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HEG87-211 For Sale By Owner: The Right Choice For You?

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For Sale By Owner: The Right Choice For You?

The purpose of this NebGuide is to help you decide if a "do-it-yourself" home sale is an appropriate choice. Steps in preparing and marketing a home are reviewed. Ideas to promote the sale and a decision-making checklist are included.

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The decision to sell your home yourself requires careful consideration. Saving the cost of a real estate agent's commission is a primary reason for "do-it-yourself" sales. However, this type of sale is not all profit. It is necessary to invest time, money and other resources, in preparing and marketing your house.

Think about how the sale of your home will affect your present routine. Many people underestimate the time it takes to sell a house. When you sell your own house, you are really using your time and other resources to earn a sales commission for yourself. Much free time will need to be given to prepare for the sale. When do you have the available time? Keep in mind that weekends and evenings are when most buyers are free, and when you need to market the house.

A do-it-yourself sale requires resources other than time. You must have the willingness to do the marketing research and preparation. You must be able to be objective and impartial about your home, yet be a good promoter. You need the financial resources, before the sale, to cover preparation of the house, and advertising, marketing and legal costs. Finally, you need skills as a negotiator, and you must have good business sense.

This bulletin examines seven steps for selling a home:

1. Establish a market price
2. Determine an asking price
3. Obtain legal advice
4. Prepare the house
5. Market the house
6. Show the house
7. Negotiate a sale

Establish A Market Price

A common mistake of owner-sellers is inappropriate pricing of the house. An overpriced house may never

sell while one that is underpriced could result in a loss. Carefully evaluate the house and property to determine an appropriate market price. The market price is a balance between the prices at which you will sell and the buyer will buy.

You could hire a professional appraiser to prepare an objective price. An appraiser could be associated with a real estate agency or be an independent agent. Check the appraiser's qualifications. Ask about service costs, experience, training, certification, and commissions. Lenders will usually require a professional appraisal to determine if the home's value will justify the loan value. Therefore, if you have a professional appraisal, it can be a selling tool.

You may be your own appraiser, if you are willing to research the needed information and can evaluate it objectively. Public records may be reviewed for homes recently sold in your neighborhood with characteristics similar to your home. Data on real estate transfers are on file in the county land records office. Check with the Register of Deeds or County Clerk. This information is detailed, including names, addresses, dates, prices, and encumbrances on the property. Other resources for determining the value of real estate include the public library and friends who have been involved in a recent real estate transaction.

Determine the Asking Price

There is a difference between the market price and the asking price. The asking price is typically 5 to 10 percent above the market price. The difference between asking and market prices allows room for negotiation. The asking price should consider:

1. *Local pricing.* Check with an appraiser, mortgage loan officer or neighbors about a minimum asking price for your area.
2. *Availability of mortgage money.* When economic conditions are poor and/or interest rates are high, mortgage money is more difficult to obtain. Limited availability of financing reduces the number of buyers and lower home prices. When the economy is strong or interest rates are low, the reverse tends to be true.
3. *Selling time.* For a quick sale, it is necessary to keep the price low.
4. *Major improvements.* Recent improvements to the interior or exterior of the home may increase its value and selling power.
5. *Market supply.* Many homes on the market will lower the price while a shortage of homes can increase the market value.

Obtain Legal Advice

Selling a house involves legal transactions. A lawyer is needed to interpret the language associated with transfer of ownership in real estate. Someone experienced with real estate sales and knowledgeable about local laws and practices is a good choice. To find a lawyer, ask friends, or inquire at a savings and loan association, your bank's real estate department or a mortgage brokerage firm.

You and your lawyer should discuss fees in advance. Establish what your lawyer needs to do. Payment is usually based on the time it takes to perform desired services. Your lawyer should:

- review all purchase and sale documents before they are signed.
- Recommend the amount of earnest money to request.
- Provide information about state and statutes, and about unwritten customs and practices influencing negotiation and contracts.
- Give advice on removing any title defects.
- Help avoid the potential problem of misrepresentation in negotiations with the seller.
- Prepare necessary closing documents. Represent the seller at the closing.
- Give advice on other important legal, tax, and procedural matters.

