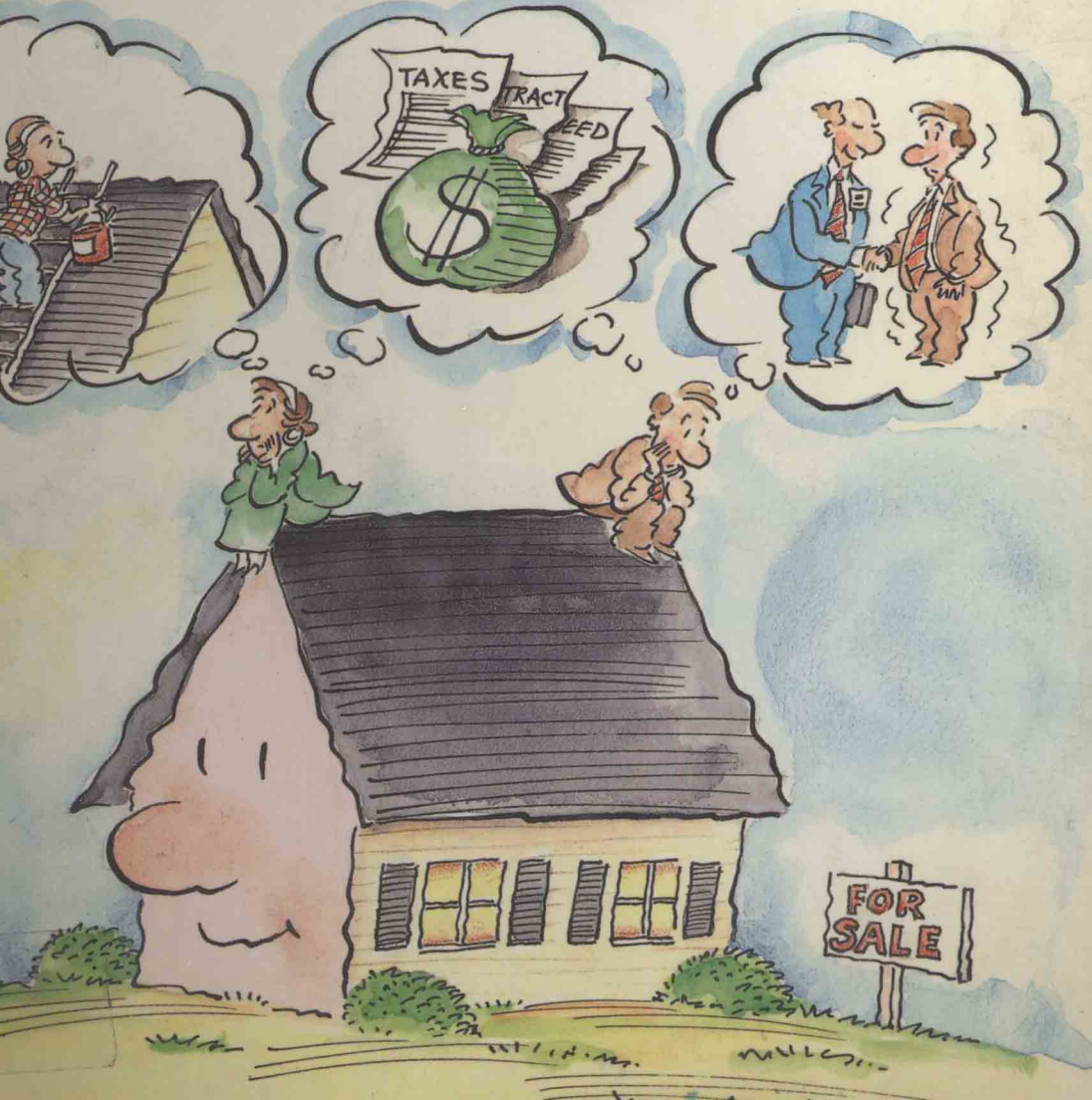


ROBERT IRWIN

PIPS & TRAPS WHEN SELLING A HOME



Robert Irwin

Tips and Traps When Selling a Home

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Preface

This year nearly three million people will sell their personal residences, their homes. For many it will be a quick and painless procedure. For many more, however, it will be a time of frustration, anger, lost money and, perhaps, fear. Today, selling your home can be not only tricky but also fraught with perils.

