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Property Law -- The North Carolina Association of Realtors' Contract of Sale

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vesting in the successor which adequately protect the unionized employee. In many cases the successor will choose to assume the prior collective bargaining agreement as a means of avoiding turmoil and to insure that a favorable labor contract will continue.\textsuperscript{2} In other cases in which this is not done, imposition of a duty to bargain seems a more equitable method of assuring that present economic realities are the basis of the provisions of the collective bargaining agreement than requiring the successor to honor an agreement to which he was not a party. Industrial peace would be harshly achieved at the price of governmental ordering of both the procedure and substance of labor agreements.

The corporation contemplating acquisition of or merger with a unionized company would be well advised to resolve all issues relating to the former labor agreement before closing the transaction. The potential successor would do well, also, to include the union in the pre-transfer negotiations should the union evidence an intention to try to bind the successor to the pre-existing collective bargaining agreement. Every reasonable attempt should be made to recognize and deal fairly with the predecessor's union lest the transitional period between owners lead to strikes and unfair labor practice charges brought before the Board.

**LUTHER PARKS COCHRANE**

**Property Law—The North Carolina Association of Realtors’ Contract of Sale**

The North Carolina Association of Realtors' standard form contract of sale\textsuperscript{1} or similar forms specify the legal rights and obligations of most buyers and sellers of real estate in North Carolina. In a typical transaction, a broker, as the agent of the seller, arranges the sale. When a buyer decides to purchase, he ordinarily signs the form contract provided by the broker. Very few buyers or sellers in North Carolina see an attorney before they have signed the contract of sale.\textsuperscript{2} Because of this

\textsuperscript{2}S. Ct. at 1584.

\textsuperscript{1}North Carolina Association of Realtors' Contract of Sale, standard form No. 8 (rev. 1967). The contract is reprinted as an appendix to this note.

\textsuperscript{2}Given the importance of such a transaction, it is curious that parties usually do not seek legal advice. This has been explained as a lack of legal sophistication of the public or a fear of onerous legal fees. However, the fees for drafting or explaining a contract would probably be less than the
real estate brokers should use a form contract which is fair to both buyer and seller, which provides the full legal protection the parties need, and which reflects the bargain the individual buyer and seller desire. The Association's contract provides inadequate legal protection in several areas, including the transfer of fixtures and personal property, marketable title exceptions, liens and assessments, form of deed and tenancy, remedies upon default or termination of the contract and warning to the parties of their need for an attorney.

**Fixtures and Personal Property**

A major problem in the Association's contract is failure to provide for transfer of fixtures and personal property. Title to personal property is a frequent area of dispute between buyer and seller. For example, although the buyer may consider draperies and wall-to-wall carpeting to be part of the sale, the seller may plan to take the draperies and carpeting with him when he moves. The law of fixtures governs the rights of the parties in such circumstances. A fixture is personal property so connected or attached to the realty as to be considered a part thereof.\(^3\) Fixtures are normally treated as realty and are transferred to the purchaser along with the real property.\(^4\) Because fixtures are transferred along with the real estate, the need for special treatment in a real estate contract is seemingly eliminated. However, North Carolina law provides no easy definition of fixtures. Whether personal property becomes a fixture depends on whether, at the time it was attached to the real estate, the person who attached it intended a permanent annexation. Factors which must be weighed to determine this intent include the objectively manifested intent of the annexor, the character of the annexation, the permanency of the annexor's estate, and the nature and purpose of the annexation.\(^5\) Whether a chattel is a fixture under North Carolina law may, therefore, be impossible to decide without a court public anticipates especially if the services are provided in conjunction with the title search. Brokers are often hesitant to encourage clients to see an attorney. They may fear that the attorney will draft a biased contract which the other party would not sign and that ill feeling would cause the entire transaction to fall. Regrettably, some brokers use high pressure sales tactics and want the buyer to sign the form contract immediately to prevent him from changing his mind. See Whitman, *Transferring North Carolina Real Estate Part I: How the Present System Functions*, 49 N.C.L. REV. 413, 423 (1971).

\(^3\) American Law of Property § 19.1, at 4 (A. Casner ed. 1952) [hereinafter cited as A. Casner].

