

Sell Your Home Or Wait?

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Are you thinking to sell your home despite price drops, but wondering if you should wait? Here are some things you need to think about.

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If prices have dropped where you live, you may wonder if you should sell your home now. That depends on a lot of factors, of course, like whether you have to move for your job, whether you are upside-down on the mortgage, and whether you plan to buy another house when you sell. The latter situation is what this article is about.

Psychologically, it is difficult to sell a house for \$160,000 that was worth \$175,000 last year, but this is becoming a common scenario in many areas. It is even tougher if you actually bought the home for \$175,000 last year. None of us like to sell a home at a loss. If you had bought the home for \$90,000 years ago, you could probably accept missing the top of the market.

{bot_wrgoogle}However, either way, the temptation is to wait until prices rebound. They certainly will eventually. Let's assume that we are at the bottom of the market, or near it, and within four years prices for real estate will be up 20% in your area. We will also assume that you have the option to wait or to sell now. This means that in four years time your house will be worth about \$192,000, and you can sell for more than you paid. Should you sell your home or wait?

When To Sell Your Home

First, we assuming that you are buying another house as soon as you sell. The decision also could depend on whether you are down-sizing or up-sizing, so let's look at each scenario. We'll assume that interest rates are at about 6.5% for your current mortgage and will be about the same for the new one.

You want to reduce your monthly costs, so you are considering moving into a condo or a smaller house that will cost about \$120,000. Suppose you wait four years to sell your existing home, and get \$192,000 for it. That's \$32,000 more than if you sell it right now. But wait! The condo went up 20% as well, so at this point you'll pay \$144,000 for it. That's \$24,000 more, but then you made \$32,000 more by waiting. On balance, it seems that you'll be \$8,000 further ahead if you wait. Unfortunately, it's not that simple - more on why in a moment.

Now, if your intent is to buy a higher-priced home, the scenario is even more dramatic. Suppose you want to trade-up to a home that would cost \$240,000 right now. You decide to wait, because even though you could do it, you hate the idea of selling your current home at a loss. Four years later you sell it for \$192,000 - but now the nicer home costs \$288,000. You got \$32,000 more by waiting to sell your home, but then you had to pay \$48,000 more. You seem to be \$16,000 further behind.

What is missing here, is one of the many complications that make these decisions so difficult. Specifically, the examples above do not take into account the difference in payments. In the first case, you paid \$253 more each month on the larger mortgage because you waited (assuming the mortgage is 90% of the value in either case) - \$11,000 more over those 48 months. So your real cost for waiting is \$35,000 (\$11,000 plus \$24,000), which is \$3,000 more than the \$32,000 you gained. Now it looks like you shouldn't wait (especially when you consider the lower monthly costs for taxes and utilities on the smaller home).

In the second scenario, you are paying \$455 more per month (assuming the mortgage is 90% of the value in either case) once you buy the \$240,000 house. This means that even though you pay \$48,000 more, and get only \$32,000 more by waiting, you also spent \$22,000 less on payments during those four years. It seems like you are \$6,000 further ahead now if you wait to sell.

Ah, but it get's more complicated, even if we don't consider things like property taxes, real estate sales commissions, and the annual personal value you place on being in a nicer home. That's because there will be yet a larger mortgage on the nicer home if you wait those four years. In fact, for as long as you live in it, you will be paying \$3,336 more per year than if you bought it when it was \$240,000 (again assuming the mortgage is 90% of the value in either case).

This gets confusing doesn't it? To simplify it, if you are down-sizing, selling means you immediately reduce your monthly expenses. If you are trading up, you get to lock in the equity-appreciation on a bigger investment, and do so with a smaller payment than if you wait (you also get to enjoy that nicer home for those four years, which is worth something, right?). In other words, whether the current value is lower or higher than a year ago isn't really very relevant. Just sell your home if you want to, as long as you are investing into another house.

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