

## ***Options To Consider When Buying A Home But You Need To Sell Another Home First!***

*By Duane Duggan, The Boulder Property Network at RE/MAX of Boulder*

***Any time you are selling one house and buying another there are inherent risks over which you may have no control. Each one of the seven options below has pros and cons. Which option you pick depends on equity levels, qualifying ratios, etc.***

### **1. List your home conditional upon finding replacement property.**

We can list your home and put in the comments in the MLS that it is “conditional upon you locating a replacement property”. This method allows you to put your old home under contract, then find a replacement property within an agreed upon period of time. The disadvantage is that some of the best buyers, such as corporate transferees that have 3 days to buy a house, may not want to look at the house. The reason for this is that they don’t want to “wait and see” if they have purchased a house based on your ability to find a replacement. In my estimation you lose about 30% of the available buyers by offering the home “conditional upon finding replacement property”. If a buyer is willing to purchase your home “conditional upon finding a replacement property” they will usually give you 10 days or so to locate and contract on another one. The difficulty is, what happens if the contract on the home you are purchasing falls apart after you have removed the condition of “finding replacement property”? A buyer might be willing to wait until you contract on another property but very seldom will wait for you to resolve inspection conditions or actually close on the “replacement property”.

If this option is selected, it is important for you to review the market so that when a contract does come in you can make a quick and informed decision on the purchase of your new home. If this method works it could keep you from doing a double move.

### **2. Make an offer on new property conditional upon selling old property.**

It is possible to make an offer on your new home “conditional upon your old home going under contract”. This method can also keep you from doing a double move. Our ability to structure the transaction in this way is dependent on market forces. If the market is hot the odds are good that a seller of the home you want to buy will receive offers from buyers that do not have a house to sell. In a hot market having a house to sell before you can buy puts you at a negotiating disadvantage.

If it is acceptable for the seller to give you time to sell your house, it is usually structured where you have 30 days to get a contract on your home and maybe another 60 days to close it.

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**Options To Consider When Buying A Home ... (continued)**

Sometimes when you make an offer conditional upon the old house selling the seller might come back with what is called a “first right of refusal”. This means that you and the seller have agreed to the price and terms of the contract. The seller then can continue to market the property and see if they can find a buyer that doesn’t need to sell a home. In the event the seller receives another offer to purchase, most first right of refusals have 48 to 72 hours to remove the condition of selling your old home. In order to remove that condition we would need to have gotten your home under contract or arranged for “bridge loan financing”.

**3. Bridge loan financing**

A “bridge loan” allows you to activate the equity in your old home to use as down payment for your new home. The advantage of a bridge loan is that it gives you a strong negotiating position in acquiring your new home by not needing a contingency to sell your current home. A bridge loan will typically allow you to use from 80 to 90% of the value of your current home, minus your current loan balance for the purchase of your new home. If you are willing to obtain a bridge loan you can “beat out” other buyers that may have a home to sell before they can buy. This method can usually prevent you from doing a double move.

The disadvantage of a bridge loan is that if the old house doesn’t sell quickly and you close on the new home, you have the new loan payment, the old loan payment, and the bridge loan payment. Often times bridge loans can be structured so that there are no payments of interest due until the house sells or 6 months.

It is also important to remember that bridge loans typically require upfront fees that you incur once you close on the loan. For this reason it is normally best to market your home aggressively to try and sell it before you need the bridge and to close on the bridge loan at the last possible moment, if needed. Most lenders will approve you for the bridge loan upfront so that you can still remove your contingency.

If this alternative appears beneficial to you it is in your best interest to meet with your lender to determine that you qualify for the bridge loan and to discuss any questions that you may have.

**4. Keep your current home as a rental, activate the equity with a refinance, and purchase the new home.**

In some cases you can keep your present home as an investment. It is a good idea to visit with your tax advisor to see if owning an investment property helps your tax situation. The general benefits of keeping the property in your investment portfolio include:

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**Options To Consider When Buying A Home ... (continued)**

- a. No transaction costs to pay, only refinance costs.
- b. Tax benefit-depreciation
- c. possible future appreciation of the value of the property.

If this alternative is attractive to you, the next step is to visit with a lender that can determine if you would qualify for the financing. To qualify for structuring the transaction in this way the lender will usually consider 75% of the monthly rent to apply toward your income figures. Any negative cash flow using the formula: Rent x 75% minus monthly PITI of the loan secured by the rental, is considered just like any other debt payment and the appropriate ratios applied.

**5. Buy new home using available cash for down payment, a first mortgage in the amount you want to end up with when your old home sells, and a second mortgage on the new home that you will pay off when the old house sells.**

The advantage of structuring the transaction in this way is that it gives you negotiating power to purchase the new home, doesn't have a bridge loan "short fuse" and you can avoid mortgage insurance on the first mortgage if you limit it to 80% loan to value.

Another alternative is to use available cash for down payment with a maximum mortgage. Then when the old house sells, invest the cash proceeds in other investments.

**6. Sell, Move, Buy**

If you want to have negotiating power, are willing to do a double move, and can wait for the right home to come along, then sell your old home, move into a temporary situation and watch for the right property to come along. Having your old home sold and the cash in hand, and a pre-approved mortgage gives you a strong negotiating position.

**7. Shop for a new home, list old home, write contract on new home as soon as old house goes under contract.**

The first step in structuring the transaction in this way is to shop and review the market to see if the types of home you are looking for are generally available. Once you have a comfort level, you can put your home on the market. Once we have a contract on your old house we can go write a contract on a new one, conditional upon your old house closing. This puts you in a negotiating position stronger than having a house to sell, but not as strong as having the cash in the bank or the bridge loan method. To get an offer like this accepted we need to show the seller of the new home how strong the contract is on your old house. If we are able to structure a transaction in this manner we would try to close on both the old house and the new house on the same day.

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