Things To Consider When
Buying a Home

WINTER 2022
EDITION

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Reasons To Buy a Home This Winter

Are you thinking of buying a home? If so, here are the top motivators that should encourage you to learn more about the homebuying process and start your search sooner rather than later.

1. Homeownership Has Many Perks

Homeownership is the American dream – not just because it has tangible financial benefits, but because it also has the power to change lives.

The sense of security, stability, and success homeowners feel has far-reaching impacts, especially in a time like today, where the health crisis has made having a safe space to call home more important now than ever before. If the pandemic has changed what you're looking for, homeownership can deliver the perks you want: financially, emotionally, and more.

2. Mortgage Rates Are Climbing

Early 2021 saw the lowest mortgage interest rates in recorded history. This season, however, rates are beginning to rise. When mortgage rates rise, it impacts affordability. Expert projections for 2022 indicate mortgage rates are expected to continue going up, meaning it will cost more to buy a home if you wait.

While everyone moves through the homebuying process at a different pace, it's more important than ever to put your plans in place and begin working with a trusted advisor. If you're thinking about buying a home sometime over the next year or two, learning what it takes to purchase sooner rather than later may be your most affordable option. And when you're educated on the process and working with an agent at your side, you can make the most informed decision about your next steps toward homeownership.

3. Home Prices Are Going Up

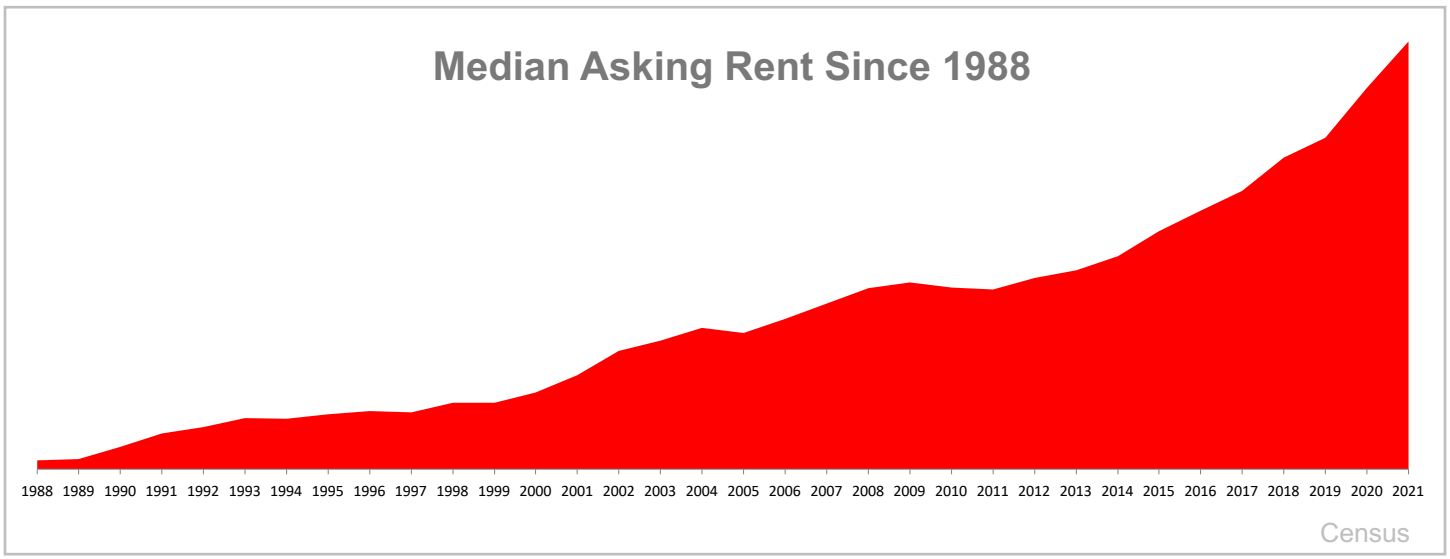
The recent surge in home prices is the result of more active buyers in the market than there are homes for sale. And although data indicates more listings are expected to be available for buyers this winter, the shortage of homes on the market won't be solved overnight. Experts agree, prices will keep rising while demand is greater than supply. As Danielle Hale, Chief Economist at *realtor.com,* puts it:

