AAR INTRODUCES A MORE FLEXIBLE BUYER CONTINGENCY ADDENDUM

BY SCOTT M. DRUCKER, ESQ., AAR GENERAL COUNSEL

Any agent that uses the Buyer Contingency Addendum knows that these transactions can be challenging at times. This month, the Arizona Association of REALTORS® (AAR) re-introduces the Buyer Contingency Addendum, with more flexible options for both buyers and sellers. This newly revised addendum now provides buyers and sellers with more options when choosing a buyer contingency and ultimately helps sellers enter into another contract faster in the event that a buyer’s contingent sale falls through.

A request to change the buyer contingency addendum was first introduced in December 2012. Then, a designated broker contacted AAR to voice concern about the AAR Buyer Contingency Addendum. At the time, her agent was representing a seller who received a purchase offer that was contingent on the buyer’s sale of her existing home. In this case, the buyer was under contract for the sale of her home and was waiting for that sale to be completed. Upon close of escrow, the buyer would then be in position to purchase the seller’s property.

Approximately two weeks after executing a Residential Resale Real Estate Purchase Contract (purchase contract) along with a Buyer Contingency Addendum, the buyer informed the seller that the purchase contract on her home had cancelled. In response, the seller wanted to cancel his purchase contract with the buyer and enter into a contract with a new buyer that would be in a better position to consummate the transaction. Unfortunately, the Buyer Contingency Addendum did not allow for such a cancellation. The seller was therefore required to wait until the buyer failed to perform by the agreed upon deadline for close of escrow, at which point the buyer canceled the purchase contract based on an unfulfilled contingency and obtained a return of the earnest money deposit.

While the seller had no objection to the buyer recovering the earnest money deposit, the seller desired to immediately sign a contract with a new buyer upon learning that the current buyer was no longer under contract to sell her home. Upon realizing that the seller could not immediately contract with a new buyer, the designated broker brought the issue to the attention of AAR’s Risk Management Committee, which voted to create a workgroup chaired by Martha Appel, Coldwell Banker Residential Brokerage, for the purpose of revising the Buyer Contingency Addendum.

In the newly revised Buyer Contingency Addendum, the underlying purchase contract is to be contingent upon one
of the following two scenarios: (1) the buyer accepting an offer to purchase his or her real property; or (2) the closing of the buyer’s property that is already under contract.


CONTINGENCY SCENARIO ONE

If the parties select the option identified on line seven of the Buyer Contingency Addendum, the underlying purchase contract shall be contingent upon a buyer accepting an offer to purchase his or her real property and the delivery of the “accepted offer documents” to the seller within three days of receipt, or by an agreed upon date to be identified on line 11, whichever occurs first. Upon receipt of the accepted offer documents, the seller then has five days to review those documents and cancel the purchase contract, at which time the earnest money deposit shall be returned to the buyer.

Even if the seller approves of the accepted offer documents, it is possible that the sale of the buyer’s property will fail. Should that occur, the buyer must provide notice to the seller of the buyer’s receipt of cancellation within three days, along with evidence of that cancellation. The buyer’s notice to seller shall additionally state the buyer’s election to either: (1) immediately cancel the purchase contract and recover the earnest money deposit; or (2) proceed with the purchase contract by removing the buyer contingency.

Finally, under this scenario, the seller has the right to accept another offer in back-up position before the buyer has delivered to the seller the accepted offer documents. Should that occur, the seller may deliver notice to the buyer informing the buyer of the back-up contract. Upon receipt of the seller’s notice, the buyer shall have five days to deliver to the seller a written notice removing the buyer contingency. If the buyer decides not to waive the buyer contingency, the purchase contract shall be deemed cancelled with the earnest money deposit released to the buyer.

CONTINGENCY SCENARIO TWO

If the parties select the option identified on line 34 of the Buyer Contingency Addendum, the underlying purchase contract shall be contingent upon the closing of the buyer’s property by an agreed upon date to be identified on line 37. In order to select this option, the buyer must already be in possession of an accepted offer. Should the buyer’s accepted offer cancel, the buyer must provide notice to the seller of the buyer’s receipt of cancellation within three days, along with evidence of that cancellation. The buyer’s notice to seller shall additionally state the buyer’s election to either: (1) immediately cancel the purchase contract and recover the earnest money deposit; or (2) proceed with the purchase contract by removing the buyer contingency.

The revisions made to the Buyer Contingency Addendum provide a greater level of certainty in the event that the accepted offer for the buyer’s property cancels. Under such circumstances, the buyer must now notify the seller of the cancelation within three days and decide whether to immediately cancel the purchase contract or proceed with the purchase contract by removing the buyer contingency.

