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Seller Concessions Have Surged Over the Last 5 Years. There Are 2 Explanations.

Seller concessions have always been a component of real estate transactions. These concessions often arise from circumstances that develop during the contract period. For a long time, the primary use of a concession (in lieu of a price reduction) was to compensate buyers for an inspection item (for example, a new roof or furnace) which the seller agreed to but did not want to take care of before the closing date. Lenders have to approve concessions, however, and they won't like to see that the transaction is closing with a critical repair not completed.

As shown in the chart at right, which is based on closings of single-family homes \$600,000 to \$650,000 within 25 miles of downtown Denver, the majority of contracts 3 and 4 years ago did

not include any concession. So, what happened?

In April 2022, mortgage interest rates increased by 2.7%, sparking a surge in seller-funded "buy-downs" as a key negotiating tool. It worked like this (and still does, by the way): Lenders would offer to reduce the mortgage interest rate by, say, 2% for the first one or two years after closing. Depending on the size of the loan and the amount of the interest rate reduction, the cost of that buydown might be \$10,000 or more. The hope was that interest rates might fall within a couple of years. At that point, the homeowner could refinance at a lower rate rather than continue paying the full rate on their original mortgage. Unfortunately,

rates have remained at 6 to 7 percent, so many of those homeowners are now living with a high mortgage payment they had hoped to avoid.

Let's say that the home purchase price agreed to by the buyer and seller was \$500,000. The contract would be written for \$510,000 or more and include a seller concession that would be used for a buy-down, leaving the net purchase price at \$500,000. Appraisal could become an issue, since the home would have to appraise for the contract purchase price, but that could be handled through negotiated strategies I don't have the space to detail here.

In August 2024 there was another event which could explain some of those higher concession amounts shown in the chart.

Percentage of Sales With Seller Concessions

Year	None	Under \$10,000	\$10,000 to \$19,999	\$20,000 to \$29,999	\$30,000+
2021	70.3%	28.3%	1.4%	0.0%	0.0%
2022	61.0%	33.4%	26.2%	0.3%	0.0%
2023	47.6%	32.8%	14.9%	3.3%	1.3%
2024	41.7%	31.0%	23.3%	3.1%	0.8%
2025	39.2%	26.2%	26.2%	6.4%	2.2%

That's when the NAR settlement eliminating the sharing of listing commissions with buyers' brokers. One of the work-arounds resulting from that new rule was that the contract would add a concession that would compensate buyers for having to pay their own brokers. The advantage for the buyer was that they could include that expense in their mortgage instead of having to come up with a 4- or 5-figure payment at closing. However, as I have reported previously, most sellers, including the ones I represent, continue to offer buyer broker compensation, so this type of concession is less prevalent than expected.

Price Reduced on 1-Bedroom Belmar Condo



This penthouse condo at 7130 W. Alaska Dr. #D offers incredible views and natural light with floor-to-ceiling windows on the north- and south-facing walls. The price was just reduced by \$20,000. Hardwood floors throughout except for the main bedroom and office, which are carpeted. A 65" wall-mounted TV is in the living room and there is an electric fireplace. There is a second electric fireplace in the bedroom. The kitchen is completely equipped with GE stainless steel appliances and there are granite countertops for easy cleaning. A Climate Master Water Source Heat Pump was installed in 2020 at a cost of \$8,000, providing superior and reliable heating and cooling throughout the year. There is a deeded parking space and storage area on the 2nd floor of the adjacent parking structure. Belmar shopping, restaurants and other amenities are only footsteps away. Come enjoy the convenience of this great condo. See listing agent Greg Kraft's narrated video tour at www.GRElistings.com, or call him at 720-353-1922 to see it.

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Does World Travel Interest You?

Rita and I have traveled a lot, and we take readers along by blogging throughout our travels. We started in January 2024 at the beginning of our 122-day world cruise, and I added to the blog with subsequent travels. As you read this, we are in a Paris VRBO. Next week, a river cruise. Follow along at <http://WhereAreJimandRita.substack.com>.

NAHB Lists the Top 10 Design Trends for 2025

The June installment of the National Association of Home Builders' "Design Bites" blog was about "The Top 10 Architectural Movements to Watch in 2025." You'll find a link to the full blog article at <http://RealEstateToday.substack.com>.

Those design trends listed for 2025 are:

1. **Timeless and Traditional** — Home buyers are looking to the past for timeless design inspiration but with a refreshed way of doing so, balancing traditional form with modern elements.
2. **Right-sizing and Personalizing** — For first-time home buyers, attainable homes are getting smaller because of market conditions, so designers can offer personalized options.
3. **Housing Diversity** — Thinking beyond single-family housing will appeal to a wider range of potential buyers.
4. **Universal Design** — Some families care for both small children and aging relatives, so proactively designing living spaces to be inclusive and accessible is important.
5. **Resilient Design** — With climate-related disasters occurring more frequently,

home buyers want to make sure their homes can withstand natural forces such as wind, fire and storms, so building with resiliency in mind is important in most regions.

6. **Expanding Kitchen Function** — The kitchen is often considered the heart of the home, and although houses are getting smaller, kitchen space is still critical because its purpose extends beyond cooking and eating.
7. **Natural Connections** — Biophilic design — designing with the goal of increasing occupant connectivity to the natural environment — remains popular amongst home buyers.
8. **Emotional Connections** — Colors, shapes and textures can evoke emotion in a living space.
9. **Health and Wellness** — A home is meant to be a place one can go to rest and recharge, so there is a big connection between mental health and housing design.
10. **Building Connections** — In addition to a home of their own, buyers want community. Design elements include courtyards, common houses, etc.

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