

LEARNING MADE EASY



Selling Your House

for
dummies
A Wiley Brand



Prepare your property
for the best offer

Stage, market, and set your
house apart from the pack

Negotiate and successfully
close the sale

Eric Tyson
Ray Brown

*Authors of Home Buying Kit
For Dummies*

Top 20 Tips for House Sellers

- 1. Determine whether you want to sell.** Your most important house-selling decision is whether to sell. Take the time to research your options and the personal financial ramifications of each option before you sell. (See Chapter 1.)
- 2. Consider the expenses and transaction costs.** The expenses of selling your current house and buying another gobble a large chunk of your house's *equity* (that is, the market value of your property less the outstanding mortgage balance). Before you sell your house, weigh the expected benefits of buying a new home against these transaction costs. Be sure to estimate your proceeds of sale and relocation costs before selling. (See Chapter 2.)
- 3. Review your mortgage options.** Before you commit to selling your house, assess the mortgage options for your next purchase, especially if you're trading up to a more costly property. Remember, mortgage lenders and real estate agents can't tell you how much you can afford to borrow; they can only tell you the maximum amount that you're eligible to borrow. To determine the price you can afford to pay for your next home, you must also consider your financial goals and objectives. (See Chapter 3.)
- 4. Do your homework if you consider providing financing to the buyer of your property.** Do what a good mortgage lender does — conduct a rigorous background investigation to determine the creditworthiness of the buyer. (See Chapter 4.)
- 5. Time the marketing of your house to coincide with a strong selling season in your area.** Timing is critically important. Try to time the sale of your house so it closes simultaneously with the purchase of your next home. Unless you're wealthy enough to afford the luxury of owning two properties at the same time, don't close on the purchase of your next home before your current one sells. (See Chapter 5.)
- 6. Weigh the pros and cons of selling your house yourself.** Be realistic about the amount of money you can actually save by selling without an agent and the amount of additional time and effort that you must invest. If you want to sell without a real estate agent, be sure to hire a good real estate lawyer and read this entire book so you do the best that you can. (See Chapter 6.)
- 7. Field a great team.** Selling your house usually requires that you hire and work with various real estate professionals (such as real estate agents, property inspectors, escrow officers, and, possibly, tax, legal, or financial advisors). If you put the right players on your team, you maximize your chances of a successful sale. To increase your chances of an efficient, top-dollar sale, obtain a good house inspection to discover problems before they become deal killers. (See Chapter 7.)

- 8. Spend the time to find the best real estate agent.** If you're going to have a real estate agent list your house for sale, invest the time to find the best possible agent. An agent who doesn't know property values in your area or doesn't understand the best way to market your house can be a liability. A knowledgeable, market-savvy agent can help you obtain a higher sale price and quicker sale. (See Chapter 7.)
- 9. Thoroughly review and negotiate the real estate broker's listing contract.** For most sellers, a 90-day listing that puts your house in the local multiple listing service is best. Remember that commissions and other terms of the listing agreement are negotiable. If you have any doubts as to whether to disclose a defect or problem with your house, err on the side of disclosure. Otherwise, you greatly increase your (and your real estate broker's) chances of being sued by disgruntled buyers. (See Chapter 8.)
- 10. Do the right corrective and cosmetic work before putting your property on the market.** Preparing your house for sale involves much more than just sticking a For Sale sign in your front yard. Avoid wasting money on major improvements that don't give you a good return on your investment. (See Chapter 9.)
- 11. Check out other houses in your area.** "What's it worth?" is the most critical question you'll ask when selling your house. To get the answer, examine sales of houses comparable to yours in size, age, condition, and location (a good agent can assist you). Price your house right, and it will sell because informed buyers recognize the value after seeing other houses with unrealistically high asking prices. (See Chapter 10.)
- 12. Don't ignore generations of conditioning when pricing your property.** In addition to smart pricing, use buyer incentives to help you sell faster and get a higher sale price. But be careful; don't use gimmicks that waste valuable time and money and end up stigmatizing your property. (See Chapter 11.)
- 13. Get the word out.** To create the most interest in and competition for your house, you must develop a comprehensive, well-coordinated marketing and advertising campaign plan. (See Chapter 12.)
- 14. Use your computer.** The house-selling process requires both advertising and number crunching. Your computer can help you more with the financial analysis if you use good tools and use them wisely. The Internet is one of many ways to advertise your house for sale. (See Chapter 13.)