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AAR would like to thank the members of the Buyer Contingency Workgroup, chaired by Martha Appel, for all of their hard work and assistance. The members of the workgroup include Martha Appel (Chair), Jim Burton, Jerome King, Kerry Melcher, Paula Serven and Becky Taylor. As General Counsel, the author was also involved in the creation of the revised Buyer Contingency Addendum, along with AAR staff members Jan Steward and Christina Smalls.

ABOUT THE AUTHOR
Scott M. Drucker, Esq. is General Counsel to the Arizona Association of REALTORS® (AAR). He serves as the primary legal advisor to the association. Scott oversees AAR’s Risk Management Committee, which includes professional standards administration for 20 of the state’s local REALTOR® associations, and the development of standard real estate forms. Please note that this post is of a general nature and may not be updated or revised for accuracy as statutes and case law change following the date of first publication. Further, this post reflects only the opinion of the author, is not intended as definitive legal advice, and you should not act upon it without seeking independent legal counsel.
Brokerage Should Have No Liability For Agent’s FSBO

FACTS:
A real estate agent licensed with the brokerage firm owns a six-plex and is selling the property as a For Sale By Owner (FSBO). The brokerage firm will not be handling the sale of the property. However, the brokerage firm is concerned about liability for the acts of the real estate agent while selling the six-plex.

ISSUE:
Does the brokerage firm have any liability for the acts of the real estate agent selling her own property as a FSBO?

ANSWER:
No. If the real estate agent is acting as a FSBO without any involvement from the brokerage firm, e.g., using the brokerage signage, making telephone calls, meeting prospective buyers at the brokerage firm, distributing her business card, or using brokerage firm stationery, the brokerage firm should have no liability to the buyer for the acts of the real estate agent in the FSBO sale of her own property.

Buyer May Not Deliver Multiple BINSRs In A Single Transaction

FACTS:
Before the expiration of the 10-day inspection period, the buyer provides to the seller the Buyer Inspection Notice and Seller’s Response (“BINSR”) with items disapproved of and elects to provide the seller with an opportunity to correct these disapproved items.

ISSUE:
Can the buyer, before the seller responds to the BINSR, amend the BINSR to add additional repair requests?

ANSWER:
No. Under Section 6i, Lines 234-35, of the AAR Residential Resale Real Estate Purchase Contract (the contract), the buyer must conduct all desired inspections and investigations prior to delivering the BINSR to the seller and all inspection period items disapproved shall be provided in a single notice. Here, the buyer has already delivered to the seller its “single notice” to the seller. Therefore, the buyer is precluded by Section 6i of the Contract from amending his or her notice, i.e., the BINSR, to include additional disapproved items.

HAVE YOU SIGNED UP FOR THE LEGAL HOTLINE?
The Legal Hotline provides all AAR broker members (designated REALTORS®) free access to a qualified attorney who can provide information on real estate law and related matters.
HOA Must Provide Notice Of Known Violations Before Closing

**FACTS:**
There are 142 units in a particular community. Following close of escrow, the homeowners association (HOA) sent the buyer a letter advising the buyer of violations based on alterations to the home that needed to be corrected. The HOA was aware of the violations prior to close of escrow, but did not give notice to the buyer of the violations before escrow closed.

**ISSUE:**
Is the HOA required to give notice to the buyer of known violations prior to close of escrow?

**ANSWER:**
Pursuant to A.R.S. § 33-1806(A)(3)(e), within 10 days after receipt of written notice of a pending sale, an association with fifty or more units, shall mail or deliver to a purchaser or a purchaser’s authorized agent a dated statement containing “whether the records of the association reflect any alterations or improvements to the unit that violate the declaration. . . . Nothing in this community relieves the seller of a unit from the obligation to disclose alterations or improvements to the unit that violate the declaration, nor precludes the association from taking action against the purchaser of a unit for violations that are apparent at the time of purchase and that are not reflected in the association’s records.” Thus the HOA (and the seller) should have disclosed the alteration to the buyer before the close of escrow.

Seller May Not Unilaterally Cancel a Listing Agreement

**FACTS:**
The seller and agent execute a one-year listing agreement. After three months, the seller wants to unilaterally cancel the listing agreement because she says she is unhappy with the agent and thinks that more should be done to market the property.