Selling your home, learning about the new laws concerning disclosure, finding and dealing with a broker, with the buyer, the attorney, the escrow officer, carrying back financing, working out the tax problems, and, of course, reading and understanding the complex documents can be a confusing, difficult, if not frightening experience. Even though I have purchased and sold more houses than I care to remember, I still learn something new in every sale.

It was with this concern for sellers and the knowledge that in today's world, sellers are at a distinct disadvantage ("let the seller beware" is *today's* motto), that I undertook to write what I hope is a book filled with answers. I have tried to anticipate the landmines and the swift currents and prepare you, the seller, to deal successfully with these.

I've tried to put myself entirely in the position of a seller and see things as you see them. The advice is from your perspective. I've attempted to give you guidelines to follow and to warn you in advance of traps.

I hope you, the reader, will find this book enlightening as well as helpful and that it will allow you, with more ease and confidence, to sell your home quickly and at the price you want.

Robert Irwin

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Introduction: The Real Trouble With Selling

In the old days, the most quoted maxim in selling real estate was, “caveat emptor,” Latin for, “let the buyer beware.” Today that’s all changed. Today’s slogan should read, “let the seller beware!”

Consumer protection laws and a high-priced market have turned the world of selling your home topsy turvy. In the old days all you had to worry about was finding a buyer. Today, you not only have to worry about finding a buyer, but you also must hope that your buyer won’t turn around and try to rescind (void) the deal after the purchase because of something you said or didn’t say or did or didn’t do!

Today, selling a home not only means finding a great broker or doing a bang-up job of selling it yourself, it also means walking a fine line between promoting your property and disclosing all the faults it may have.

Of course, that doesn’t mean that it’s hard to sell. Nearly three million properties are sold each year. It just means that it’s tricky and you need to know where the land mines are.

Dealing With The Problems

If you are thinking of selling your home, condo, or co-op, you are faced with some or all of these problems:

- Selling it yourself. (Do you really stand a chance?)
- Finding an agent who will work hard for you and produce buyers.

- Getting the price you want and feel you deserve.
- Negotiating to your advantage (not just giving away the cow with the milk).
- Fixing up the property so the buyers won't be able to come back at you later on.
- Legally avoiding paying taxes on the sale (if you can).

Finding a Buyer

The first problem is locating a buyer—obviously, no buyer, no sale. When you buy a stock or bond or commodity future, generally speaking you can be quite confident that you won't have any trouble at all selling. Indeed, to dispose of your investment, all that you need do is call up your securities broker and speak the magic word, "Sell!" Almost by the time you put down your phone, your stock or bond or commodity has been sold.

Real estate is different. While it is probably true that there is a buyer for every home, there may only be one buyer and that person may not know or even care that you're trying to sell. To put it another way, unlike other investments, real estate isn't really very liquid. When it's time to sell your home you may find that:

1. You may have to wait to find a buyer, sometimes for many months or in extreme cases, years.
2. It will cost you a great deal to sell, as much as ten percent or more of the sales price.
3. You may not be able to get what you consider to be the market price.

Answers to the problems of time, cost, and price are given in this book. You will learn how to attract serious buyers, how to avoid paying excess costs and, perhaps most important, how to get your fair price.

Preparing Your Property

In addition to finding a buyer, there's the matter of preparing your property. In the old days that meant a fresh coat of paint and some gardening work. Today that often involves hiring a house inspector to locate the bad plumbing, wiring, heating, and whatever and then spending a small fortune fixing it—quite a different proposition.

Today in most states you, in effect, have to warrant the condition of

your house. Much like the manufacturer of a product, to a greater degree than ever before, you are responsible for what you sell, even after the sale!

This book presents solutions to handling the warranty problems. You'll learn where to save money when fixing up your property for sale. You'll discover items you must disclose to a buyer and what you don't have to say.

Handling Agents

Want to see a stampede? Just put a "For Sale By Owner" sign in your front yard. If you don't get 20 calls, visits, and solicitations by agents the first week (perhaps the first day!), you're living in a most unusual part of the country (or nobody can see your sign!).