\(^4\) *Id.* § 19.6, at 26.

\(^5\) J. Webster, *Real Estate Law in North Carolina* §§ 11-17 (1971) [hereinafter cited as J. Webster].
decree on the subject. No definitional assistance is provided by the Uniform Commercial Code, which leaves the definition of fixtures to state law.6

The best method to avoid the problem of ownership of personalty is to provide a contractual solution. The contract of the North Carolina Association of Realtors, however, does not cover the transfer of personalty and leaves the parties to the inadequacies of fixtures law. Many form contracts either list all personalty to be conveyed or leave a blank space in which the buyer must list the personalty to be conveyed.7 In order to avoid placing the burden of listing personalty entirely on the buyer and to provide flexibility for all possible contingencies, it might be well (1) to list in the printed contract, items commonly considered to be fixtures as property to be transferred (which the seller can delete if he so desires),8 (2) to allow blank space for the buyer to specify any additional personal property he considers to be part of the sale, and (3) to provide space for the seller to specify property potentially classifiable as fixtures which he intends to keep.

Liens and Assessments

Another inadequacy of the Association of Realtors' contract is the failure to provide for the contingency of liens and assessments on the property. Disputes between buyer and seller arise over which party should bear the responsibility for paying liens against the property for such improvements as aluminum siding, sidewalks, and sewers. A lien is a "right conferred on certain classes of creditors to have their debts paid out of specific property belonging to the debtor."9 Under the common law, unless the contract of sale specifies otherwise, the seller must pay all assessments due and unpaid while the contract is executory.10 However, liens arising prior to closing, but not yet assessed or payable,  

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6 N.C. GEN. STAT. § 25-9-313(1) (1965); WEBSTER § 22.
7 This information was obtained by examining several form contracts of sale including, for example, the Evanston-North Shore Board of Realtors' form 7-52, Offer to Purchase Real Estate with Mortgage Contingency, and the Pioneer Title Insurance Co.'s form, Agreement for Sale of Real Estate (1967).
8 For example, the contract might provide as follows: "Built-in heating and cooling equipment, built-in kitchen appliances including range, refrigerator, sink and __________, kitchen and bathroom cabinets, shutters, venetian blinds, shades, curtains, wall-to-wall carpeting, mirrors, garden tools, shrubbery and __________ shall be included in the sale." See generally A. BICKS, CONTRACTS FOR THE SALE OF REALTY 25 (rev. H. Glassner and W. Kufeld 1966) [hereinafter cited as A. BICKS].
9 J. WEBSTER § 362, at 489.
CONTRACTS OF SALE

must be paid by the buyer in the absence of contractual provisions to the contrary. Such assessments imposed for county or city improvements are frequently termed "special assessments." Special assessments by law are not a lien until the assessments are confirmed by the relevant authority—usually a municipality. The city generally will not assess the landowner until the work is complete and costs have been totaled and apportioned among those liable for the improvements costs. There is frequently a time lag of months or even years between the date of improvement and the date of assessment. Thus, for example, a sidewalk may have been completed at the time of closing and the seller will not know that the cost will be a lien against the property. The buyer likely will assume that the cost of the improvement has been paid.

The relative equities of the buyer and seller must be examined to see if there is a need to contractually modify the common law results. The buyer usually feels that the seller should pay for all assessments arising prior to closing whether they are payable at closing or not. The ordinary buyer would be induced to purchase the property by viewing it as improved. Part of the consideration he bargains for is the improvement. Later, if he learned of an assessment, he would feel that he is being forced unfairly to pay twice for the improvement. Furthermore, he would feel with considerable justification that the seller was the party best able to know of the existence of the lien. Therefore, equity seems to dictate that the seller should have to pay for the improvement.