**ISSUE:**
Can the seller unilaterally cancel the listing agreement?

**ANSWER:**
No. A listing agreement is a binding bilateral contract between the listing brokerage and the seller. Any cancellation of the listing agreement requires the consent of both the seller and the listing broker, unless the listing agent has materially breached the agreement.

Both Spouses Must Sign A Contract To Sell The Marital Residence

**FACTS:**
A husband and wife own their home as community property with rights of survivorship. The husband and wife are in the middle of a divorce. The wife wants to sell the property and the husband does not. The wife has approached the agent to market and sell the property.

**ISSUE:**
Should the agent accept the listing?
ANSWER:

Generally, approval from the court will be required for a listing where the parties are in the midst of divorce proceedings. Additionally, under community property laws, both the husband and wife must sign the purchase contract for the sale of the property before it will be enforceable. The agent should therefore obtain the consent of both spouses and/or court approval before taking the listing and expending the time and money necessary to market the property.

Where Full Disclosure Is Made, Agent Should Have No Liability For Leaky Roof

FACTS:

Pending close of escrow, the home inspection report identified water stains on the ceiling and recommended that a roof inspection be performed. The buyer subsequently obtained a roof inspection which identified various repairs that should be made. The seller paid for the recommended repairs prior to the close and the repairs were made by a licensed contractor. After closing, the roof leaked during a substantial rain. The buyer has demanded that the buyer’s agent pay to repair the roof.

ISSUE:

Is the buyer’s agent obligated to repair the roof?

ANSWER:

No. Based on the facts presented, the roof problems were discovered prior to the close of escrow. Additionally, certain repairs were undertaken by a licensed contractor prior to the close. Because the agent was not involved in those repairs, the agent should have no liability.

Note: Generally, agents do not have a responsibility to inspect for defective conditions. See Aranki v. RKP Invs., Inc., 194 Ariz. 206, 979 P.2d 534 (App. 1999).

The Dodd-Frank Act Does Not Prohibit A Balloon Payment In A One-Time Seller Financing Transaction

FACTS:

The buyer and seller entered into a purchase contract for the residential real property where the seller is going to finance the transaction. This is the only seller finance transaction the seller will originate in a 12-month span. The seller wants to include a seven year balloon payment in the loan documents.

ISSUE:

Does the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) prohibit a balloon payment in this transaction?

ANSWER:

No. If the seller is going to originate only one seller financed consumer credit transaction in a 12-month period, the loan documents may include a balloon payment without violating the Dodd-Frank Act. See 12 CFR § 1026.36(a)(5).

After A Sale Is Cancelled, Can Another Buyer Access The Home Inspection

FACTS:

During the inspection period, the buyer retained a home inspector who produced a written report identifying a property defect of which the seller was previously unaware. Pursuant to lines 194 – 195 of the Arizona Residential Resale Real Estate Purchase Contract (purchase contract), the buyer provided the seller with a copy of the inspection report and then timely canceled the purchase contract based on the results of the home inspection. Thereafter, the seller entered into a contract with a new buyer.

ISSUE:

Must the seller provide the new buyer with a physical copy of the first buyer’s home inspection report?
LEGAL HOTLINE | CONTINUED

ANSWER:

No. Although sellers have a duty to disclose known facts materially affecting the value of the property that are not readily observable, the seller is not obligated to provide the new buyer with a copy of the first buyer’s home inspection report. In fact, the better practice is for the seller to update their Seller’s Property Disclosure Statement (SPDS) to ensure that it includes the information contained on the inspection report, and then provide the updated SPDS to the new buyer. Although Arizona statute does not preclude the seller from conveying the actual report, doing so may lead the buyer to rely on that report and not obtain their own independent inspection. Since the first home inspector owes no duty to the new buyer, it is best for the buyer to obtain their own home inspection.

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http://www.aaronline.com/legal-hotline-q-a-disclosure

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Calie Waterhouse
AAR Education Promotion Specialist

Senate Passes Flood Insurance Bill
http://www.realtor.org/articles/senate-passes-flood-insurance-bill

Watch AAR President Evan Fuchs’ Quarterly Update

http://youtu.be/3dEtPn00UkU
AAR INTRODUCES NEW AND REVISED PROPERTY MANAGEMENT FORMS

BY LISA SUAREZ, CRS

Taking the spotlight this month is the revised Residential Lease Agreement (RLA). Last updated in 2008, these new revisions offer members of the Arizona Association of REALTORS® additional clarification, an improved structure, along with amplification of many important terms and conditions. For a highlighted copy of the changes and additions to the RLA, click here.