Agents will pester you and until you sign on with one, they may even try to intimidate you. Of course, they know all the rules and procedures when selling a home and unless you are well versed in real estate, you don't know very much about it at all. You may feel you're at their mercy.

This book explains what you need to know in order to successfully sell your home. It also gives you valuable clues on handling those agents.

Who Should Read This Book

In *Tips and Traps When Selling a Home* you will find solutions to all of the problems mentioned here and many more that you will have to face, but haven't even thought of yet. You'll get easy-to-understand explanations of the most complex rules and procedures. You'll learn what your best options are when hiring a broker or selling by yourself. You'll even find idea lists to help you plan ahead.

This book is for anyone who is selling their home (there are special sections for condo and co-op owners). It doesn't matter whether you just bought it and are struggling to get out without losing money or have owned it for years and are trying to conserve your appreciation. You'll find answers and decision making help here.

1

Fixing Up Your Home to Attract Buyers

You've decided to sell your home. It really doesn't matter why—maybe you've been transferred, or you want a bigger house, or perhaps you want to cash in on your equity. Regardless, once you've made the decision to sell, the next step is to evaluate your home—is it ready to sell? Or do you need to fix it up first?

The price that you ultimately get, indeed the salability of your home, depends to a large degree on the condition of your property. We'll look at other factors in determining price and salability in the next chapter.

Your Attitude Toward Fixing Up Your Home

There are two distinct attitudes when it comes to readying a home for sale. On the one hand are those who will repair and replace all those broken parts that they were perfectly content to live with while they owned the property, all in the hopes of getting a quick sale for top dollar. On the other hand are those who aren't willing to do a thing to fix up a house for sale. Instead, they simply put it on the market as is.

The important question for most home sellers, of course, is which attitude is correct? Which way yields the most money and the quickest sale?

The answer, like most answers in life, is—it depends. Whether or not it pays to expend some effort, a lot of effort, or no effort fixing up your home to sell depends on the following:

1. The market *when you sell*
2. The condition of your home
3. Your level of energy

The Market When You Sell

I live in California where the housing market is either hot or warm. Rarely, if ever, is it cool and never, ever is it cold. That's significant when it comes time to sell.

In a Hot Market

If the market is hot, it means that there are far more buyers looking than there are sellers offering. Houses are much in demand. You most certainly have heard of (or have even experienced) a hot market. Buyers wait in line for days just to get a chance to buy a new home. When you put your resale on the market, you immediately get three offers, two of which are for more than you're asking! Hot means hot.

Buyers in a hot market are very frequently more than willing to overlook a few maintenance problems. In some cases they're willing to overlook a whole lot of serious problems.

For example, a friend was recently going to put his home up for sale. The house was over 20 years old, and not much maintenance had been done to it. He told me he was determined to get top dollar. To assure that, he was going to paint the entire house, inside and out, put on a new roof, and relandscape the front yard. I started to object, but he said his mind was made up. When he was finished, he would put the house on the market for top dollar, which he figured would be \$200,000. (See the next chapter for information on determining the right price.)

One day I went over to see him, and there he was up on a ladder, painting away. The roofers had just come and put on a very nice looking new roof, to the tune of \$7000. "Almost done," he said. "Just a few weeks more of work."

While we were talking, I noticed that his next door neighbor had placed a "For Sale By Owner" sign in his front yard. The neighbor's tract house was a duplicate of my friend's except that the neighbor hadn't done a thing to fix up his property. No painting, no new roof, no

landscaping. The house didn't look terrible, but it was far from being in great shape.

That night I got a call from my friend. He was enraged. "Can you imagine?" he asked. "My neighbor just sold his house, without fixing it up a bit... for \$200,000! Can you imagine?"

The upshot of this true story is that my friend finished his fix up work and then put his property on the market and eventually sold it for \$210,000. However, when the roofing and painting and yardwork were tallied up, they amounted to almost \$10,000, meaning that the time and money he spent fixing up were really wasted. Chances are he could have sold it with no effort for \$200,000, given the hot market he was in.

Tip

In a hot market, buyers tend to overlook a lot about a house's condition. Yes, if it's in terrible shape, they will either not buy or knock the price down. But if it's in "okay" shape, chances are they won't complain. In a hot market, it's hard enough just finding a house to buy in a price range a buyer can afford, let alone worrying about the small stuff.