- 15. Remember that everything is negotiable.** Real estate negotiation has no absolutes. You and your agent, if you're using one, can maximize the price and terms of sale if you understand the needs and motivations of prospective buyers. You must also be able to spot the warning signs of fake buyers. (See Chapter 14.)
- 16. Follow through.** You still have a lot to do after you accept an offer to sell your house. Don't let your deal fall apart because you didn't follow through properly. (See Chapter 15.)
- 17. File the required federal and state tax forms to report the sale of your house.** Understand and adhere to the tax laws for sheltering your sale profits; otherwise, you could get whacked with thousands or tens of thousands of dollars in unnecessary taxes. (See Chapter 16.)
- 18. Don't be hasty.** After selling your house, don't rush into your next purchase if you're unsure about it. If you hastily buy another property and realize that you're unhappy with your choice, you may end up moving again in a few years. Your hurried decision can cost you big bucks in unnecessary real estate transaction costs. (See Chapter 17.)
- 19. Play by and know all the rules.** You have to adhere to different rules when selling rental property. Be especially careful to evaluate the rental-specific tax ramifications, the zoning of the property, and the rental property sales experience of the real estate agents and others you hire to help sell the property. (See Chapter 18.)
- 20. Anticipate tough questions.** Buyers may ask very awkward questions while probing your motivation to sell or looking for property flaws. The best defense is a good offense. Make sure you're prepared. (See Chapter 19.)



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by Eric Tyson and Ray Brown

for
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Introduction

Welcome to *Selling Your House For Dummies*, the perfect companion to *Home Buying Kit For Dummies*, the #1 bestselling real estate book (that we also happened to write). If you're like most people, your biggest investment is your house. Sell your house wisely and you not only save yourself loads of time, but you also pocket thousands — if not tens of thousands — of dollars more than you would otherwise. Making a big mistake in the sale of your house, on the other hand, can easily cost you additional weeks — perhaps even months — of work and headache, as well as half a year's worth (or more) of your take-home income.

One of Ray's treasures is a well-worn fortune cookie message that says, "A wise person knows everything. A shrewd person knows everyone." We apply that same principle to house sales. Real estate is a team sport. In this book, we show you how to put together a winning team, and we alert you to key points to consider throughout your sale. Follow our advice and your house is as good as sold before the For Sale sign even goes up.

We don't care whether you decide to sell your house or how much of the transaction you attempt to handle yourself. It's not that we're insensitive; we simply don't have a vested interest in the sale of your house. What we do care very deeply about is that you make the best possible decisions for your situation. If those decisions mean staying in your current home instead of selling, or if they mean selling through a good local real estate agent, that's terrific. We wrote this book to help you avoid making mistakes in your selling decisions and to ensure that you sell your house in the best way possible.

How This Book Is Different: The Eric Tyson/ Ray Brown Difference

We've received great accolades for our *Home Buying Kit For Dummies*. *Selling Your House For Dummies* fills a void for house sellers: It's a user-friendly book totally oriented to your needs as a seller.

If you've visited your local library or bought books on selling your home, you may be familiar with the shortcomings of most house-selling books. In writing this book, we attempt to avoid those shortcomings. Thus, we expect that you'll find our book is

- » **Holistic:** No one sells a house just for the sake of selling it. Selling a house creates tax and financial ramifications, particularly if you're selling to buy a more expensive home, relocating to a different part of the country, or retiring. Most other house-selling books, however, don't help you consider these bigger-picture issues of personal finance before you sell. In Part 1, we come right out and tell you that some people who are thinking about selling their current homes *shouldn't*.
- » **Educational:** Most house-selling books are written by real estate agents or their firms. Such books are long on singing the praises of real estate agents but short on specific advice, helpful tips, and caution signs. That's why many of those other books are 100 pages or so long. The authors aren't interested in sharing the innermost secrets of selling real estate; they're more interested in promoting their own business by convincing you to use a real estate agent. We wrote this book first and foremost to educate you.
- » **Jargon-free:** Books written more to confuse the reader than to convey information use all sorts of insider terms that make things sound more mysterious and complicated than they really are. In this book, we try to keep everything in plain English. We even include a glossary, just in case you do encounter a term that appears to be Greek or Latin to you!

Foolish Assumptions

We're not trying to scare you — quite the contrary. We just want to make it clear that, even though selling your house isn't brain surgery, you can easily make mistakes, especially if you're overconfident or do a poor job selecting people to work with in the transaction. When we wrote this book, we made a couple of assumptions about you:

- » **You're humble:** You realize that you aren't a house-selling expert.
- » **You're smart:** Even though you're not an expert, you realize the value of getting as much information as you can. This trait bodes well for your upcoming experience in selling real estate.

Although you're likely to hire some professionals to help you sell your house, you still need to educate yourself about all aspects of the transaction. Why?

- » You're the one who ultimately must make the decision about whether or not, and when, to sell your house. No real estate agent, loan broker, or anyone else who has a vested interest in the sale can objectively advise you about whether you should sell your house or when is the best time for you to sell.
- » You're the one (if you do decide to sell) who must interview and hire competent and affordable people who can help you with the sale. You need to know what all the people you hire do, why they do it, what to expect from them, and what they expect from you.

