

Comparing Two 25 year old Subdivision Homes



By Brian Madigan

Really, this is a common occurrence. Bob and Linda Smith bought their home 25 years ago directly from the builder. Fred and Lynne Brown bought their home, which is the identical model to the Smith's, from the first owner about 15 years ago.

When they were first newly constructed homes they were within a few thousand dollars of each other, but what about now? From the outside they look pretty much the same. They are both on quiet courts, just a few blocks from one another. The landscaping has nicely matured and both homes have great street appeal. So, we'll have to look inside.

The Smiths are looking forward to their retirement. They have purchased a condominium apartment and they are about to embark on a 9 month world cruise. Over the years their house has been reasonably well maintained, but did show a little wear and tear due to their 2 active children.

Planning for their retirement 5 years ago, they decided to upgrade the home. They installed a new furnace and a new air conditioner and replaced the roof. When the children became teenagers, they finished the basement, and when they moved out they upgraded the basement quite substantially.

Again, knowing that they would be selling their home they replaced the windows and doors, knocked down a bedroom wall to expand the master, and installed a new ensuite bathroom that was just like a spa. Just before listing the property, they put in a new kitchen, new hardwood floors and new broadloom.

But, their timing wasn't quite right, by the time the new kitchen was ready, they had just missed the market, prices had dropped and demand had fallen off too. They listed their house for \$ 499,000, but it didn't sell.

What does that mean for the Browns? They too needed to sell their house. A great business opportunity was going to take them across the country. They are 20 years younger than the Smiths and due in part to their 5 children, have less money to spend on the house. They were quite concerned about maintaining the property from the outside, so they replaced the roof. The house had a great street presence, but inside, it was another matter. The entire place looked rather tired. Original kitchen and bathrooms, worn out broadloom, windows and doors that were stuck certainly didn't help. The furnace was on its last legs and the air conditioner no longer worked. And, they never got around to finishing the basement.

The Browns listed for \$ 459,000, but it didn't sell either. The Smith property had \$75,000 in improvements and renovations that the Brown property didn't have.

One more comment about the Smith property. Although the mortgage had long since been paid off, Mrs. Smith was a bank manager and she thought interest rates were going up. So, she arranged a \$ 420,000 assumable first for five years (with four years left) at rates that were now 1.75% below market. This is worth \$ 7,350/year or \$ 29,400 over 4 years.

So, what happened? The Smiths became anxious and dropped their price by \$30,000. Within a week they received an offer and sold their property for \$469,000, the full asking price.

What does this mean for the Browns? At first, they became a little anxious. A house with \$ 75,000 in improvements and an almost \$ 30,000 financial benefit had just sold for \$10,000 more than their asking price. Did they have to reduce their price to \$354,000 to get it sold? Of course not!

Three couples came to look at their house the week after the Smith house sold. Two had seen the Smith house and were just very disappointed. The third couple had not seen the Smith house and put in an offer for \$455,000. Their agent had told them that the house around the corner just sold for \$10,000 more and that most houses sell within 99% of the listing price.

Is there a moral here? Would we have any advice for the parties:

Smiths

- don't do extensive renovations prior to the sale, you may not be compensated for them
- beware of over-improving your property
- list the house aggressively from the outset
- don't overprice and reduce it later
- choose your listing time, don't be delayed by renovations

Browns

- be sure to main the exterior and street appeal of the house
- once the Smith house was sold, theirs was the only one on the market
- don't be discouraged about the sale price of the Smith house
- not every buyer will be able to make the comparison
- the longer the interval between the Smith sale, the better it is

Smith's Purchasers

- you made a great deal and watched the market
- you paid \$ 14,000 more and got \$ 105,000 in benefits
- you were "ready to act" when the time was right

Brown's Purchasers

- you failed to do the research, a simple "drive-by" the Smiths was not enough
- you have some immediate expenses (furnace and air conditioning) in the near future
- you failed to negotiate well, the Brown's were vulnerable and would have sold for much less
- properties do not generally sell at 99% of list unless they are very well-priced

All in all, although everyone always says "location, location, location" when it comes to real estate, in these deals it was "timing" and "negotiating" that were the key factors.

And do you know what really made the difference? Mrs. Smith arranged for the assumable first. That was the motivation for her purchaser. That sold her property. The Brown property couldn't sell while the Smith property was competition. So, really, that mortgage sold the Brown property too!

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