> *"Home prices continue to rise due to a mismatch between supply and demand... This means that housing affordability will be an increasingly important consideration for buyers, but with rents rising by 13.6%,* ***buying may be the relatively more affordable housing option for some."***

Making the decision to buy now gives you a chance to purchase your home before prices increase further, and take advantage of today's affordability, which won't last forever.

4. Rents Are Rising

Census data also shows the median monthly rent is rising year after year (*see chart below*):



To escape that cycle, consider purchasing a home so you can lock in your monthly mortgage payment and avoid future increases. Why pay more for less? Instead, invest in homeownership, which acts as forced savings that comes back to you in the form of equity, boosting your long-term wealth gain.

Bottom Line

Let's connect if you're ready to learn more about the benefits and rewards of homeownership. Having an expert on your side is the best way to make your dream a reality this season.

Expert Insights for Today's Homebuyers

Experts throughout the industry agree, if you're thinking about buying a home, it's a great time to invest in homeownership, even in a competitive market. Here's what they have to say about the latest in real estate.

> *Housing demand remains strong as buyers likely want to **secure a home before mortgage rates increase** even further next year.*
>
> - Lawrence Yun, Chief Economist, *National Association of Realtors* (NAR)

> *By some measures, house prices seem high, but the recent **price increases make sense from a supply and demand perspective**.*
>
> - Bill McBride, Author, *Calculated Risk*

> *If you find something you like, that's within your budget, and you plan to hold onto it for a few years, then **buying a house might be cheaper than renting**.*
>
> - Ralph McLaughlin, Chief Economist, *Kukun*

> *Homeownership is regarded as causing an improvement in the quality of life of a typical family. It is the most common method for such a family to build wealth…that can be used for retirement or other needs, including helping the next generation. Such wealth creation therefore **provides a major social as well as economic benefit**.*
>
> - Don Layton, Senior Industry Fellow, *Joint Center for Housing Studies at Harvard University*

What Does the Future Hold for Home Prices?

According to the Home Price Insights Report from CoreLogic, nationwide, ***home prices increased by 18% over the last 12 months****. Those rising home prices can spark many questions for potential homebuyers, like why are they climbing so quickly and how long can this last?*

Where Will Home Values Go From Here?

The dramatic rise in home prices is a direct result of more buyers in the market (demand) than houses available for sale (supply). When demand is high and supply is low like it is right now, prices naturally rise.

But today's buyers are wondering what the future holds. Will prices continue to rise with time, or should you expect them to fall? To answer that question, let's first look at a few terms you may be hearing right now.

- **Appreciation** is an ***increase*** in the value of an asset.
- **Depreciation** is a ***decrease*** in the value of an asset.
- **Deceleration** is when something happens at a ***slower*** pace.

