

What You Can Do When Your Margins Are Thin

What can you do when you need to sell, but the market won't yield what you owe on your house?

For me, this one is real. We bought when I was starting a new job, and we overpaid for a house we loved because the market was crazy and inventory was low. Our house is in a great neighborhood. The house is surrounded by trees making it super secluded and yet in a convenient location. It is close to some amazing trails. It is both large enough for when the whole family is in town and still cozy when it is just me and my wife. It is a great house. Initially the projections were that we would be where we could sell it and breakeven within 18-20 months. Of course, the world does what the world does and prices went up and then down, and our mortgage insurance just kept going up. At one point, it looked like we could sell and make about \$15K and the next thing we knew, we would have to put \$15K-\$25K in just to break even, all while paying several hundred dollars more a month than we had budgeted originally. We ended up in a situation where we needed to sell our house, but the market was valuing it lower than what we needed to break even, and since the market doesn't care about what we "need," we were stuck. Our margins were too thin. We didn't have the money to pay the difference, but we needed to move because the mortgage had become a burden to us. I totally get how frustrating these moments feel.

The truth is sometimes you absolutely have to move, and other times, moving is a choice. You can stay, but only if something changes. I have sprinkled solutions for both types of situations in here. Hopefully, one or more of these will help.

First, let's look at some of the options that may seem good on the surface, but that have flaws. Remember, the goal is you getting the best return on your house in the shortest amount of time with as much peace as possible.

Use a DISCOUNT BROKER (1.5%-2%)

When considering using a discount broker, you want to ask the question about **cost over value**. Most of us don't looking for the cheapest surgeon or the cheapest mechanic, (although a little less expensive would be nice). We look for the best for the most reasonable price. When it comes to selling your house, you want to weigh cost verses value as well. *What are you getting for what you are paying?* The discount broker model focuses on volume and therefore they often have significantly less time to invest in your specific property and situation. You become 1 of 50 instead of 1 of 5. Your house gets marketed just like every other house. Each house is unique and you need someone who has the time and inclination to help your house sell for the best possible outcome for you, especially when the margins are thin.

And with discount brokers, consider one of the most important skills of a real estate agent – **negotiating**. *Why would you put your confidence in an agent who has already negotiated DOWN their value, expecting them to be a strong negotiator for offers on your property?* Discount brokers often come at the cost of less personal service and less focus on your specific property.

Go with an *INSTANT OFFER* company

This often becomes a bait and switch, with multiple negotiations, leading to a lower price at the end than promised at the beginning. You receive an offer based off neighborhood comps and online photos that sounds close to what you want and need, maybe even a little more. That feels good. Then, after you start the process, the company sends an inspector out to look at the house in person. The inspector ends up finding a few things they need fixed or updated that impact the value of the home, and the company needs to renegotiate their offer down, dramatically lowering the price and impacting your return. These companies are banking on you being far enough along in the moving process that it is difficult for you to say no to the newly negotiated price. This means you are stuck either selling your house for way less than what you were initially offered (less than you would have ever taken) or undoing whatever choices you have made in anticipation of moving.

Having said that, if you can get a firm, final offer for your house that works for you, this might be a good option.

Some people try FOR SALE BY OWNER. Here is some data on FSBOs (You will hear them called *fizz-boes*):

Agent-assisted homes sell **30 days quicker**. There is a direct correlation between how long a house is on the market and the final price it closes for, with that final price diminishing dramatically with each 30-day period it remains on market.

The most conservative reports indicate that agent-assisted homes sell for **6% more** than selling without an agent. On a \$600K house, after a 3% commission to the agent, a FSBO would net an additional \$18K and have the peace of mind of having someone else manage the whole process.

Statistics are all over the place, but many experts agree that somewhere around 50% of FSBOs will contract with an agent **within 3 weeks of listing** due to complexity of the process and lack of showings.

FSBOs have **limited exposure** and a much smaller audience than other sellers. Some sites will only show FSBOs upon request. In addition to that, while it is absolutely inappropriate, some buyer's agents will steer clear of FSBOs because they don't want to fight with a seller to get paid for bringing the buyer, meaning the pool for the people seeing your house gets diminished even further.

RENTING out the property

Sometimes renting is a good option. If you can cover all your expenses, it might even be a super investment opportunity. Someone else is helping increase equity in a property you own.

Here are some things to consider:

- If you aren't going to manage the property yourself, which I would not recommend trying to manage your own rental, you will usually pay a 10% property management

fee on top of the rental amount. The property manager usually focuses exclusively on helping you get good renters and facilitating (but not paying for) repairs.