Oscar Wilde said, "Experience is the name everyone gives to their mistakes." We want to add a corollary to this observation: "Learning from other people's mistakes is infinitely better than learning from your own." *Selling Your House For Dummies* saves you money, time, and heartache — but only if you read it!

Icons Used in This Book

Just as you use tasty seasonings in your favorite recipes, we've sprinkled helpful icons throughout this book to draw attention to key points or to denote stuff that you can skip over.



TIP

This icon flags key strategies that can improve your real estate deal and, in some cases, save you mounds of moola. Think of these icons as pointing out little words of wisdom that we would whisper in your ear if we were close enough to do so.



WARNING

Numerous booby traps await novices as well as experienced house sellers. This explosive symbol marks those mines and tells you how to sidestep them.



INVESTIGATE

Occasionally, we suggest you do more research or homework. Don't worry; we tell you exactly how to go about your investigation.



REMEMBER

To ensure you don't forget important points, this icon serves as your little reminder, like a string tied around your finger.



TECHNICAL
STUFF

This icon marks stuff you don't really have to know, but may come in handy at cocktail parties thrown by people in the real estate business.

Beyond the Book

In addition to the material in the print or e-book you're reading right now, this book also comes with a free access-anywhere Cheat Sheet that can help you think about the best ways to get your house sold for top dollar. To get this Cheat Sheet, simply go to www.dummies.com and search for "Selling Your House For Dummies Cheat Sheet" in the Search box.

Where to Go from Here

You don't need to read this book cover to cover. But if you're a beginner or you want to fully immerse yourself in the world of house selling, go for it! However, you may have a specific question or two today and want some other information tomorrow. No problem there, either. *Selling Your House For Dummies* is lighter on its feet and easier to use than other house-selling reference books. Use the table of contents or the index to speed your way toward what you need to know and get on with your life.

1

Getting Started with Selling Your House

IN THIS PART . . .

Consider whether or not you should sell your house.

Examine your personal finances regarding the selling decision.

Determine how much you'll net from the transaction.

Understand your financing options.

- » Making the choice: To sell or not to sell
- » Selling in weak and strong housing markets

Chapter **1**

Deciding to Sell

Selling your house and moving can be an enjoyable (not to mention profitable) experience. Unfortunately, for most people, it isn't. Selling a house not only introduces financial turmoil into most people's lives but also causes them stress.

One goal of this book is to help you make the right decision about whether to sell your house. If you do decide to sell, we want to make sure you get as many dollars and as few upset stomachs from the sale as possible.

The reasons people want to sell their houses are almost as varied as the houses themselves. Here are some of the common, not-so-common, and downright bizarre reasons:

- » Additional debt burden because of layoff, medical expenses, disability, or overspending
- » Bad vibes or bad luck associated with the house
- » Better job opportunities elsewhere
- » Diminished space requirements now that children are grown
- » House located in a flood, earthquake, or other disaster zone
- » Increased space requirements for expanding family
- » Lack of garage

- » Neighborhood conditions incompatible with socioeconomic status
- » Noisy neighborhood
- » Noisy/messy/obnoxious family or business moved next door
- » Recent death of spouse
- » Recent marriage or divorce
- » Serious house defects (such as radon or termites) that owners don't want to or can't afford to fix
- » Unfriendly neighbors
- » Unsafe neighborhood
- » Unsatisfactory neighborhood shopping
- » Unsatisfactory school district
- » Unsuitable climate

As you can see from this partial list, most of the reasons why people have a desire to sell their houses are based on *wants*, not *needs*. In the United States, we sometimes take for granted how economically fortunate we are.

You don't *need* to move because your neighborhood is too noisy or because your house seems too small. You don't *need* to move because the weather in your area isn't nice enough. You don't *need* to live on quieter, tree-lined streets.

All these features are things people desire or *want*, not things they *need*. And people who think they can afford to pay for such things usually get more of what they *want*. Sometimes, however, people spend money moving and, ironically, still don't get what they want. The weather in the new locale may not be terrific, the neighbors may not be friendly and quiet, and the schools may not turn children into stellar students. You may move to get away from particular problems and then find yourself facing a new set of problems.

We're certainly not going to tell you how and where to spend your money — that's your choice. However, we definitely want you to make the most of your money. Unless you're one of the few who has far more money than you can ever possibly spend, we suggest that you prioritize the demands on your money to accomplish your most important financial goals.



REMEMBER

Nothing's wrong with spending money to trade in one house for another, but *before* you set those wheels in motion, think about the impact of that kind of spending on other aspects of your life. The more you spend on housing, the less you'll have for your other goals, such as saving for retirement or taking annual vacations, and the more time you may be forced to spend working.

Figuring Out If You Really Need to Sell

Although spending your entire life in the first home you buy is an unlikely prospect, some people do end up living in the same home for 10, 20, even 30 or more years. Ray (humble coauthor of this book), for example, lived in his home nearly 30 years. Ray's no fool; staying put must have its advantages.

