

Remember This When Buying, Selling a Home

Written by Tim Decker, AIF®
Sunday, 15 May 2016 00:00



Q: I have friends who have made major mistakes when buying or selling homes.

What are some ways I can avoid this?

A : There are many pitfalls to avoid when buying or selling. The decisions you make in both pursuits can have a major impact on your financial condition for years to come, so you can't make these decisions too carefully.

If you're buying

Here are some key issues you should consider to make the right decisions:

1. How long do you plan to be in your new home? If there's a good chance you'll move within seven years, perhaps because of your job, the costs involved might make this a better time to rent than buy.

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2. How much can you afford to spend? Lenders might be willing to lend you more than you can really afford. So before you start looking for a home, do some soul-searching about the total housing costs you can afford to pay out of your take-home pay each month. These costs include: mortgage payments (including interest on the loan), homeowners insurance, property tax and necessary ongoing maintenance, plus monthly "self-payments" to build up a reserve fund to cover these expenses for several months if you lose your job.

3. How much can you - or should you - lay out for the down payment? Ideally, you want to put down at least 20 percent, the threshold to avoid having to purchase private mortgage insurance at a stiff monthly premium that persists for years. At a minimum, many lenders require 10 percent down.

4. If you're going to be moving from a home you own, don't buy a new home until you sell your present one.

Buying before selling not only introduces the risk of paying two mortgages at once, but can put you in a poor negotiating position in selling your present home.

If you're selling

1. Plan well ahead to prepare your home for sale, but don't spend a lot on these preparations. Sellers seldom get a good return on big investments in home remodeling, especially when the amounts are disproportionate with the value of the home. For example, adding a room for \$30,000 makes no sense for a home worth \$250,000. But inexpensive cosmetic repairs, such as paint or wallpaper, can make the home more attractive and easier to sell.

2. Be sure not to price your home too high. This means pricing it according to sale prices of comparable homes in similar neighborhoods in the local market. It doesn't matter what you think your home is worth; it's what the market thinks that counts. All too often, people set pie-in-the-sky prices that keep their homes from selling. The longer a home is on the market, the less it will eventually go for because the delay in selling indicates it's clearly not worth the listing price. This additional time on the market increases the chances that buyers will make low-ball offers. And it's a downward spiral from there.

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3. Negotiate your Realtor's commission. The standard rate is 6 percent, but many Realtors will readily knock this figure down to 5 percent or even less, especially during times of low availability in that particular locale. If your home sells for \$300,000, paying a commission of 5 percent instead of 6 percent means you'll save \$3,000. So for spending a minute or two on negotiating this with a Realtor, you can save enough to buy some new furniture.

Be sure to negotiate the commission in the first encounter with the Realtor, making that an important qualification.

That way, he must reduce his commission to get the listing. By paying close attention to these issues, you'll stand a better chance of getting a suitable home, or selling one, at a better price.

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