The Association's contract is unclear as to who must pay for such assessments. It states as follows: "The buyer agrees to purchase... free and clear of all encumbrances except... taxes... zoning regulations, restrictive covenants and easements of record, if any; and such other conditions as may be hereinafter stated." The contract thus implies that if the assessment is an encumbrance and has not been listed in the contract, the seller has failed to meet a condition precedent to the contract. Thus, by implication, under this contract the buyer might be able to obtain rescission or even have the seller pay the assessment. The remedies available are unclear from the wording of the provision. To eliminate this ambiguity, the contract should specifically state which

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11Friedman, Buying a Home: Representing the Purchaser, 47 A.B.A.J. 596, 600 (1961).
12See generally N.C. Gen. Stat. §§ 160A-216 to -236 (1972) for municipalities' authority to make special assessments. Also id. § 160A-233(c) (1972) provides that priority be given such special assessments over all other liens except local, state and federal government taxes.
13A. Bicks 15.
14Committee on Real Property of the Chicago Bar Association, Drafting of Real Estate Sales Contracts, 35 Chicago B. Record 247 (255 (1954).
party will bear the responsibility for such payments. One solution is for the drafter of the form contract to balance the equities of both the buyer and seller and then draft the contract in the manner he considers most equitable. If the party who must pay is the seller, the buyer's remedies for the seller's failure to pay should also be specified. Another method would be to leave a blank space for the individual buyer and seller to decide themselves who must pay and what remedies are needed. The latter solution is preferable in that it most clearly reflects the desired bargain of the parties. However, that solution may be difficult to handle in a form contract because of the very technical points of law which would need to be explained.

**Marketable Title Exceptions**

The Association of Realtors' contract provides for marketable title exceptions as follows: The seller must "convey a good and marketable title free and clear of all encumbrances except . . . zoning regulations, restrictive covenants and easements of record, if any . . . ." The buyer under the Association's contract thus cannot object to zoning regulations, restrictive covenants, and easements as making the title unmarketable.

Ordinarily this form of encumbrance does not interfere with the buyer's use and possession of the property. However, when blanket exceptions are granted, as in the Association's contract, problems may arise. For example, a blanket exception for zoning does not provide for problems of existing nonconforming uses in light of the buyer's intended special use of the property. A nonconforming use is a right to continue a use in violation of the zoning ordinance where that use was legal before the change in zoning.15 For example, a seller may have been using his property as a business prior to enactment of zoning for residential use only. He may be able to continue this use (a nonconforming use) after the zoning change. The right to continue such a use may, however, be lost through destruction of the premises or damage requiring repairs in excess of some amount.16 The buyer who purchases with the intent to continue that use runs a serious risk that he may lose the right to continue it. This is especially onerous if the buyer is not even aware that the property is in violation of any zoning ordinance. To alleviate this

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15M. Friedman, Contracts and Conveyances of Real Property § 3.8, at 135 (2d ed. 1963).
16Id. § 3.8, at 136.
difficulty, the contract should specify that the buyer takes subject to zoning restrictions provided that the present use of the premises is not nonconforming.

The buyer may also intend to put the property to a different use. After signing the contract, he may find that his intended use is prohibited. The contract of sale could provide protection to buyers who intend special use of the property\textsuperscript{17} as follows: “The buyer’s agreement to purchase is conditional upon the property presently being zoned for \underline{\hspace{1cm}} purposes.”

Easements and restrictive covenants similarly may be a problem to the buyer under certain circumstances. The contract, after weighing the relative equities of the buyer and seller, might allow the buyer to rescind the contract if any unusually onerous restriction is found prior to closing. The purchaser could be protected by a clause stating that “the buyer takes subject to easements of record and restrictive covenants which do not materially impair the value of the property to the buyer.”

**Remedies upon Default or Termination**

The North Carolina contract’s sole provision for remedies upon default or termination of the contract provides as follows: “In the event either party fails to sign this contract, or if the Buyer is unable to secure a loan as hereinabove described, or if the Seller is not able to convey a good and marketable title, any deposit made as a part of the purchase price is to be returned to the Buyer and this contract shall thereafter be null and void.”

The contract does not specify other conditions under which the deposit would be returned or other remedies which would be available to the buyer if the seller defaults. It also fails to specify whether retention of the deposit should be the seller’s exclusive remedy if the buyer defaults. These remedies should be provided in the contract to give guidelines for settlement of differences without resort to a suit.