If, like most prospective house sellers, you have a choice between staying put and selling, *not* selling has clear advantages. Selling your house and then buying another one takes a great deal of legwork and research time on your part. Whether you sell your house yourself or hire an agent, you're going to be heavily involved in getting your house ready for sale and keeping it pristine while it's on the market.



WARNING

In addition to time, selling your house and buying another one can cost serious money. Between real estate commissions, loan fees, title insurance, transfer tax, and myriad other costs of selling your house and then buying another one, you can easily spend 15 percent or more of the value of the property that you're selling (see the bar on the left in Figure 1-1).

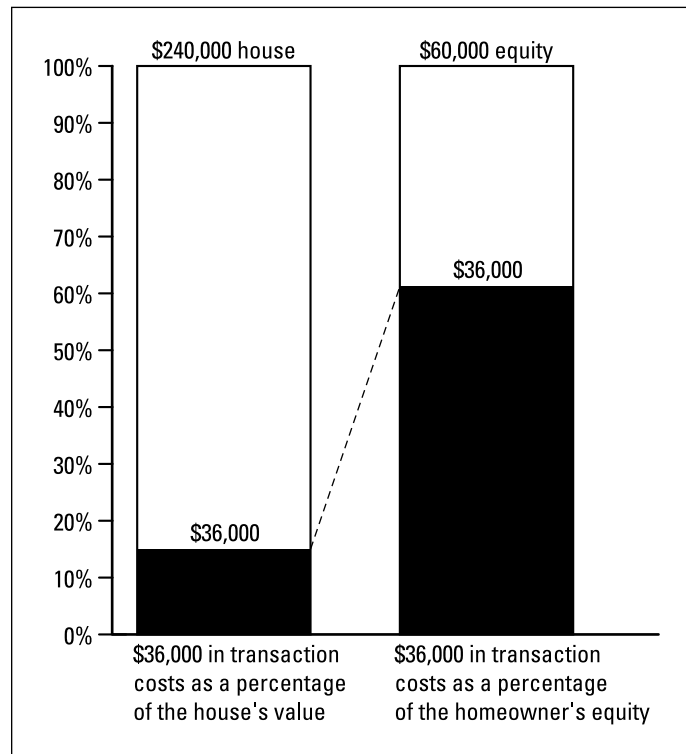


FIGURE 1-1:
Trading homes
can cost you big
bucks.

Source: © John Wiley & Sons, Inc.

Fifteen percent sounds like a lot, doesn't it? Well, consider this: Unless you own your house free and clear of any mortgage debt, your transaction costs are going to gobble up an even larger percentage of the money you've invested in your home.

Check out this scenario: You're thinking about selling your \$240,000 house. If selling your house and buying another one costs you about 15 percent of the first house's value, then you're taking \$36,000 out of your sale proceeds. However, if you happen to owe \$180,000 on your mortgage, your *equity* in the home — the difference between the amount the house is worth (\$240,000) and the amount you owe (\$180,000) — is \$60,000. Therefore, the \$36,000 in transaction costs devours a huge 60 percent of your equity (see the bar on the right in Figure 1-1). Ouch!



REMEMBER

Before spending that much of your hard-earned money, make sure you give careful thought and consideration to why you want to sell, the financial consequences of selling, and the alternatives to selling. In Chapters 2 and 3, we walk you through the personal financial issues that you need to weigh when contemplating the sale of your current house. But before we get to the numbers, consider the qualitative issues.

Good reasons to stay

Whereas some people have clear and compelling reasons for selling their homes, others do so for the wrong reasons. You don't want to make the financially painful mistake of selling if you don't have to or can't afford to.

The following sections offer reasons why you may be better off staying right where you are.

You're already having trouble living within your means



TIP

If you're having difficulty making ends meet and you use high-interest consumer credit, such as credit cards or auto loans, to maintain your desired standard of living, you shouldn't spend more money on housing. Even if you're planning to trade your current house for one of comparable value, you may not be able to afford all the transaction costs of selling and buying.

Even if you aren't a consumer-debt user and you're saving a comfortable portion (10 percent or more) of your current earnings, *don't* assume you can afford to trade up to a more expensive home. In addition to a higher mortgage payment, you may also face increased property taxes, insurance rates, and home maintenance costs.



REMEMBER

A mortgage lender may be willing to finance a loan that enables you to trade up to a more expensive home, but qualifying for a loan doesn't mean you can *afford* that home. Mortgage lenders use simplistic formulas, based primarily on your income, to determine the amount they're willing to lend you. Mortgage lenders don't know (or care) how far behind you are in saving for your retirement or how many children you must help with college costs or how much assistance you want or need to give to elderly parents.

Mortgage lenders are concerned about protecting their interests in the event that you default on your mortgage. As long as you meet a few minimal financial requirements (you make a sufficient down payment, and your housing expenses are less than a certain percentage of your income), the mortgage lenders can sell your loan with the backing of a government mortgage agency, effectively wiping their hands clean of you and your problems.



