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'Buy Before You Sell' Is Being Offered by Some Companies, But at What Cost?

REAL ESTATE TODAY

By JIM SMITH, Realtor®

Unless you're wealthy, you probably aren't in a position to purchase your next home without the proceeds from selling your current home. And in this hot seller's market, it's hard to win a bidding war when your offer needs to be contingent on the sale of your current home.

There are several companies that offer to solve this problem in one way or another. You've probably seen the TV commercials by Orchard saying they allow you to buy a home before selling your own, and perhaps you're wondering whether you should work with them. Since I'm often asked what I think of such companies, I decided to make it the topic of this week's column.

It's not obvious from Orchard's website exactly how they work, so I clicked on their website's link for 260 reviews curated by Trustpilot. I like Trustpilot, because it allows you to view only the one-star reviews, which can be more informative than their five-star reviews.

From what I read, it appears that they make an "offer" of a "guaranteed price" for your home, giving you the impression that they will buy the home, but the reviews I read gave me the impression that they actually put your home on the market after you move into your new home. Under one of their three programs, they charge you rent on your new home, because Orchard Investments buys the home and flips it to you when your current home sells.

Some of the negative reviews complained of poor customer service, unreturned calls, and reassignment of the agent serving the client. (You may speak to your listing agent, but you don't meet him/her.)

I posed as a seller/buyer on Orchard's website to get some of my questions answered. Two unlicensed employees screened me for my intentions and to learn about my home before I got to speak with a licensed agent about their buy-before-you-sell program. All three conversations were on Zoom, including the evaluation of my home for valuation purposes. That session was on my phone so I could walk that employee through my home showing him its features.

My third Zoom meeting, which was with licensee Toni Thompson, included a PowerPoint presentation describing Orchard's 6% "Move First" program. In that program, you buy and move into your replacement home with Orchard, bringing up to 85% of the equity in your current home to the closing on your replacement home, and you borrow the rest from a mortgage lender of your choice (which could be Orchard's own mortgage company).

Then they put your vacant home on the market after doing what you agree would help it sell better, such as painting, flooring improvements, etc. These costs will be deducted from your proceeds. If you choose not to use all your 85% equity on the purchase of your new home, you can get the balance at your closing. When your current home sells, you get the remaining proceeds minus their 6% commission and expenses.

Orchard's third program is a conventional sell-then-buy program for which you're required to use them on your purchase.

Now I'd like to describe some of the ways one can get around the problem which Orchard's first two programs are designed to solve.

For starters, if you own your current home free and clear or with a low-balance mortgage, you can apply for a Home Equity Line of Credit (HELOC) for up to 80% of its current value at a credit union, bank or using a mortgage broker such a **Wendy Renee** of Fairway Independent Mortgage who has her office inside Golden Real Estate's storefront. I also recommend **Jaxzann Riggs** of The Mortgage Network, who is the source for my column on home financing that is published on page 2 of YourHub on the third Thursday of each month.

A HELOC is like a mortgage (or second mortgage), but it's only a ***line of credit,*** so you pay no interest on the funds until you draw them. You can't get a HELOC when your home is on the market, but this strategy is assuming that you won't put your home on the market until you're under contract for your new home, and you don't draw the funds from your HELOC until the closing of the home you're buying. Thus, at most you'll only pay one or two months' interest on the HELOC funds while you go about listing and selling your current home. The HELOC, like your primary mortgage, is paid off at the closing of your current home.

Bridge loans are another option, but they carry a higher interest rate.

If you're okay with selling your home before you start house hunting, I have a strategy for that. In this seller's market you have the ability (if you price your home to get competing offers) to dictate the closing terms on the sale of your home.

For example, you could demand and get a 60-day closing ***and*** a 60-day post-closing occupancy agreement (PCOA). That's a total of 120 days from when you go under contract for the sale of your current home until you close on your replacement home. Most contracts that fall do so based on inspection, which typically is scheduled 7 to 10 days after going under contract. Once you are under contract and "past inspection," your contingent offer is almost as welcome as a non-contingent offer.

The 60-day limit on the PCOA is due to lenders' requirement that you take possession of your new home within 60 days to qualify for the owner-occupant interest rate instead of the higher investor interest rate. There is a totally legal way to go beyond that 60-day limit while still having the PCOA specify a 60-day term. The PCOA has a paragraph in which a per diem penalty is specified for failing to give possession to the buyer. If that penalty is, say, $100 per day, that's $3,000 "rent" for another 30 days' occupancy. If, as is typical, the 60 days was rent-free, then paying $3,000 for a 3rd month feels even more reasonable.

Under the terms of the PCOA, the buyer can evict you and sue for damages, but if you have discussed this possibility ahead of time, it may grant you that needed 5th month to close on your replacement home.

Do you have experience with Orchard or another such company? Call or email me (my contact information is below) to share your experience and maybe I'll have a follow-up on this concept in a future column.

Coming Soon: Home Backing to Lookout Mountain

This ranch-style, 4,920-sq.-ft. home (including the unfinished basement) at **19067 Eagle Ridge Drive** backs cleanly to Lookout Mountain and also sides to a wide greenbelt. It is solar powered, super insulated, with heat pump hot water and space heating and has been featured twice on the Metro Denver Green Homes Tour. It also comes with a 240V EV charging outlet in its 3-car garage. Other inclusions of note are a covered patio swing, a two-person sauna, a ping pong table, a plumbed gas grill, and two wall-mounted TVs, one of them a curved 4K TV with surround sound. Other features include a smooth driveway entrance (no mountable curb), newer paint inside and out, proximity to hiking trails and open space as well as to downtown Golden, beautiful acacia hardwood flooring, two master suites, updated kitchen and master bathroom, and vaulted ceilings throughout. Kitchen appliances are stainless steel, including a smart Samsung French-door refrigerator with water and ice through the door. Showings begin next week with an open house planned for Saturday, **March 12th, 1-3 pm.** Meanwhile, look for interior photos and a narrated video tour at **www.StonebridgeHome.net**.

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