



Ready for a New House? Trade in Your Old One

The current housing market situation no longer resembles the conditions of the recent housing boom when sales were strong and home prices were skyrocketing. Home price appreciation has decreased to its slowest pace in fourteen years, according to a recent survey from mortgage financier Freddie Mac. And according to data from the National Association of Realtors, inventories of homes for sale rose to 4.2 million units in April, a 10.4 percent increase from March. Instead of days or weeks on the housing market now, many home sellers are finding they have to wait months in order to attract serious bids.

This waiting period is often a deterrent for buying a new home for many Americans, as few people have the means to pay for and maintain two homes until the old house sells. In an unconventional marketing move, many home builders have started allowing 'trade-ins,' similar to the way auto makers often accept used cars as part of the new car deal. And the National Association of Home Builders (NAHB) is supportive of this strategy. "It's a way to move the market," said Steve Melman, the Director of Economic Services for the NAHB. "It addresses one of the main reasons that would keep you from buying a house." If you are interested in buying a brand-new home but are afraid it will take too long to sell your current home, this program may be right for you.

Some builders say this is not a new practice for the building industry. According to statements from Mick Pattinson, president of Southern California-based home building company Barratt American, "We've used it when markets get a little tight, and people have trouble selling their old homes."

His company's home trade-in plan is fairly typical of most programs. "Rule #1 is that the new home has to be a minimum of 20 percent more expensive than the old," said Pattinson. "We then do an appraisal, sometimes two, and see what we have to do to recondition the house for sale. Then we make an offer."

The plan seems to be beneficial for both builder and home buyer. The buyer gets to unload the old house without having to pay real estate agent commission fees netting them almost the full profit from her home's appraisal fee, and gets to avoid the troubling problem of paying two mortgages for several months. Plus many builders will also throw in other incentives and discounts on the new home.

Builders profit from the deal because they are able to move their new inventory more quickly. They are also able to sell the traded-in home for a higher price because they can use their home improvement skills to make repairs or upgrades, increasing the appraisal value. The builders can also often avoid real estate commission fees by selling the fixed-up homes through their own sales team.

If this strategy sounds right for you, you may have to look around a bit first to find a participating builder. Only about 10 percent of builders across the country are currently offering home trade-in programs, according to the NAHB. Still, if you can locate one in your area you may be able to score the best possible deal on a brand-new home!