

Buy First or Sell First?

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Many homeowners struggle to know if they should look for a new home first and then sell their current home, or if they should sell their current home first, then look for the replacement home. The easy answer is both will work. You just need to know your options and how the process works.

Buy First

It's easy to jump on the Internet and find homes that look interesting. You can find a REALTOR to help you view these homes and even make an offer on the one you like the best. So, what should you know about this type transaction?

If you have enough cash and you can purchase the replacement home without selling your current home, then Buying First might be your best alternative, since you will get the home you want and you can move at your leisure. The downside is that you will pay two mortgages until your current home is sold.

If you don't have this type of cash, then your REALTOR will have to make what is called a CONTINGENT offer. The purchase of the replacement home will be dependent on the sale of the current home. Your REALTOR will use CAR form COP and will make it part of your offer to purchase the new home.

There are some issues to consider if you make a contingent offer. First, Sellers are often reluctant to accept offers that contain a home sale contingency, since you (the Buyer) may not complete the contract. The contingency is a large 'out' of the contract that rests solely with the Buyer. Sellers will be more reluctant to accept a home sale contingency if they are in a hurry to sell their home.

Second, the Contingency may be structured in one of several ways - some of which are more palatable to the Seller. The Contingency may force the Seller to (in effect) take the home off the market while he waits for you to sell your current home. A more acceptable way to structure the contingency will allow the Seller to leave the home on the market - in effect, giving you the option to remove the contingency and complete the contract, or to cancel the contract if another offer is received.

Third, you should either be ready to list your current home for sale, or better yet, already have the home listed for sale if you plan to make a contingent offer. Sellers (with guidance from their REALTOR) may reject a contingent offer if the current home is not ready to be sold - or if the price, condition or something else may cause a lengthy listing. A good agent representing the Seller will want to see the details of your home listing - and will evaluate whether your home is likely to sell in the current market conditions. In other words, there is no point in taking a contingent offer if the home is

not likely to sell and the contingency is not likely to be removed. In this case, a REALTOR may advise their Seller to reject the offer and suggest that the Buyer making the offer concentrate on selling their current home with the understanding that the REALTOR will call if an offer is received.

Sell First

Selling your home first, and then purchasing your replacement home can have significant advantages, but requires some planning. In a slow market, when there is significant inventory, Buyers can more readily consider this approach. This is especially true for Sellers who have a high-priced home, or a home that may take a long time to sell.

If you have very specific needs for a replacement home - and these needs might be hard to meet, then the Sell First method is probably not right for you. However, if you can find a replacement home within the current inventory, then you will just need to give yourself time to find your replacement home. When you receive an offer to purchase your current home, there are several ways that you can give yourself the time. The first is to ensure that you have an escrow period that is long enough for you to purchase the replacement. For example, if you think you can find a home in two weeks (get with your REALTOR to help understand market inventory), then a 45-day escrow period might suffice for the sale of your current property (you would use a 30-day escrow period for the replacement property). If the offer that you receive is for a shorter period of time, your REALTOR would just counter the offer with the extended escrow period.

The other way to give yourself enough time to purchase the replacement property, is to use a Contingency Sale form (COP). There is a provision on the form that allows the Seller to have a home purchase contingency. The downside to the contingency is that you will have to remove the contingency (usually by entering into a contract to purchase the replacement property) within a certain timeframe (typically 17 days) or the Buyer will have the right to cancel the contract. Also, a Buyer may not want to accept the contingency. They have no way to know if you will perform and enter into a contract to purchase the replacement. The Buyer may choose to purchase another home that does not have the same obstacle.

Look First, Sell Second, Buy Third

Another option is to begin your home search very close to putting your current home on the market. If you can identify several potential replacement properties, then you will be able to be patient and wait for your current home to receive an offer. Ask your REALTOR to prepare a Net Sheet so that you will have a very good estimate of the proceeds from the sale of your current home (a Net Sheet estimates the proceeds after commissions, fees and other costs). You will want to identify several replacement properties using this method, so that if one or several are purchased while you are waiting to receive an offer, you will have options.

Conclusion

So which method is right for you? The answer to that question really depends on the specifics of your situation. You should consult your REALTOR to get as much information as you need to assess your options.

What's Next?

Assuming that you are considering selling your home and purchasing a replacement, you should begin the process of choosing your REALTOR to find the one that offers the services, communication and skills that you need. I have a list of questions that you can use for your interviews - questions that may not be obvious, but will help you discern the differences between agents. And of course, I would be honored if you would include me among the REALTORS that you interview.

You should also find a mortgage person to help you understand the financial parameters of the home that you may purchase as the replacement. They will get you pre-approved or pre-qualified and will help you understand your financing options.

The Buy First/Sell First decision has many technical considerations, so if you need more information, or if you need further explanation of any of the topics discussed herein, please just let me know.

Thank you for your consideration.