- *Can you cover the maintenance costs?* If something breaks while you are in the house, sometimes you can work around it until you can come up with the money to fix it. When you are renting out a property, problems have to be addressed immediately. *Do you have the funds to cover your own living situation AND a broken oven, a leaky pipe, or a cleaner?*
- *Is the current rental rate enough to cover the mortgage? If not, can you cover the difference?* Some people have mortgage rates low enough that their monthly payment is lower than what rent would be. That's a great situation to be in. (You might even look into an assumable loan situation if your lender allows. The assume the loan and you get whatever equity is leftover.) Other times, your mortgage is higher than rent in the area, so you have to be ready to pay the difference. That difference could be as small as a couple of hundred dollars a month all the way up to \$1,500 or more.
- *Can you make the payment if/when the property is vacant?* A property manager helps you get renters, but there are often gaps between tenants, and sometimes it is months, over days. *Can you make 2-3 mortgage payments in addition to your living costs?*

Now, let's shift to some other options you can employ.

STAY in the house for another 6 months to year.

If you don't have to move right away, staying put might be the best option for now. For us, staying longer was an option, it just meant driving a lot more than I wanted to. We were in a place where we could manage the mortgage payment for the time being while we waited to see if the market would lift the value of our home enough to sell. This wasn't our preference, but there is something nice about getting to stay somewhere you love a little longer and putting off packing everything up and asking your friends to throw out their backs lugging boxes in exchange for a slice of pizza. If you can stay longer, the market has averaged growth of 4% a year since the 1950s. Four percent might be enough of an increase to get you where you need to be.

If you can stay, it might be worthwhile to look into REFINANCING

One solution that many people overlook is considering refinancing to lower the monthly mortgage payment. You can talk to your current lender or reach out to a mortgage broker to see what your options are. Lenders will sometimes lower rates if they know you are considering getting out of the loan. Mortgage brokers can often find solutions a normal lender won't make you aware of.

When you sell, consider the TIMING of your house going to market.

Part of waiting to list your house is tied to making sure when you do put it on the market, it is the right time of year. April to June are usually the best months to put your house on the market. Our house has a ton of deciduous trees around it (leaves that fall). When they are in leaf (not until late May), it is one of the prettiest and most private properties around. But, when fall comes and the leaves all fall and pile up, not only can you see the workload for managing it, but you can also see the house from a nearby trail. Neither of these add to its

appeal. It ends up looking more like Narnia in winter and Tokyo in the spring. For us, we know that our house will sell best between late May and early fall, and we consider that when putting it on the market. Consider when your house shows the best and when houses sell the best. If your house is an absolute stunner during a specific time of year, you might angle to sell it then.

When you sell, choose an agent who can help you wrestle through the TRUTH ABOUT PRICE.

Pricing is the single most important decision you will make when listing your home. Price is directly related to the numbers of showings, and the number of showings is almost always connected to the number of offers you get. And price has nothing to do with what we want or need or our story. The market doesn't have emotions and isn't moved external factors. It is kind of cold that way. It only cares about price for value – what will someone pay for this specific piece of property right now with this inventory of houses. And price impacts how long it takes to sell as well. There is a direct correlation between days on market and the final cost. Longer = Less. If a house is priced high, you almost always lose money. If a house is priced right, it not only sells faster, but it often gets multiple offers, and a higher final price. This makes pricing the most important conversation and decision.

When the margins are thin you need to work with an agent who will be honest (and respectful) with you about the true value of your home, specifically so it can sell as quickly as possible. They should be able to show you what your home is worth compared to the other homes you are competing against and help you price it with purpose. You want someone who can press into the conversation without giving in and without being demanding. I would say look for a coach, and don't settle for a conceiver or a controller.

Consider paying for STAGING.

This might seem counterintuitive – spending money on someone else's furniture you're your financial margins are already thin - but I can share my experience here. Leveraging an artistic eye for staging the right furniture for your space can be a huge benefit. One house I toured as an agent probably added \$30K to the overall feel of the house simply by staging the right type and amount of furniture for the space. Since the home was a little older, the staging company leaned into that and brought in retro furniture that actually made the dated look seem super intentional. Staging can also help as stagers identify the right size furniture to accent the space best. If you are occupying the house, a stager (or your agent) might simply tell you how to use your furniture to help sell the house. If your house is empty, stagers can bring in rental furniture.

As a note, a good stager doesn't need to stage the whole house. They might just stage the living room, dining room, and primary suite. Talk to your agent about staging, who pays, and which rooms might help the overall showing.