Notable revisions include:

1. Reference to the Residential Lease Owner’s Property Disclosure Statement, if any, on the tenant attachment page;
2. Requirement that personal property included in the lease agreement be maintained in operational condition by landlord;
3. Reference to the Move-In/Move-Out Condition Checklist as a possible incorporated addenda;
4. Express exclusion of assistive and service animals to the definition of pets;
5. Revision of the Crime-Free Provision to include state, federal or other municipality criminal activity;
6. Requirement that the landlord notify tenant in writing within five-days of receipt of a Notice of Trustee’s Sale or other notice of foreclosure on the premises; and
7. Permission for the prevailing party in any dispute arising out of the lease agreement to additionally be compensated for costs and fees incurred as a result of any collection activity.

In addition to these revisions, AAR also introduced two new property management forms this month. They are the Mutual Cancellation of Property Management Agreement and the Notice of Cancellation of Property Management Agreement. Both forms were developed to help owners and property managers with a simple solution for navigating the termination of a property management agreement. These forms offer a simple solution to ensure that the proper notice is given.


The updated Residential Lease Agreement and new Mutual Cancellation of Property Management Agreement and Notice of Cancellation of Property Management are available in zipForm® now.

Visit this article on AARonline.com — comment with your thoughts & share to your social networks.

AAR would like to thank the following members of the Property Management Forms Workgroup for all of their hard work: Lisa Suarez (chair), Tammy Billington, Sue Flucke, Jeff Hockett, Elly Johnson, Jacquie Kellogg, Michael Mumford, Alberta Shantz, Brad Snyder, Larry Stover, Dave Stringham, Scott Drucker, Cynthia Frey, Christina Smalls and Jan Steward.

Quick Links:

Residential Lease Agreement

Mutual Cancellation of Property Management Agreement

Notice of Cancellation of Property Management Agreement
Being that it’s only February, April 15 seems like a long way away. But, it’ll be here before you know it. AAR interviewed Scottsdale CPA and “tax goddess” Shauna Wekherlien to get some tips for making sure your taxes are filed as smoothly as possible.

http://www.taxgoddess.com/

**TIP NO. 1: GET ORGANIZED**

According to Wekherlien, one of the best investments that REALTORS® can make is in accounting software like QuickBooks. “Clients are used to reporting profit and loss, but forget about big purchases and small charges,” said Wekherlien. Using a program like QuickBooks will keep all your charges categorized and print out a nice report that you can take to your CPA. “If you’re bringing five or six boxes of receipts to your CPA, it will cost you more money in the long run.”

Another tip that Wekherlien suggests is using a separate credit card and bank account for all business transactions. “When all your charges are in one place, it's much easier to reconcile your accounts.”

**TIP NO. 2: KNOW WHAT IS “ORDINARY AND NECESSARY”**

When deciding if an item is a true business expenses, ask yourself, “is this ordinary and necessary” for me to make money. Wekherlien gives this example: “You may not be able to deduct your high-end, designer suits as a business expense. Because you can, technically, do business without them. But, it might be possible to deduct dry-cleaning or even a nail appointment here and there. Your CPA will be able to help you make the determination.

**TIP NO. 3: KNOW WHAT’S CHANGED FOR 2013**

In 2013, there are a few changes that will directly affect some REALTORS®. The first pertains to the Affordable Care Act. According to Wekherlien, single agents that make $200K or more will pay approximately 4.7 percent more taxes and can also expect to lose some deductions. Another change in 2013 is that Capital Gains tax has increased from 15 percent to 20 percent.

Mileage is one of the biggest deductions that REALTORS® can take advantage of. The mileage reimbursement rose to 56.5 cents a mile for 2013. Wekherlien strongly recommends using an app to track your mileage. “Using a mileage app like MileTracker or MileBug will make it so much easier to report your mileage,” said Wekherlien.

http://www.silverwaresoftware.com/MileTracker.html
http://milebug.com/

“In the past,” said Wekherlien, “the home office deduction was much more complicated to deduct, more records to keep, and harder to really take as a write-off. That isn’t the case anymore and in 2013 the IRS came up with a simple calculation for home office deductions.” For every square foot of home office space, a REALTOR® can deduct $5. (Example: 150 square foot office = $750 deduction). If REALTORS® would prefer to take the traditional deduction (a percentage of the home’s total square feet,) that option is still available.
TIP NO. 4: GET PROFESSIONAL HELP

Hire a CPA that specializes in real estate. At first, this advice seemed a bit off, but Wekherlien said, “They’ll know your industry. They know the types of expenses you should and should not have.” Another surprising fact about CPAs who work with REALTORS® said Wekherlien, “using a CPA who knows REALTORS® can actually boost your business. We’ve got connections to other REALTORS® or affiliates in your industry. It’s not uncommon for me to connect two of my clients in a way that generates business for them both.”