WARNING

If you're thinking about trading in your current house for another one, especially for a more expensive one, you absolutely, positively must consider the financial repercussions of changed housing expenses in addition to the costs of buying and selling. We cover these important issues in Chapters 2 and 3.

The problems are more in your perceptions

Everybody, at some point, leaps to conclusions based on faulty assumptions or incomplete research in virtually all aspects of his or her life. Peter, for example, was a single parent living with his son in a nice neighborhood in an urban environment. When his son started junior high school, Peter grew increasingly concerned with the possibility that his son would become involved with drugs, which seemed to be prevalent in their city.

Despite working in the city, Peter decided to move to an easygoing, suburban community about 45 minutes outside the city. Shortly after the move, Peter's son got mixed up with drugs anyway — perhaps, in part, because the long daily commute meant Peter was around even less.

In addition to ignoring lifestyle issues (such as the length of his commute), Peter made a common human mistake — he assumed things were a particular way without getting the facts. The reality was that the suburban community to which Peter moved had as many problems with teenagers on drugs as the good neighborhoods in his former city.



INVESTIGATE

Crime and safety make up another common realm where people have misconceptions. Some communities often make the evening news with graphic stories and film footage of crimes. Statistically, however, most crimes committed in a given city or town occur in fairly small geographic areas. Local police departments

tabulate neighborhood crime rates. If you're concerned about crime and safety, don't guess; get the facts by contacting your local police department and asking them how to obtain the data.

Schools are another hot-button issue. In some areas, people make blanket statements condemning all public schools. They also insist that if you live in such-and-such town or city, you must send your children to private school if you want them to get a good education. The reality, as education experts (and good old-fashioned common sense) suggest, is that you can find good and bad public schools and good and bad private schools. You also need to evaluate if you're spending too many hours working and commuting just so you can make expensive tuition payments. If that's the case, you may not be able to spend adequate time with your children. The best possible teacher for your children is you.

Selling won't solve the problem(s)

Avoiding problems is another human tendency. That's what Fred and Ethel tried to do. Much to their chagrin, Fred and Ethel discovered that their home had two not-so-visible but, unfortunately, costly-to-fix problems. The new roof they needed was going to cost big bucks because local ordinances required the removal of several layers of existing roofing material when a new roof was installed. Fred and Ethel also had recently found out that their house contained asbestos, a known carcinogen.

Rather than research and deal with these problems, Fred and Ethel decided that the easiest solution was to sell their house and buy another one in a nearby town where they thought they'd be happy. They then attempted to sell their home without disclosing these known defects — a major legal no-no, as we point out in Chapter 8 — but were tripped up by smart buyers who found out about the problems from inspectors they hired to check out the property.

Actually, the prospective buyers did Fred and Ethel two big favors:

- » By uncovering the problems early, the buyers saved Fred and Ethel from a costly lawsuit that could easily have resulted if the flaws were discovered after the house was sold.
- » By ultimately deciding to hold onto their home, which they otherwise were content with, Fred and Ethel saved themselves thousands of dollars in selling and buying transaction costs. Those savings more than paid for the cost of a new roof. And Fred and Ethel discovered that, because the asbestos was in good condition and properly contained, it was best left alone.

You can fix some or all of the problems

When they realized that they couldn't run from their home's problems, Fred and Ethel, discussed in the preceding section, discovered how to get those problems fixed. You can address quite a number of possible shortcomings in your home less expensively than buying a new home.

If you think that home improvement projects are going to be too expensive, do some rough calculations to determine the cost of selling your current house and then buying another. Remember, you can easily spend 15 percent of the house's value on all the transaction costs of selling and then buying again.

Instead of trading houses, why not spend those transaction dollars on improving the home you currently own? Do you hate the carpeting and paint job? Get new carpets and repaint. If your home is a tad too small, consider adding on a room or two. Just be careful not to turn your home into a castle if all the surrounding houses are shacks. Overimproving your property can be an expensive mistake. By *overimproving*, we mean that after the improvements to your house, you'll own the most expensive house on the block, and you'll have difficulty recouping the cost of the improvements in the form of a higher house sale price.



WARNING

Some people are seduced by the seemingly better attributes of other houses on the market. If your house is small, larger ones seem more appealing. If you don't like your carpeting, houses that have hardwood floors may attract you. However, as is true of long-term friends or spouses, you know your current home's defects all too well because you've probably lived with them for years. Unless you're incredibly observant, you surely didn't know half of your home's faults and shortcomings before you moved in. The same is true of new homes you may be lusting after.