**Deed**

The Association’s contract fails to guarantee the buyer an accepted form of title assurance because it makes no provision for the form of

\textsuperscript{17}Id. § 3.6, at 126. The buyer should, of course, check each of these potential encumbrances before signing the contract of sale. J. WEBSTER §§ 401-02, at 607, 609-10. Ordinarily, though, this is not done until the title search by the attorney after the contract is signed. Furthermore, a large percentage of North Carolina attorneys do not check these restrictions. Whitman, supra note 2, at 430-31.
deed by which the seller is to convey the property. The two most common deeds in North Carolina are general warranty and quitclaim deeds. In a quitclaim deed the seller "merely conveys the right, title and interest, if any, of the grantor at the time the deed is made." The buyer has no cause of action for title defects. In a warranty deed the seller promises through a series of present and future covenants that he is conveying good title. A purchaser has the right to sue the seller on the covenant for defects in title. Recovery under a warranty deed will, however, depend on the seller's amenability to suit and financial ability to make good on the warranty. The warranty deed may be an inadequate means of title assurance in some circumstances but does, nevertheless, provide greater protection than the quitclaim deed.

The warranty deed is customarily used in North Carolina real estate transactions. However, unless the contract of sale so specifies, the seller is under no legal obligation to give a warranty deed. The buyer might well be forced to accept whatever form of deed the seller chooses to give. To avoid such an occurrence, the contract should provide that the conveyance is to be by warranty deed. An argument to the contrary holds that because the contract requires the seller to give marketable title, it is unnecessary to provide for a warranty deed. A contract to deliver marketable title provides less protection to the buyer, however, because the contract of sale merges into the deed and loses its legal effect. Thus the marketable title clause is of no use to the buyer after the closing. On the other hand, the buyer can sue on the deed covenants after the closing unless the suit is barred by the applicable statute of limitations. Therefore, the contract of sale, in order to provide the title

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10Spencer v. Jones, 168 N.C. 291, 84 S.E. 261 (1915). See also J. Webster § 127, at 159. For discussion of the legal effect of these covenants see note 25 infra.
11Whitman, supra note 2, at 460.
12Id.
13The North Carolina law on this point is unclear. Apparently, unless there is some affirmative decision to the contrary (and there appears to be none in North Carolina), a seller need not deliver a warranty deed unless he has agreed to do so. A. Bicks 70-71; M. Friedman, supra note 15, § 7.1.
14Contracts of sale usually provide that the seller give marketable title. This is also an obligation implied by law. The buyer would thus have a cause of action for matters making the title unmarketable such as mortgages and other encumbrances, restrictive covenants and leases. Friedman, supra note 11, at 600.
15A. Bicks 70.
16Covenants of seisin and against encumbrances are present covenants broken, if at all, at the time they are made. The statute of limitations for breach of such promise begins to run from the accrual of the cause of action—the making of the promise. However, a covenant to warrant and defend title is not deemed to be breached until there has been either actual or constructive eviction.
assurance which the buyer needs, should specify that the transfer is to be by warranty deed. If the seller and buyer should agree to the contrary, they can alter the contract accordingly.

Form of Tenancy

Another area not covered by the contract is the form of tenancy by which the buyers (if there is more than one) will be deeded the property. If the buyers are husband and wife, as is frequently the case, they are presumed to take the property in a tenancy by the entirety. In North Carolina transactions, as a general rule, married persons are not informed of the legal ramifications of ownership by the entirety. These legal effects include limitations on the right to management of the property, restrictions on the claims of creditors, automatic devolution of the property on the death of one tenant, and taxation of the property to the estates of both spouses. The parties should have the opportunity to explore which tenancy best meets their individual needs. To emphasize the need to make a conscious decision, the contract of sale might provide "the form of tenancy in the deed shall be __________." The problem with this approach is that the effect of the tenancy chosen is a complicated legal matter either beyond the knowledge of or not properly handled by the real estate broker. The parties need professional legal advice on this issue.

Thus the statute of limitations begins to run at the time of ouster. This gives the covenantee protection in the event of disturbance of his title at a future date when the statute of limitations might already have run on a cause of action for the other deed covenants mentioned. Shankle v. Ingram, 133 N.C. 254, 45 S.E. 578 (1903); Wiggins v. Pender, 132 N.C. 628, 44 S.E. 362 (1903). Bowling v. Bowling, 252 N.C. 527, 530, 114 S.E.2d 228, 231 (1960); Moore v. Greenville Banking & Trust Co., 178 N.C. 118, 123-24, 100 S.E. 269, 272 (1919).


