

Can You Cancel a Real Estate Contract?

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When involved in the sale of a home, it's crucial for the buyer and seller to understand the details of the real estate contract before it's signed and, in particular, to recognize the points at which the contract can be cancelled without penalty.

A real estate contract, once signed by the buyers and sellers, is legally binding. While contracts vary from one jurisdiction to another and each contract is individually negotiated, many have contingencies that allow either party to cancel under specific circumstances. However, neither side can just say "I changed my mind" without facing some consequences.

Buyers and Contracts

As a buyer, you typically provide an [earnest money deposit](#) when you make an offer on a home. The deposit is credited toward your down payment or returned to you if the contract is legitimately cancelled. If you opt not to buy a house without

meeting the terms of the contract, you risk losing your deposit. However, your contract will usually include contingencies that must be met by a specific date. If any contingencies are not satisfied, your deposit should be returned.

Some common contingencies include:

- A specified period of time to review condominium or homeowner association documents

- A satisfactory home inspection

- An appraisal—a lender won't provide financing above the appraised value of the home

- Financing—if you can't get a loan approved, your deposit will be returned

- A title survey

Normally, buyers and sellers negotiate any issues that come during the home inspection or renegotiate the deal if the appraisal comes up short.

Some buyers use the home inspection or document review as a way of getting out of a contract if they have changed their minds, but it's far better to wait to sign a contract until you are absolutely certain you want the home and can afford it.

If you want out of a real estate transaction and don't have any contingencies available, you can breach the contract. However, once you do so, you are likely to lose your deposit along with the money you spent on an appraisal, a home inspection and a title survey. The seller could also decide to sue you for breach of contract.

Some real estate contracts have a “liquidated damages” clause that states the maximum the seller can keep if the buyers breach the contract. The sellers also have the option of suing for “specific performance,” which means that a court could decide that the buyers must do what they promised in the contract. For example, if the signed contract said you would purchase the property for \$250,000, then a court could order you to pay that amount to the seller. These types of lawsuits are extremely rare because most buyers and sellers negotiate a settlement or the sellers find another buyer for the property.

Sellers and Contracts

If you are a seller and you have changed your mind about selling your house to a particular buyer—or selling at all—you may have an out, depending on how the contract was negotiated. Some real estate contracts are written with a [kick-out clause](#) or escape clause that allows you to accept a better offer if one comes in during a specified time period. If you don’t have a kick-out clause and you have signed a contract with a buyer, you run the danger of being sued by the buyers if you decline to sell your home.

Buyers and sellers should rely on their REALTORS® to keep their deal together and to meet all the contingency deadlines to avoid a lawsuit filed by either side.