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Some problems and defects are more easily fixed and more worth fixing than others. When you're deciding whether to fix problems or move away from them, consider these important issues:

» **What's the payback?** Some home remodeling projects may actually pay for or come close to paying for themselves. We're not suggesting that you can have the work done for free. However, certain remodeling projects do increase your home's value by enough to make up for most or even all the cost of the improvement(s).



TIP

Generally speaking, projects that increase the cosmetic appeal or usability of living space tend to be more financially worthwhile than projects that don't. For example, consider painting and recarpeting a home versus fixing its foundation. The former projects are visible and, if done well, enhance a home's value; the latter project doesn't add to the visible appeal of the home



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or usability of living space. If, however, you *must* do foundation repairs or the house will collapse, spend your money on the foundation.

If you decide to stay put and renovate or improve your current home, you're going to need to find a way to pay for all that work. In Chapter 4, we discuss the way to figure out the amount you can afford to spend improving and how to finance your improvements. If you head down the renovation path, don't forget that contracting work often ends up costing more than you (and your contractor) originally expected.

» **How intrusive will the work be?** As you surely know, money isn't everything. Six months into a home remodeling project that moves you out of your bedroom, spreads sawdust all over your kitchen table, and has you wanting to flee the country, the "payback" on the project doesn't seem so important anymore. In addition to costing more than most parties expect, contracting work almost always takes longer than everyone expects.

Ask yourself and others who've endured similar projects: How much will this project disrupt my life? Your contract with the contractor should include financial penalties for not finishing on time.

Some problems or shortcomings of your current house simply can't be fixed. If you're tired of shoveling snow in the winter and dripping sweat in the summer, you're not going to be able to change your local weather. If crime is indeed a big problem, you aren't going to be able to cut your area's crime rate anytime soon. Moving may be the best solution.

PATIENCE — NOT MONEY — SOLVES SOME PROBLEMS

Some problems may solve themselves if you're patient and willing to wait things out. For example, Eric (humble coauthor of this book) once lived a block away from a busy California freeway. Although adequate fencing and safety barriers separated the speeding cars on the highway from the neighborhood, the noise was a bit of a nuisance, especially during peak commute hours.

The longer Eric, who was raised in a quiet non-urban environment, lived in the home, the more the noise bugged him. Within several years of having bought the home, however, the problem was solved. Expansion of the freeway forced the state to add sound walls, which greatly dampened the noise and enhanced home values in the area.

Reasons to consider selling

If you're in a situation where you really *need* to sell, as opposed to wanting to sell, by all means put your house on the market. And if you *want* to sell, and can *afford* to do so, you should go for it as well. The following sections offer some solid reasons for selling.

You can afford to trade homes

Your desire to sell your current house and buy another one may be driven by a force as frivolous as sheer boredom. But if you can afford to sell and buy again, and you know what you're getting into, why not?

Now, defining *afford* is important. By *afford*, we mean that you've identified your personal and financial goals and you've calculated that the cost of trading houses won't compromise those goals.

Everyone has unique goals, but if you're like most people, you probably don't want to spend the rest of your life working full time. To retire or semi-retire, you're going to need to save quite a bit of money during your working years. If you haven't yet crunched any numbers to see where you stand in terms of retirement saving, postpone major real estate decisions until you explore your financial future. In Chapter 2, we walk you through the important retirement planning considerations in selling your house, and in Chapter 3, we show you how to calculate the economics of selling and moving.

You need to move for your job

Some people find that at particular points in their lives they need to move to take advantage of a career opportunity. For example, if you want to be involved with technology companies, certain regions of the country offer far greater opportunities than others.

When you lack employment, paying bills is difficult, especially the costs involved in home ownership. If you've lost your job or your employer demands that you relocate to keep your job, you may feel a real need to move, especially in a sluggish economy.



REMEMBER

Moving for a better job (or simply for a job) is a fine thing to do. However, some people fool themselves into believing that a higher-paying job or a move to an area with lower housing costs will put them on an easier financial street. As we discuss in Chapter 3, you must consider all the costs of living in a new area versus your current area before deciding that moving to a new community is financially wise.

And, although we don't pretend to be career counselors, we want you to consider that you may be overlooking opportunities right in your own backyard. Just because your employer offers you a better job to get you to relocate doesn't mean you can't bargain for a promotion and stay put geographically. Likewise, during an economic slowdown, if your employer says you must relocate or face downsizing, explore other employment options in your area, especially if you want to stay in the local area.

You're having (or will have) financial trouble

Sometimes, people fall on difficult financial times because of an unexpected event. Check out these two scenarios:

- » After Ryan graduated from college, he landed a good marketing job and seemed financially secure. So he bought a home. After a few years in the home, Ryan discovered that he had a chronic medical problem.

Ultimately, Ryan decided to go into a lower-stress job and work part time. As a result, his income significantly decreased while his medical expenses increased. He no longer could afford his home. It made sense for Ryan to sell his house and move into lower-cost housing that better addressed his reduced mobility.