Creditors of one spouse alone can not reach property held by the entirety through judgment and execution. For example, a creditor of the husband alone can reach the property neither during the tenancy nor after the termination of the tenancy by death of the husband. Bruce v. Nicholson, 109 N.C. 202, 13 S.E. 790 (1891). See generally Lee, supra note 28, at 84-88.


For tax consequences of tenancy by the entirety see P. ANDERSON, TAX FACTORS IN REAL ESTATE OPERATIONS 24-30 (3d ed. 1969).
Need for Attorney Clause

The need of both buyer and seller for competent legal advice before executing a contract of sale has been mentioned throughout this note. A contract of sale is a technical document with significant effect on the legal rights and obligations of the buyer and seller in a relatively expensive and important transaction. Even the best form contract is no substitute for legal advice.

The parties, of course, must decide for themselves whether or not to seek legal advice before signing the contract. The real estate broker could, however, encourage this action through insertion in the contract of a clause similar to the following: "A real estate broker is the person qualified to advise on real estate. If you desire legal advice consult your attorney."32

Other Provisions

In addition to the provisions previously discussed, there are a number of other issues raised by the Association's contract which are worthy of consideration. Due to space limitations, they will be noted but not developed in depth.

1.) The condition that the buyer be able to obtain a loan on certain terms is generally well drafted. It contains the necessary terms of the loan and provides that the buyer must use "his best efforts" to secure such a loan. It prevents a challenge to the contract for indefinite terms or lack of mutuality of commitment of the parties.33 The provision could be improved by providing flexibility to reflect changes in the lending market.

2.) The method of payment, escrow, and closing provisions could be more specifically stated. For instance, the closing provision should specify date, time, and place of closing. Also matters to be handled at closing, such as delivery of existing notes or proof of cancellation by the seller of any charges against the property, could be listed.34

3.) The date of proration of rents and charges upon the property such as taxes should be specified as either the closing date or the date of delivery of possession depending upon the draftsman's choice or the equities of the parties.

4.) Title insurance, merger of the contract into the deed, and

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32 Whitman, supra note 27, at 631.
33 Friedman, supra note 11, at 603.
34 Whitman, supra note 2, at 463.
assignability of the contract should also be considered.

5.) Warranty disclaimer through an integration clause, desirable to the seller, and specific warranties desired by the buyer are additional terms to consider.

6.) A final issue to be mentioned is risk of loss between the signing of the contract and the closing of the transaction. The Association's contract makes no provision for this, leaving the Uniform Vendor and Purchaser Risk Act to control.\footnote{This act seems an equitable method to allocate the risk of loss. It does not, however, clarify the remedies which are to be available or cover other problems such as distribution of insurance proceeds or determination of the "materiality of the loss" which should be covered in the contract of sale.} This act seems an equitable method to allocate the risk of loss. It does not, however, clarify the remedies which are to be available or cover other problems such as distribution of insurance proceeds or determination of the "materiality of the loss" which should be covered in the contract of sale.\footnote{This act seems an equitable method to allocate the risk of loss. It does not, however, clarify the remedies which are to be available or cover other problems such as distribution of insurance proceeds or determination of the "materiality of the loss" which should be covered in the contract of sale.}

Conclusion

The buyer and seller in a typical real estate sale enter into an important and expensive transaction. To protect their interests in this transaction, they need legal advice or, at least, a contract which reflects their individual needs.

