

Selling A Home Is All About Time

IF SELLERS INITIATE THE HOME SALE PROCESS WITHOUT CREATING A PLAN FIRST, the consequences could cost them thousands of dollars. Many buyers gravitate toward buying their next home before selling their existing home. Looking at properties is exciting and fun, after all, whereas selling a home can be tedious and very stressful.

Many people are unable to purchase their next home before selling their existing home. When these people launch a home search without a plan and find their ideal next home, they may insert a home sale contingency in the purchase contract, or they may purchase it without the home sale contingency, reasoning that everything will sort itself out in the end.

Sellers that receive an offer contingent upon an existing home sale will be less receptive to the offer than to those without it. Indeed, since it represents more risk to the seller, they will often demand a premium price and insert a kick-out clause in the sale - meaning if another buyer comes along without a home sale contingency, the sellers can kick the first offer to the curb.

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Buyers who choose to purchase their next home both without selling their existing home first and without a home sale contingency may find themselves in the uncomfortable position of owning two homes at once. In this case, those who can qualify may receive a "bridge loan" from a lender. To illustrate this situation, let's say Joe Smith owns a home valued at \$250,000. He finds his ideal next home and purchases it for \$400,000. Since he is unable to sell his existing home, he receives a bridge loan, and all the costs of his old home get rolled into his new home. In this example, Joe's carry costs for the first home are \$2,000 per month. Since he needs the equity from his first home to finance the second, he is forced to sell his existing home at a 5% discount. In this example, Joe's poor decision making cost him \$12,000, plus \$2,000 per month for every month that his first home does not sell.

To further complicate this illustration, if Joe moves from his existing home into the new one, leaving an empty home, it will take longer to sell and will sell for less than a home that is currently lived in. And since it took longer to get out, Joe's old place, a condominium, gets hit with a \$10,000 special assessment that

he would have avoided with a quicker sale. The potential consequences for not creating a plan first could cost Joe Smith up to 10% of the value of his first home.

We assume our clients want to get top dollar for their home. The only way to maximize value is to sell their existing home before purchasing their next. If they choose this course, they negate the need to offer their home at a discount, eventually resulting in a market rate sale. This puts buyers in a much more advantageous position, giving them leverage on timing and cash, and it is quite possible that the strength of the buyer's position could result in a discount off the purchase price of the next home.

Joe Smith is a fictional person, of course, but we see what happens to him in the illustration repeated every day by people who don't plan their home sale strategy before hand. If sellers bring us in after the fact, we find ourselves and our clients in a position where we are not planning, we are reacting, and as we have seen, there are real consequences involved. We want all our clients to avoid this trap, and so we wrote this Note. The bottom line: if you have even the slightest urge to sell your home, give us a call before you do so. It is our experience that sellers often contact us 60 to 90 days later than they should have.

The **Knepp Realty Group** specializes in residential real estate sales in Chicago's **West Loop** neighborhood.

The Knepp Realty Group features a team of four residential real estate professionals dedicated to our clients' financial success. The team works closely together and constantly strives to provide the highest level of customer service possible. Kevin and Melissa are joined on the Knepp Realty team by Fran Walker and Lauren Quash. When you think about real estate in the West Loop, think about the Knepp Realty Group.

For more information, please give us a call or stop by our web site.

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