

Should your client buy first or sell first?

Moving from one house to another involves the financial risk of carrying two houses simultaneously, or ending up on the street and having to move twice. Let us investigate which alternative has fewer disadvantages.

If the client BUYS first:

1. He may have the satisfaction and security of knowing where he is moving to ... but only perhaps!
2. The smart thing to do is to include a clause in the offer, stipulation that the purchase is "subject to the sale of the buyer's house by a certain date (such as in 60 days"
3. If the buyer needs financing, there would also have to be an appropriate clause to that effect.
4. Because of the "subject to" clauses, the buyer will have reduced bargaining power (in comparison with a subject-free cash offer). The seller will be less inclined to negotiate on his asking price.
5. Then there is the uncertainty of whether the buyer's house will sell during that limited time period. To avoid tying up his principal's house needlessly, the listing broker will insist on inserting an escape clause: "The seller's acceptance of this offer is subject to him being able to continue to market his house during the next 60 days. If another acceptable offer should materialize during those 60 days, then the seller will give the buyer 24 hours to remove all subject clauses and make this a firm and binding contract. Failure to do so will render this contract null and void and the seller will be free to accept the other offer."
6. The lending institution that will grant the new mortgage may not give a firm commitment until the buyer's house is sold. Besides the uncertainty of how much new financing the buyer will need, the problem may be the buyer's inability to carry two houses.
7. Next, the buyer will find himself under pressure to sell: he has a limited time to sell. Precious days will be wasted on getting the show on the road: processing, publishing, and circulating the listing. It may be on the computer without a picture. The deadline for the next MLS catalogue might be missed. The MLS tour could be fully booked for the next few weeks.
8. Selling in a buyer's market often compounds additional problems. Overoptimistic/unrealistic sellers tend to overestimate their home's market value and underestimate the length of time that is required to sell their house.
9. The buyer will not have the luxury of being able to hold out for a good price; in fact, he may be forced to progressively reduce his price in order to attract an offer. Everybody has seen the ads, "Owner has bought and must sell." Some ruthless buyers may decide to wait and see how low the unfortunate owner is willing/able/forced to go.
10. To add insult to injury, the buyer may be served during the 60 days he has to sell with the 24 hour escape clause before his old house is sold. As for most people, it is too risky to borrow bridge financing and to carry two houses. They will have no

choice but to step aside and lose out on the home of choice. If somebody buys first, chances are that he will buy high (little bargaining power) and sell low (due to time pressure) and /or he may lose out anyway on the house.

If the client SELLS first:

1. The preliminaries of putting the house on the market can be taken care of without wasting time.
2. While their house is for sale, there is nothing to stop them with familiarizing themselves with what is on the market; should they find a suitable home before they have a firm offer on the old house, the “subject to sale” method is available.
3. If they get an offer on their old house before they have found something they like, then they have the luxury of being able to drive a hard bargain (to make only small concessions on their asking price)
4. If their buyers are renters, then a long possession date should be no problem. A long possession date could be a bargaining factor and should be attempted on all offers.
5. After the buyers have received a firm offer with a substantial deposit (for their peace of mind) they can get their mortgage approved and,
6. Drive a hard bargain on their next purchase. The owner of the house they want to buy will view them as cash buyers and will be more disposed to making price concessions.

So, if you sell first and buy later, there is nothing to stop you from looking while marketing your house and if you play your cards right, you will sell high and buy low.

Regrettably, there is no universally perfect solution to this dilemma. Each client will have to weigh the risks of having to move before the next place is available: if they bunk with friends or relatives or rent temporary quarters, there is the expense of having to move twice, storing the furniture somewhere and possibly having to put a pet in a kennel. Worse still, where will the children go to school? For whatever it is worth, all of these problems are surmountable and merely inconveniences in comparison with the financial burden and fiasco of having to carry two houses for an indeterminate period of time.

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