- » When Teri and her husband bought a home, they were both holding down high-paying jobs. Unfortunately, their marriage had problems. After much marital counseling and many attempts to get their marriage on a better track, Teri and her husband divorced. Because neither of them alone could afford the costs of the house, Teri and her husband needed to sell.

In addition to unexpected events, some people simply live beyond their means and can't keep their heads above the financial water of large mortgage payments and associated housing costs. Sometimes people get bogged down with additional consumer debt because they stretched themselves too much when buying their home.



TIP

Selling your house and moving to a lower-cost housing option may be just what the financial doctor ordered. On the other hand, if you can bring your spending under control and pay off those consumer debts, maybe you can afford to remain in your present home. Be sure you're being honest with yourself and realistic about your ability to accomplish your goals given your continuing housing expenses (see Chapter 2 for more information).

You're retiring

If you decide to call it quits on the full-time working life, you may find yourself with more house than you need or you may want to move to a less costly area. Instead of trading up, you may consider trading down.

You can free up some of the cash you've tied up in your current house and use that money to help finance your retirement by moving to a less expensive home. If you're otherwise happy where you're currently living, don't think you must trade down to a less expensive home simply to tap the equity in your current property. As we discuss in Chapter 2, you can tap your home's equity through other methods, such as taking out a reverse mortgage.

Your house is associated with bad feelings

As with other financial decisions, choosing to sell or buy a home isn't only about money. Human emotions and memories can be just as powerful and just as real factors to consider.

If your spouse or child has passed away, you divorced, or your house was badly burglarized, the property may be a constant source of bad feelings. Although selling your house and moving won't make your troubles go away, being in a new home in a different area or neighborhood may help you get on with your life and not dwell excessively on your recent unpleasant experiences. Just be sure to temper your emotions with a realistic look at your financial situation.

Knowing the Health of Your Housing Market

Your personal financial situation clearly is an important factor in deciding whether and when to sell your house, but the state of your local housing market may also influence your decision. Check out the following sections for the lowdown on the housing market and how it affects your sale.

Selling in a depressed housing market

No one likes to lose money. If you scraped and saved for years for the down payment to buy a home, finding out your house is worth less than the amount you paid for it can be quite a blow. Between the decline in the market value of your home and the selling costs, you may possibly even lose your entire invested down payment. And you thought the stock market was risky!

In the worst cases we've seen, some homeowners find themselves *upside down*, which simply means the mortgage on the house exceeds the amount for which the house can be sold. In other words, upside-down homeowners literally have to pay money to sell their houses because they've lost more than their original down payment.

Ouch! (This happened to more folks during the severe financial crisis of 2008, which clobbered home values in many parts of the country.)

When deciding whether to sell in a depressed market, consider the factors discussed in the following sections.

If you still have adequate equity

Although your local real estate market may have recently declined, if you've owned your house long enough or made a large enough down payment, you still may be able to net a good deal of cash by selling. If you can make enough money to enable yourself to buy another home, we say don't sweat the fact that your local real estate market may currently be depressed. As long as the sale fits in with your overall financial situation, sell your house and get on with your life!



REMEMBER

All real estate markets go through up cycles and down cycles. Over the long term, however, housing prices tend to increase. So, if you sell a house or two during a down market, odds are you'll also sell a house or two during better market conditions. And if you're staying in the same area or moving to another depressed housing market, you're simply trading one reduced-price house for another. If you're moving to a more expensive market or a market currently doing better than the one you're leaving, be sure that spending more on housing doesn't compromise your long-term personal and financial goals (see Chapter 2).

If you lack enough money to buy your next home

Sometimes homeowners find themselves in a situation where, if they sell, they won't have enough money to buy their next home. If you find yourself in such a circumstance, first clarify whether you *want* or *need* to sell:

- » If you *want* to sell but don't *need* to and can avoid selling for a while, we say wait it out. Otherwise, if you sell and then don't have adequate money to buy your next home, you may find yourself in the unfortunate position of being a renter when the local real estate market turns the corner and starts improving again. So you'll have sold low and later be forced to buy high. You'll need to have an even greater down payment to get back into the market, or you'll be forced to buy a more modest house.
- » If you *need* to sell, you have a tougher road ahead of you. You must hope that the real estate market where you buy won't rocket ahead while you're trying to accumulate a larger down payment. However, you may also want to look into methods for buying a home with a smaller down payment. For example, a benevolent family member may help you out, the person selling you your new home may lend you some money, or you may decide to take out one of the low-down-payment loans that some mortgage lenders offer. If prices do

rise at a fast rate, you can either set your sights on a different market or lower your expectations for the kind of home you're going to buy.

