



ESCALATION CLAUSE ADDENDUM CHEAT SHEET

DEFINITIONS

- Net Proceeds** The offer price minus all costs to seller including loan payoffs and REALTOR® commissions.
- Escalating Factor** The amount that will be added to the net of the next highest offer.
- Escalation Cap** The maximum amount the buyer is willing to pay, but only if they have to escalate to beat other offers.

ESCALATION CLAUSE

An Escalation Clause Should Contain three basic elements:



Original offer amount



Escalating Factor



Escalation Cap

IMPORTANT: WAIVER OF THE APPRAISAL CONTINGENCY

- FHA, VA and USDA buyers cannot effectively waive the appraisal contingency!
- The Amendatory Clause will supersede the Purchase Agreement and any Counteroffers, Amendments and Addendums.

ANALYZING OFFERS

The four-step process to analyzing offers:



Step One: Run net out estimates including all the costs in the offer as well as commissions and loan payoffs. If the offer contains an escalation clause, use the CAP to run the net out.



Step Two: Identify which offer nets the most.



Step Three: Does the best offer contain an escalation clause?

If the answer is "no," then you are done. This is the winning offer.

If the answer is "yes," then proceed to step four.



Step Four: Calculate the amount of the counteroffer

Add the Escalating Factor to the "next best offer."
Add back all the costs to seller
This is the amount of the seller's counteroffer.