Shauna Wekherlien has been a CPA since 2001. Her company, Tax Goddess Business Services, PC, is located in Scottsdale, Arizona.

http://www.taxgoddess.com/

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Three Things You Didn’t Know You Could Deduct on Your Taxes

1. DRIVING MISS REALTOR®

“When you’re driving, you’re not able to do your job,” said Shauna Wekherlien, a Scottsdale CPA with the Tax Goddess. Many of her clients have resorted to hiring drivers for the day when they wanted to take clients around. And the best part – its tax deductible. “Hiring a driver makes it easy to show homes to clients answer emails and texts and return phone calls. You’re able to give your full attention to your clients.”

2. SOFIA THE SECURITY DOG

We know that being a REALTOR® is a rewarding job, but it comes with some risk. Single, female real estate agents can actually write off their pooch if they use him or her for security. According to Wekherlien, “if the dog is taller than the height of your knee, trained, and comes with you to your business appointments, you can write your dog off as a business expense.” This includes vet bills and obedience training for the dog.

http://www.aaronline.com/2013/09/keeping-yourself-safe/

3. PUT YOUR KIDS TO WORK

“Yes, you can pay your children to work for you and deduct it as a business expense,” said Wekherlien. While there are rules about what an unlicensed assistant can and cannot do, in the eyes of the IRS, just as long as you pay your children a reasonable salary, you can claim their salary as a business expense.

http://www.aaronline.com/?q=unlicensed+assistant+cannot+do&client=aar&output=xml_no_dtd&proxystylesheet=aar&site=default_collection
THE PAYOFF OF PARTICIPATION

When Kent Simpson, a Tucson REALTOR® with Tierra Antigua Realty, traded in late nights and long hours managing bars and restaurants for late nights and long hours as a real estate professional, he did so mainly to assist his family with better access to land and property information. But, he soon realized that he got a lot more out of real estate the more he put in.

Since 2007, Simpson has immersed himself in real estate, built a nationwide network of professional contacts and dedicated his free time to volunteering for causes that matter most to him. In return, he’s received unprecedented access to what he refers to as “business intelligence,” that gives him a strong leg-up on his competition. “Last year was the first year I volunteered with AAR,” said Simpson. “As REALTORS®, we are constantly fighting battles that could have far-reaching implications. I wanted to have a say in what happens in my industry.”

STATE-LEVEL PARTICIPATION

Simpson is an active member on the AAR Legislative Policy Committee. During the legislative session, he spends approximately six to seven hours a week reviewing and researching upcoming legislation and bills that are introduced. “[The committee] takes a look at policies that could have an effect on REALTORS®... things like private property rights, HOAs and water and land issues. Then, we decide what action to take on these issues.” He also serves as a RAPAC trustee, evaluating state-level candidates and their positions on REALTOR® issues.

NATIONAL PARTICIPATION

On a national level, Simpson is a NAR Director and member of the Federal Finance and Housing Committee. In this capacity, Simpson has the opportunity to take a look at NAR policies and proposals and make decisions that affect all REALTORS®. Recently, he was instrumental in the decisions to allow REALTOR.com to expand what properties are allowed on its site, as well as the decision to increase the REALTOR® brand by investing in the new NAR headquarters building in Chicago.

THE PAYOFF

But, what does all this volunteering get him? According to Simpson, it has enhanced his business quite a bit. “My involvement in AAR and NAR has given me increased credibility with my clients,” said Simpson. “[Through volunteering] I have advanced knowledge about things that could affect my clients’ purchasing decisions and because of that I’m able to be a sounding board for them.” Simpson also adds that there are other benefits to getting involved. “Another benefit is the opportunity to build a large network of referral partners,” said Simpson. “Getting to know REALTORS® from around the state helps me locate properties for my buyers” and vice versa.

Simpson also devotes his time to the Downtown Tucson Merchant’s Association, Hispanic Chamber of Commerce and Arizona Forward. You can keep up with him on his blog, Tucson Kent’s World.

If you’re interested in getting more involved in the Arizona Association of REALTORS®, take a look at our four primary committees and contact the vice-chair.

Kent Simpson
Tierra Antigua Realty, Tucson

http://www.aaronline.com/about-us/leadership/primary-committees/