnishes another important explanation for occasionally intense competition for limited housing stock. Your real estate agent cannot predict market swings, and whether and to what extent real property purchased today will, in the future, appreciate or depreciate in value. In view of these real estate price dynamics, the parties to the Purchase Contract herein are advised of the following:

- 1. **Multiple Offers and Fair Market Value:** When it comes to residential housing offered for sale, this persistent imbalance of inventory and demand can give rise to "multiple offer" situations, wherein two or more sets of prospective buyers compete - - sometimes fiercely - - for the same property. Vigorous competition can drive a sales price well above asking price and, for that matter, substantially above a figure that would realistically be considered "fair market value." One peril for the Buyer in such a setting is that an artificially high purchase price can compound the economic consequences of a Buyer's need to sell the property before it has an opportunity to appreciate (if it will at all) to a level reflecting the actual purchase price, thus resulting in the possibility of a net loss to Buyer at time of sale.
- 2. **Financing and Appraisal Issues and Risks:** Another peril for a Buyer who has "won" such a bidding competition can include inability or difficulty obtaining financing from a lender whose objectively derived appraisal cannot support the actual price paid. A lender's decision to approve of a Buyer as borrower takes into account an evaluation both of Buyer's **creditworthiness** i.e., the prospects for the Buyer's ability to continuously make mortgage payments and **appraisal**, i.e., an objective fair market valuation of the property.

Where the subject property is appraised at a price considerably below the actual purchase price, the lender will typically decline to make the loan unless the Buyer is willing to provide enough **increased down payment** to cover the difference between the loan amount applied for and the amount the lender (once in receipt of the appraisal) is ultimately willing to lend. This increased down payment requirement can be substantial and, depending on financing contingency status, Buyer's inability to bring in that increased amount may expose Buyer to forfeiture of his deposit, or worse. (It bears noting that, where the Liquidated Damages clause is not made a part of the purchase contract, the economic exposure to a defaulting Buyer has no limit or "cap".)

Another financing-related risk arises where a Buyer with a loan contingency is putting such a substantial amount of money down that, even with an appraisal far below the Buyer's purchase price, the lender is still willing to lend on strength of an auspicious loan-to-value ratio. The "risk," therefore, lies in Buyer's contractual obligation to proceed with removal of the financing contingency (even though the property didn't "appraise out" and Buyer feels he paid too much for the property), all because the lender is indeed willing to lend.

Buyer's Initials (\_\_\_\_) (\_\_\_\_)

Seller's Initials (XSW) (XW)  
Form RMC Revised 5/06

**PRDS® ADVISORY REGARDING MARKET CONDITIONS, MULTIPLE AND NON-CONTINGENT OFFERS, FINANCING/APPRaisal AND PROPERTY CONDITION (Page 2 of 2)**

**3. Non-contingent Offers; Associated Risks:** A contingency is a contractual condition (e.g., Buyer's approval of the physical condition of the Property) based upon which a Buyer, acting in good faith, can elect to not proceed with the transaction and can recover, without penalty or sanction, Buyer's deposit. Financing, property condition, insurance, title and other contingencies stand as important protections to a Buyer. Accordingly, a Buyer whose offer is fully "non-contingent" - - wherein all contingencies are waived - - foregoes important protections. Among these is the right to cancel the contract based upon an inability to obtain financing or upon a post-acceptance discovery of serious physical defects and other problems. It is important to note that the discovery during escrow of previously unknown defects *does not* (absent fraud) create for the non-contingent Buyer a new right to terminate the contract.

Inherent in Buyer's decision of what price and terms to include in an offer is (on one end of the spectrum) the risk that a non-contingent contract, while attractive to a Seller, exposes the Buyer to the risk of having to either go through with the purchase of a possibly defective property or withdraw and suffer the economic consequences of default. At the other end of the spectrum is the risk that the Seller will reject Buyer's contingent-laden offer in favor of a competing offer with few or no contingencies.

Notwithstanding these important concerns, a Buyer who is determined to prevail as successful bidder may freely elect to assume these risks of non-contingency, preferring instead to generate an offer sufficiently attractive to a Seller that the "risk" of being outbid by a competing offer is correspondingly reduced. **Each buyer must, upon careful deliberation, decide how much of which risk he or she is willing to assume.** Risk factors vary in each transaction and must be thoughtfully considered in each case. For example, where a non-contingent buyer has access to a seller-provided pre-sale disclosure "packet" containing essential inspection reports produced by reliable, reputable professionals, the risk to that buyer regarding those issues is far lower than it would be where no inspections have been undertaken at all. The latter involves maximum risk, and is strongly discouraged by Broker.

**4. Property Condition:** Irrespective of prevailing market conditions, Buyer is encouraged to engage property inspection professionals to examine the subject property, particularly where the Seller has not obtained and delivered to Buyer (prior to Buyer's submittal of an offer) a pre-sale property inspection report from a professional and disinterested property inspection expert. As stated above, a decision by Buyer to waive contingencies relating to property condition should be made only upon careful deliberation. Buyer should also review in advance such existing disclosures, inspection reports, building permit file records and other materials that could provide information and insights as to condition, value and desirability. Buyer should carefully review Seller and agent information provided in the Transfer Disclosure Statement and any additional disclosure (e.g., the PRDS Supplemental Seller Checklist) information. Additionally, where the contract provides for a pre-close of escrow "Walk-Through" (and whether the transaction is or is not "non-contingent"), Buyer should avail himself of that right and opportunity.

Date: \_\_\_\_\_

Date: 12/10/09

Buyer: \_\_\_\_\_

Seller:  Christopher White  
Christopher White

Buyer: \_\_\_\_\_

Seller:  Elecia White

Elecia White