Prepare the House

Selling your house quickly at the price you want requires that the house appear at its best. Buyers want to see a house that shows good care and has no evidence of hidden defects.

A thorough cleaning inside and outside is necessary. Repairing loose hinges, wobbly stairs, dripping faucets or broken windows also improves the selling power. A neat lawn, clean flower bed, and trimmed trees and shrubs are impressive.

If extremely worn carpets cover hardwood floors, consider tearing them up. Polished wood impresses buyers! If, however, your carpet rests on a subfloor, you may not want to install new carpeting. Use the carpeting as a negotiation point and, if necessary, lower your asking price.

Repaint only if walls or woodwork are in poor condition and don't improve with cleaning. If you paint, choose light, neutral colors.

Make your home appear spacious. Clear counters, closets, and windows of clutter. Remove excess furniture or stored items if possible, to create a greater sense of space. Remember the basement and the garage. Stack stored items neatly in place.

Keep an accurate record of your fix-up expenses while preparing your home for sale. You may be able to deduct some or all your costs from the taxable profits of the sale. Currently, to qualify as a deduction, the Internal Revenue Service requires expense to be:

1. made within 90 days before the contract to sell was signed; and
2. paid within 30 days after the sale date.

Market the House

Now you are ready to sell!

To aid in the sales procedure, prepare an information sheet. Sometimes called a listing sheet, it is a detailed description of the property, including:

- the seller's name, address, and phone number;
- the location of the property;
- legal description of property;
- a photograph of the house;
- the year the house was built;
- the dimensions of the lot;
- square footage of living area on each floor;
- room types and sizes;
- number of bathrooms;
- exterior finish;
- insulation;
- school district;
- distance to public transportation;
- special features of the house and lot, including outbuildings;
- type of heating system;
- annual utility bills;
- real estate taxes;
- unpaid assessments;
- type and balance of seller's mortgage, if assumable;

- asking price;
- date the house will be available for possession;
- contracts or covenants affecting the property or its use.

The information sheet is available to any potential buyer and often distributed to real estate agencies, office buildings, and other public places.

You can also prepare a fact sheet with greater detail about the property. This sheet is for serious buyers, and helps them remember your home after they have seen it. The fact sheet can include:

- your name, address, and phone number;
- monthly or average expenses including gas or oil, electricity, water and sewer, and garbage removal;
- items included in the sale price such as draperies or appliances;
- special features in home and neighborhood, and house improvements;
- special information about financing.

Advertising is a necessary tool in the selling procedure. "For Sale" signs are useful if the house is on a busy street or popular area for "Sunday outings." Keep the message simple: "For Sale--By Appointment Only" and include your phone number. The sign must have a professional appearance, be attractive and easily readable from the street.

Newspapers are an effective means of advertising your home. Place ads in local and commercial advertising papers. Information in the ad should be complete and eye-catching. Use a colorful, but descriptive headline that appeals to the reader's needs, wants, and desires. Specify the home's location by closeness to desirable features and/or street address. Indicate the number of bedrooms, bathrooms, style of house, and one to three special features such as garage, full basement, or fenced yard. Include the asking price, available times to call, the phrase "For Sale by Owner," and end with your phone number.

Prepare yourself for calls from potential buyers. Have your listing and fact sheets ready for quick reference. Keep your answers brief and to the point. Encourage the caller to make an appointment to see the house.

Showing Your House

Follow well-planned advertising with a well-planned showing. You need courtesy, confidence, honesty, and a cheerful attitude. Greet the client with a smile and be objective about all questions and comments related to the house.

Every house has positive and negative points. A straightforward and direct approach about negative aspects of the home will assure the potential buyer of your honesty and pride in the positive features.

If the sale is stressful to you, ask a friend who knows the house well to handle the showing. Select such a person with care. He or she should be thoroughly prepared to answer any question the potential buyer has.

Have your tour planned. Before the potential buyer arrives, consider some steps to make a positive impression:

1. Allow as much light as possible in the house. Remember closet and basement lights.
2. Turn off the radio or television to avoid distraction.
3. Have as few people home as possible. Arrange for child care and pet care.
4. Create a welcoming environment. A fire in fireplaces, fresh flowers on the tables, and comfortable room temperatures can give a sense of "home."