If you must move or relocate and don't want to sell in a depressed market, you can rent out your home until the market turns around. Be sure you understand the tax consequences of this arrangement, which we cover in detail in Chapter 2. Before becoming a landlord, consider your ability to deal with the hassles that come with the territory. You must also educate yourself on local rent-control ordinances and compare your property's monthly expenses with the rental income that you'll collect. (We explain how to calculate the difference between a property's income and expenses in the sidebar, "Figuring the cash flow on rental property.") If you're going to lose money each month, the constant cash drain may handicap your future ability to save, in addition to increasing your total losses on the property.



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FIGURING THE CASH FLOW ON RENTAL PROPERTY

Cash flow is the difference between the amount of money that a property brings in and the amount you have to pay out for expenses. Some homeowners-turned-rental-property-owners can't cover all the costs associated with rental property. In the worst cases, such property owners end up in personal bankruptcy from the drain of negative cash flow (that is, expenses exceed income). In other cases, the negative cash flow hampers property owners' ability to accomplish important financial goals such as saving for retirement or helping with their children's college expenses.

Before you consider becoming a landlord, make some projections about what you expect your property's monthly income and expenses to be.

Income

On the income side, determine the amount of rent you're able to charge:

- Take a look at what comparable properties currently are renting for in your local market.
- Check out the classified ads in your local paper(s).
- Speak with some leasing agents at real estate rental companies.

Be sure to allow for some portion (around 5 percent per year) of the time for your property to be vacant — finding good tenants takes time.

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Expenses

On the expense side, you have your monthly mortgage payment (of which we're sure you're already painfully aware). And, of course, you have property taxes. Because you probably pay them only once or twice yearly, divide the annual amount by 12 to arrive at your monthly property tax bill.

You may end up paying some or all of your renter's utility bills, such as garbage, water, or gas. Estimate from your own usage what the monthly tab will be. Expect most utility bills to increase a bit because tenants will probably waste more when you're picking up the bill.

Be sure to ask your insurance company about how your property insurance premium changes if you convert the property into a rental. As is true with your property taxes, divide the annual total by 12 to get a monthly amount.

Don't forget repairs and maintenance. Expect to spend about 1 percent of the property's value per year on maintenance, repairs, and cleaning. Again, divide by 12 to get a monthly figure.

Finding good tenants takes time and promotion. If you choose to list through them, rental brokers normally take one month's rent as their cut. If you advertise, estimate at least \$100 to \$200 in advertising expenses, not to mention the cost of your time in showing the property to prospective tenants. You must also plan on running credit checks on prospective tenants.

Estimated cash flow

Now, total all the monthly expenses and subtract that number from your estimated monthly income after allowing for some vacancy time. Voilà! You've just calculated your property's cash flow.

If you have a negative cash flow, you may actually be close to breaking even when you factor in a rental property tax write-off known as *depreciation*. You break down the purchase of your property between the building, which is depreciable, and land, which isn't depreciable. You can make this allocation based on the assessed value for the land and the building or on a real estate appraisal. Residential property is depreciated over 27½ years at a rate of 3.64 percent of the building value per year. For example, if you buy a residential rental property for \$250,000, and \$175,000 of that amount is allocated to the building, that allocation means you can take \$6,370 per year as a depreciation tax deduction ($\$175,000 \times 0.0364$).

After you've crunched all these numbers, if you find that you're still interested in renting your property, be sure to read Chapter 2, especially the section dealing with the tax consequences of converting your home into a rental property.

Selling during a strong market

What could be better than selling your house during a time of rising or already elevated home prices? If you can afford the transaction costs of selling your current house and buying another home, and if the costs of the new home fit within your budget and financial goals, go for it.

Just be careful of two things:

- » Don't get greedy and grossly overprice your house. You may end up getting less from the sale than you expected, and the sale is likely to take much longer than if you'd priced the property fairly. If you price your house too high, when you finally drop the price to the right range, you may face lower offers because your house has the stigma of being old on the market. In Chapter 11, we detail how to price your house for a quick sale that gets you top dollar.
- » Necessity being the mother of invention, the housing recovery, beginning in 2010, fostered a potentially risky but sometimes profitable pricing strategy. But beware, this strategy will only work during a sustained period of very low supply and very high demand. It entails pricing the home well below the apparent market value. The purpose is to create an auction atmosphere and attract so many buyers that they will bid the price well above the low list price and, hopefully, above the price you'd hoped to obtain. The danger with this strategy is that it doesn't always work. You may only receive one offer at or even below the listed price. If so, then this is likely the actual market value of your home. While you are never obligated to accept an offer, whether at list price or even well above, you can create hard feelings and, therefore, troubled negotiations by turning down offers at the asking price.
- » If you're staying in your current strong market or moving to another strong market, be careful about timing the sale of your current house and the purchase of your next one. For example, you probably don't want to sell and then spend months bidding unsuccessfully on other homes. You may get stuck renting for a while and need to make an additional move; such costs can eat up the cash from your recent sale and interfere with your ability to afford your next home. In Chapter 5, we explain how to time the sale of your house and the subsequent purchase of your new home.