

Buy Before You Sell?

Most people want to sell their home before buying the next.

However this safe route may not be the best option, particularly if your "dream home" only comes onto the market occasionally.

Whilst conventional wisdom would say "ignore the dream home" and sell first that might not be the best option. For example if you were looking for a low-maintenance property in the inner suburbs, these are hotly contested and there are rarely enough to meet demand.

This means it could take you six or 12 months to find the right home. If you've sold your home in the meantime, then you'd have to go to the trouble and expense of renting.

Also you would have lost your foothold in the market whilst property values continue to increase. This will make it harder to afford the right home when you do eventually find it.

Bridging Finance

In order to buy before you sell, then you'll need to arrange finance covering the two properties. This is known as bridging finance.

The big challenge is meeting the repayments for two properties in the short term that you own them both.

The good news is that bridging finance has become more flexible than in the past. Financial institutions are recognising that helping borrowers through this period means they are more likely to keep their custom in the future.

As a result the interest rates are more competitive and the loans can be set as interest-only, reducing the monthly repayment.

Indeed, some lenders will even allow you to capitalise the interest on the new loan and pay it in the end of the set period, so your monthly repayments do not increase even though you have two loans. Of course, this means that your loan is increased by the amount of interest that you delayed paying.



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But Is It A Good Idea?

But is buying a new home before selling your old home a good idea?

The big risk is that you can't sell your old home. If you can't sell it fairly quickly the repayments can be crippling or, if you've deferred your interest, the increasing loan debt can mount up. Also, most bridging finance is arranged for a fixed term.

Taken to its extreme, this could leave you having to make some expensive decisions such as dropping the price on your old home just to get it sold. This would then mean that you end up with a bigger mortgage on your new home because you have less equity to put into it – assuming your lender would lend you the increased amount! If they wouldn't, then you would have little option other than to sell your new home as well.

However, this is taking a very pessimistic view. The smart approach is to lessen the risks by doing your homework.

Be Realistic

Before you start looking for a new home, get an opinion on both the price you can expect for your property and also how quickly it is likely to sell.

Do this by approaching three reputable agents in your area and ask them for their market valuation.

They should also be able to supply data for other recent sales in your area, plus an overview of any factors likely to affect sales in the near future.

You could also consider hiring a valuer to give you an assessment. Although this will cost you a few hundred dollars, it will give you an independent valuation. You can also purchase reports that give you historical sales price data for your area.

As well as being realistic you also need to be flexible. Even if an offer is disappointing you need to look at the real costs of not accepting it:

- how much does it cost you each week that you have the loan on your old home?
- is the market buoyant or will another offer be a long way away?

- how long has the property been on the market? Too long, and buyers will start to wonder what's wrong with it.

Extended Settlements

Another approach can be to seek an extended settlement on the home you're buying, giving you more time to sell your home without the need for bridging finance. You may be able to negotiate a settlement period of four months or even longer.

Whilst this doesn't guarantee that you'll sell your old home, it does give you more time to achieve the sale without the costs of bridging finance.

You should also consider the **timing of your sale**. Is it a good month to be selling? For example if you're selling a family home, then July isn't a good time because with the school holidays many families could be out of town.

Conclusion

There are circumstances where buying a new home before selling your existing one makes sense. Although not without risks, by taking a sensible approach and doing your homework these risks can be reduced.

And remember that there are plenty of options for bridging finance.

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