Make sure all verbal and written information given to the buyer is truthful. Any information that later is

proven to be inaccurate, even if unintentional, could be grounds for misrepresentation and a costly lawsuit.

Negotiation

Buying and selling real estate involves some "wheeling and dealing." Three basic rules to remember are: 1) be objective; 2) be patient and never accept the prospective buyer's first offer if it is unfavorable; and 3) seek legal advice before signing any written document.

If the buyer's first offer is unacceptable, make a reasonable counter offer. Many buyers expect this, and a counter offer can represent a compromise. Do not become discouraged if several counter offers are required. However, if it becomes clear that an agreement cannot be reached, end the negotiations.

When negotiations are serious, determine whether the prospective buyer will qualify for the financing necessary to complete the sale. To decide this, ask about the anticipated down payment, the type and length of financing planned, the buyer's annual gross salary, and whether the buyer currently owns a home that must be sold. This information is needed to determine if the buyer's plans for financing are realistic. If the prospective buyer is uncertain, uncomfortable, or resists answering these questions, suggest that he or she visit your mortgage loan officer or banker.

If traditional financing cannot be obtained, you may wish to offer some creative financing. Weigh the decision to offer seller- assisted financing carefully. Your financial situation and ability to carry the risk; the buyer's financial situation; the current mortgage and real estate markets; and desire for the sale are all factors to consider. Good legal advice is critical with all seller- assisted financing. Your lawyer can monitor the whole transaction, prepare or review all documents and suggest methods to reduce risks and tax drawbacks.

The type of seller-assisted financing you can offer depends on the status of your current mortgage, if any. Consult with your mortgage loan officer or lawyer about the laws, regulations and details of your particular mortgage.

Purchase Agreements

Another part of the sale negotiation is to have the buyer sign a purchase agreement, or a written commitment of the sale. A signed purchase agreement is necessary for the buyer to apply for financing.

Sometimes the purchase agreement is signed as part of the price offer. Or you and the buyer may negotiate verbally until reaching agreement then a purchase commitment is completed. Secure a deposit of "earnest money" with the purchase agreement and place it in an escrow account. A deposit of 1 percent of the sale price is appropriate. At closing, the deposit is credited toward the sale.

A purchase agreement should be straightforward and include the timing and details of the sale. Limit the buyer's time to receive mortgage approval to the shortest reasonable time and request a written mortgage approval. The agreement should specify items included in the sale, such as window treatments. The buyer may include certain contingencies in the agreement, such as the satisfactory outcome of termite, water, or furnace inspections, or evidence of completion of certain repairs by the seller.

Your lawyer will help coordinate the closing and arrange for all legal papers to be drawn up. Local custom and state law will influence the exact details of the closing. Discuss these matters with your lawyer so you are familiar with the agreement.

A Successful Sale?

If you have the time and resources to commit, you can be successful with a do-it-yourself sale. However, if

you have a limited time in which to sell your home, carefully weigh your decision. A professional real estate agent knows the market and prospective contacts. The agent's job is to sell houses, therefore he or she will want to promote the sale of your home quickly.

Consider your goals and needs in selling your home. Evaluate the time, money and other resources you have for conducting the sale, then, make your choice. Will you hire yourself?

Checklist for the Do-it-Yourself Seller

Yes No Have you based your market price on a realistic appraisal?

Yes No Have you considered your home's condition in determining the asking price?

Yes No Have you considered market conditions and availability of financing in determining the asking price?

Yes No Have you contacted a lawyer who knows about real estate and will assist you in your sale?

Yes No Can you be objective when showing your house?

Yes No Have you cleaned, made repairs, and prepared the house for sale?

Yes No Have you considered what final offer you will accept?

Yes No Do you know the details to include in the purchase agreement?

Yes No Do you have the time to act as your own agent?

Yes No Have you compared your needs and reasons in selling the house, and the time and effort to sell it yourself, against the cost of hiring a professional real estate agent?

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