In a Warm Market

Things change pretty dramatically when we move from a hot market to a warm market. In a warm market, there are a lot of buyers and a lot of sellers. Buyers don't feel compelled to rush in and make offers. On the other hand, sellers aren't worried that it's going to take six months to sell a property either. In a warm market, it typically takes one to three months to sell a home.

In a warm market, buyers take their time finding just the right home for them. If they find two homes that they like, all other factors such as location being equal, they'll select the one that's in the best condition.

If a house is run-down, not terrible, but about the same as in our example for a hot market, a buyer may simply pass and find a similar house in better shape.

Thus, in a warm market for you as a seller, fixing up your home prior to sale means two things—you're likely to get a better price and, what can be even more important, you're likely to sell much faster.

Trap

Many sellers fall into the trap of thinking that by doing excessive fix-up work to their house, they can make even more money on the sale. Chances are that just isn't so. Your property will have a top market

value beyond which it just won't go at the present time. What you do when you fix it up is to try to present it in such way as to get that top dollar. You do the *minimal amount of fix-up possible*. Any additional fixing is just icing on the cake—it costs you more money and time without returning a significantly higher price.

In a Cool or Cold Market

A cool market is where there are many houses for sale and few buyers. As a result, housing prices are dropping. A cold market is where there are *no* buyers. A cold market seldom occurs.

Cool markets occurred in the northeast and southwest in the late 1980s. A cold market occurred in parts of Texas and Oklahoma when oil prices collapsed and in the Midwest when agricultural prices collapsed in the mid-1980s. In a cold market, it makes no sense to fix up a property, since no matter what you do it won't sell. In a cool market, however, that's not necessarily the case.

Phoenix, for example, had a cool market right into 1990. The reason was overbuilding. Although the area had strong growth and a steady influx of new people, builders went wild building on every patch of bare land—which in Phoenix seemed endless.

I have a friend in Phoenix who tried to sell her house in early 1989 and was told that it would take about six to eight *months* to find a buyer. She wondered if fixing it up could shorten that period and return a higher price?

The answer was yes and no. Fixing it up would definitely help. However, unlike being in a hot or even warm market, in a cool market you cannot expect to get back out everything you put in when fixing up a property.

Thus my friend had to be judicious about what she did. A coat of paint inside and out, with her doing the work, cost less than \$500 and helped enormously. A new roof, which the house needed, however, would have cost \$7000. She considered doing it, but decided she'd only be able to raise the price of the house by \$3500 if the roof was put on—half of what it would cost. On the other hand, she figured that by lowering the price \$3500, she could entice a prospective buyer to purchase. Lowering the price and *not doing the work* saved her half the cost of a new roof when she put the house on the market.

In a cool market, you have to be very, very careful. Most work you put into fix-up won't help that much. On the other hand, not fixing up the property at all might mean that you'd have to wait much longer, and

accept a lower price. In many cases it may be easier, quicker, and ultimately more profitable to simply start with a lower price.

The Condition of Your Home

Having said that market conditions should be the biggest influence on whether or not you should fix up your home before you sell, let's turn to the next most important consideration... the condition of the home itself. Let's divide homes into three categories:

Those in pretty good shape

Those needing obvious fix-up work

Real dogs

Homes in Pretty Good Shape

If your home is in pretty good shape, you probably can get by with little to no major fix-up work. Pretty good shape means:

The paint isn't too bad on the outside (no blisters, peeling, or fading) or inside (no marks or scratches).

The lawns don't have bald spots and aren't overgrown with weeds and that the house has hedges and trees and decent landscaping.

All the appliances work.

If your house is in pretty good shape, what you should do, however, is launch a *major clean-up effort*. If you've lived in your present home for more than six months, chances are you've got a couple of loads of trash and throwaways stashed here and there.

Tip

Buyers like to see themselves in a house. They like to see where they would put their furniture, make their meals, sleep, and relax. They need some furniture and items in the home to get the "feel of it." But if it's cluttered with your stuff, they will have trouble seeing themselves in your home. A good rule of thumb is to clear out all of the rooms of everything but the basics. Throw it out, store it, give it away, or do whatever you need to get rid of it. Leaving it around will slow down the sale and may cut back the price you are offered.