The contract of sale of the North Carolina Association of Realtors is an improvement upon many form contracts in coverage of legal issues and achievement of an equitable balance of interests of both parties.\footnote{The Association of Realtors' contract, nevertheless, needs much improvement. It contains gaps in legal protection such as the failure to assure the buyer a right to a warranty deed. Further, the contract may encourage disputes between the parties over such matters as title to personal property, liability for special assessments, or remedies upon default or termination of the contract. The contract would be improved by broader coverage and greater specificity to prevent such gaps in legal protection and potential disputes between the parties.}

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ELIZABETH HAZEN POPE


\footnote{A further potential problem is raised concerning the scope of the act. The original proposed act applied "when . . . all or a material part thereof is destroyed without fault of the purchaser or is taken by eminent domain." Uniform Vendor and Purchaser Risk Act. The North Carolina act, however, omitted the language "or is taken by eminent domain." N.C. Gen. Stat. § 39-39 (1966). It could be inferred that the General Assembly intended the act not to apply to loss from takings by eminent domain. The contract, therefore, might well make provision to allocate this loss.}

\footnote{Some contracts provide little more than the parties' names and the purchase price. Also many contracts used by real estate brokers are weighted heavily in favor of the seller. See, for example, form Contract of Sale printed by Kale-Lawing Co., Charlotte, N.C. and obtained from the National Association of Realtors. A copy is on file with the North Carolina Law Review.}
APPENDIX: CONTRACT OF SALE

This contract made the ___ day of ________, 19___, between ________, hereinafter referred to as the Buyer, and ____________, hereinafter referred to as the Seller,

WITNESSETH, that the Buyer agrees to purchase and the Seller agrees to sell and convey all that certain plot, piece, or parcel of land together with improvements located thereon, in the City of ____________, County of ____________, State of ____________, being known as and more particularly described as follows: ____________________________ conditional upon the Seller being able to convey a good and marketable title free and clear of encumbrances except ad valorem taxes for the year in which the property is conveyed (the taxes for the real property are to be prorated on a calendar year basis to the date of final settlement and any taxes for personal property are to be paid by the Seller or if not then payable credited to the Buyer), zoning regulations, restrictive covenants and easements of record, if any; and such other conditions as may be hereinafter stated.

The contract price for said property is $_______ and shall be paid as follows:

1. $_______, with the signing of this contract, to be held in escrow by __________ as agent, until this sale is closed, or this agreement is otherwise terminated as hereinafter provided;

2. $_______, by the assumption of the unpaid balance on an existing mortgage as of _______ (this item No. 2 to be adjusted to the exact balance of the mortgage on the date of closing);

3. $_______, by a promissory note of the Buyer secured by a purchase money deed of trust on the above described property payable $_______ per _______ including interest at the rate of ____.% per annum _______.

4. $_______, the balance of the purchase price, in cash upon delivery of the deed and the closing of this transaction. (The amount of this item No. 4 is to be adjusted as may be necessary because of any change in the balance of the mortgage assumed as stipulated in item No. 2 above).

The contract is conditional upon Buyer being able to secure a loan in the principal amount of $______ for a term of ___ years, at an interest rate not to exceed ____% per annum using the above described property as security. Buyer agrees to use his best efforts to secure such a loan and to pay the usual cost in connection therewith provided; however, that in the event Buyer is unable to obtain a loan commitment as herein described on or before __________, 19___, this contract shall be null and void.

Rents, if any, for the subject property are to be prorated to the date of closing and delivery of the deed.

Other Conditions:

The Buyer and the Seller agree to execute any and all other documents or papers that may be necessary in connection with the transfer of title. Final settlement shall be on or before ________, 19___, with the deed to __________. Possession of the property will be delivered ___________

In the event either party fails to sign this contract, or if the Buyer is unable to secure a loan as hereinabove described, or if the Seller is not able to convey a good and marketable title, any deposit made as a part of the purchase price is to be returned to the Buyer and this contract shall thereafter be null and void.

The Buyer acknowledges that he has inspected the above described property, that no representations or inducements have been made other than those expressed herein, and that this contract contains the entire agreement between the parties hereto.
IN WITNESS WHEREOF, the parties hereto have signed or caused this agreement to be executed in ______ counterparts effective the date and year first above written.

________________________________________  ______________________________________
Buyer                                             Seller

________________________________________  ______________________________________
Buyer                                             Seller

________________________________________
_________ joins in this agreement as escrow agent to acknowledge receipt of the deposit set out in Item No. 1 above and the trust created by the deposit of such funds.

Standard Form No. 8

Revised 1967

NORTH CAROLINA ASSOCIATION OF REALTORS, INC.

P.O. Box 6306, Greensboro, N.C.