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Should You Buy or Sell First?

If you are considering looking for a new house, and are a current homeowner, then chances are you're wondering what your strategy should be: do you wait to find the perfect new home before you put your current home on the market, or do you sell first and then look around? You have a few options. Use the following as a guide to explore what might be the best option for you.

Sell First

There are several benefits to selling your current house before searching for your next home. First, once you have sold your house, you will know precisely how much money you have to work with. With a concrete price range, you'll be able to narrow the pool of houses before you begin looking and negotiate accordingly. This will allow you to immediately make firm offers on houses that you are serious about purchasing. You can be first in line with an unconditional offer you know you can afford, and this will grant even further negotiating leverage as sellers tend to take unconditional offers more seriously. When they counter or turn down an offer that's conditional on the sale of a home, they usually think the buyer will come back with a better and firmer offer once they have sold their current home. However, if you make an unconditional offer, the seller will usually give you more consideration, as they realize you're probably looking at other properties and will move on if your offer is rejected. Likewise, if you have already sold your house, you have a wider opportunity to look around, negotiate, and find the best deal and fit for you and your family.

The flip side of this scenario, however, is that if you don't find the right property before the closing date of the house you've already sold, you may have to look for temporary housing until you do find what you're looking for.

So, before you opt to sell first, you should determine whether you have alternate, temporary options, in case you must move from your house before you've found a new one. How would you and your family deal with living in a transition home for an undetermined period of time?

Buy First

Buying a new house without having sold your current home may occur if you are interested in a specific property and will only sell your current home if this property comes on the market. It may be a matter of timing—grabbing hold of the home before it's too late. The same might be said of a property you haven't had your eye on previously, but that catches your attention due to its uniqueness or unbelievable price. If buying first means you don't miss out on the real estate opportunity of a lifetime, it may be the best move.

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However, be careful. If you buy another property and aren't able to sell your current home quickly enough, you could end up having to finance both homes and shoulder the extra debt until you sell. You can get a financial appraisal or market evaluation of a home prior to selling, but this doesn't guarantee the price you'll ultimately receive for the home after the negotiation process has run its course. Since your selling price will be an unknown, jumping into a purchase could be a gamble, particularly if your budget is tight.

Make sure you're familiar with all aspects of the financial reality this scenario would create before you purchase another home. You may be faced with owning two homes at once. What type of financial stress would this bring to your life and how would you deal with it? Consider the fact that if your current house doesn't sell quickly enough, you may be forced to sell it off at a reduced price in order to align the closing dates of your two properties. What effect would this have on your financial situation?

Conditional Offer

An additional option involves making your offer to purchase conditional upon the sale of your current property within a specified period. Conditional offers usually include a clause that allows for the sellers to keep their property on the market and remain open to other offers while you try to sell your home. If the sellers receive another attractive offer before you've sold your home, they may accept and ask you to either remove your condition and firm up your offer, or to back down from the offer. A conditional offer forms a kind of middle ground, an area of compromise, for those who are afraid to sell or buy first—but doesn't hold the advantages of the other two options.

One of the drawbacks of the conditional offer is that sellers tend to take them less seriously. They definitely give stronger consideration to firm offers. This leaves you with less negotiating power. In fact, some sellers will simply turn down or counter a conditional offer. Other sellers will believe the buyer will come back with a more serious offer when their home has sold. So, you may end up having to increase your offer in order to have your conditional offer accepted and keep your foot in the door of your desired house.

Even if your conditional offer is accepted, there is no guarantee another buyer won't step in and overthrow your offer before you have sold your current home, which would put you back at the starting line. Also, consider the fact that you cannot withdraw your conditional offer until the end of the period specified in the contract—which means that if a better deal comes along, you will have to wait to jump at it.