

## Tips for Homeowners Trying to Trade Up

**The housing market is** in stall mode. According to the latest U.S. Census Bureau figures, single-family housing starts in June fell by 0.7%, to a seasonally adjusted annual rate of 454,000. Looking ahead, the picture looks just as dismal, with permits for single-family starts falling 3% in June, following big declines in both May and April.

While this is a challenging market for many, it is especially hard for trade-up buyers -- those who own a home and are considering buying one at a higher price. In addition to seeing the value of their homes drop significantly from a few years ago, trade-up buyers face stiff competition from a flood of distressed properties. The pool of potential trade-up buyers is also bigger than ever, and still expanding: Of all existing-home sales in May, 46% were bought by first timers, according to the National Association of Realtors. In all of 2009, 47% of sales were by first-time buyers, compared with 41% the year before.

But many homeowners looking to move up are stuck in homes worth a lot less than what they paid -- making them reluctant to sell. The financing terms for these folks are just as good as they are for first-time buyers, but many are finding they've been in their house for five to seven years and have little to no equity, says Bruce Brown, a certified mortgage-planning specialist at Pulaski Bank Home Lending in Kansas City, Mo. "You can't count on just your equity anymore to move from one place to another," he says, adding that this is one of the biggest reasons why real estate sales are showing signs of weakness.

"The issue is that there are so many people that are stuck," says Brown.

Here are four tips for buyers looking to trade up.

### **Publicize an assumable mortgage to help sell your home**

Many sellers may not know that their mortgage is assumable. With an assumable mortgage, the outstanding mortgage and its terms can be transferred from owner to buyer. About 40% of existing home mortgages are assumable, including all Federal Housing Administration mortgages, says Chip Cummings, president of Northwind Financial, a Grand Rapids, Mich.-based training and consulting company for mortgage and realty firms.

By assuming the seller's remaining mortgage, a buyer won't have to go through the rigorous credit check they would if they applied for a new mortgage. (They'll still be required to be in good credit standing and to show proof of employment, though.) Buyers also won't need to pay as much in closing costs as they would with a new mortgage, says Cummings. And sellers could see their property move faster since a buyer won't have to wait as long for a loan approval.

Consider an example where someone is selling a home for \$250,000 and owes \$225,000 on his mortgage. If a buyer agreed to pay the full price, he would owe the seller \$25,000, and the seller would end up getting the remaining \$225,000 from the lender. The buyer would save about \$5,000 in closing costs.

### **For some retirees, this could be a good time to sell**

Homeowners who plan to move from the Northeast to retire in Florida, Arizona or parts of California should consider selling now rather than waiting.

The assumption is that these heavily distressed areas have been hit so hard that their home values have likely reached bottom. Meanwhile, other areas, like New York, which have only recently started to see prices softening, could be poised for further declines, says John Burns, CEO of John Burns Real Estate Consulting.

Someone who moves from the Northeast to the South would be "selling a home that hasn't corrected as much in value as the rest of the country and probably has more downside potential than upside," he says. And, he adds, they'd be "moving to a place that has overcorrected."

Burns says home prices have fallen back to 2003 levels nationally, with some areas hit worse than others; in Las Vegas they're back to 1999 levels, and in New York they're back at 2005 levels.

### **Start out with a price below market value**

It's not an ideal scenario, but some sellers will have priced their homes lower than they thought they'd get.

During the first two weeks of July, 24% of listings on the market experienced at least one *price reduction*<sup>1</sup>, a 9% increase from price cuts during the previous month, according to Trulia.com. However, you'll likely increase the chances of selling your home quickly if you put it on the market at a competitive price.

Get a home appraisal and speak with a real estate agent who can provide a price range for comparable homes in your neighborhood. Cummings suggests that sellers price their homes just below those levels. For example, if the appraisal shows your home is worth \$250,000 and similar properties in your area are selling for \$245,000 to \$250,000, consider pricing your home at around \$242,000. "Your home will show much better than homes in that category and will move much faster," he says.

## Factor in the perks of selling at a loss

Consider the costs you'll incur by holding on to your home while you wait for more favorable selling conditions. Those costs include the mortgage payment, property taxes, insurance, maintenance and utilities. It's likely these costs will add up to more than the loss you'd suffer by slashing your home's price and selling it quicker, Cummings says.

You might also save as a buyer in this market, particularly if you trade up to a larger home or to a more expensive area with a better school district. "The high end of the market is softer than the lower end," says Burns. You're likely to buy a larger home at a bigger discount now than the discount you'd see from purchasing a smaller home, says Paul Sears, owner of Sears Real Estate in Springfield, Mass. Mortgage rates are at historical lows now: The average 30-year fixed-rate mortgage stood at 4.57% last week, according to Freddie Mac, the lowest it's been since 1971.

"Homeowners who've accepted the fact that they want to move will have to bite the bullet on what they're selling, but they'll save extra money on what they're buying in the process," says Sears.

<sup>1</sup><http://www.smartmoney.com/personal-finance/real-estate/home-sellers-have-little-leverage/>

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