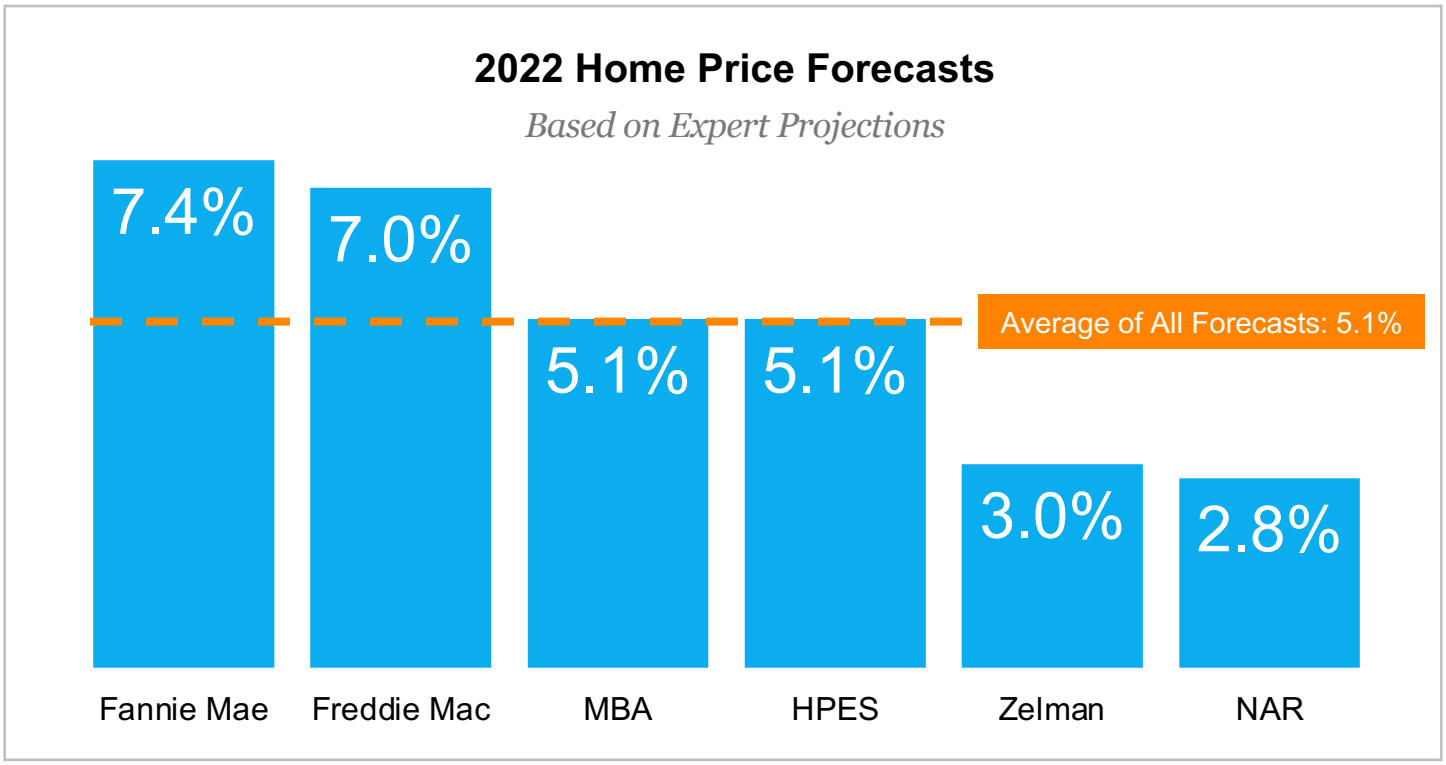
It's important to note home prices have increased, or **appreciated**, for nearly 10 years now. According to Greg McBride, Chief Financial Analyst at *Bankrate,* home prices are projected to continue increasing, too*:*

> *"… Waiting in expectation that prices will fall seems unlikely to pay off."*

A Look at Expert Projections

The chart below shows 2022 price forecasts from various industry experts. The average of these projections indicates **5.1% home price appreciation in 2022**. While this isn't the record-breaking rate of over 18% appreciation from the past year, it's a continued increase, just at a slower pace. This means experts forecast a **deceleration** in prices, but not depreciation. So, home prices are projected to continue increasing next year, and that's a direct result of low supply and high demand.

The good news for prospective buyers is you can rest assured your investment in your home will be an asset that increases in value over time, growing your net worth.



Bottom Line

Don't expect a drop in home prices next year – experts say it won't happen. Instead, think about your homeownership goals and consider purchasing a home before prices rise further.

Why You Shouldn't Be Upset by 3% Mortgage Rates

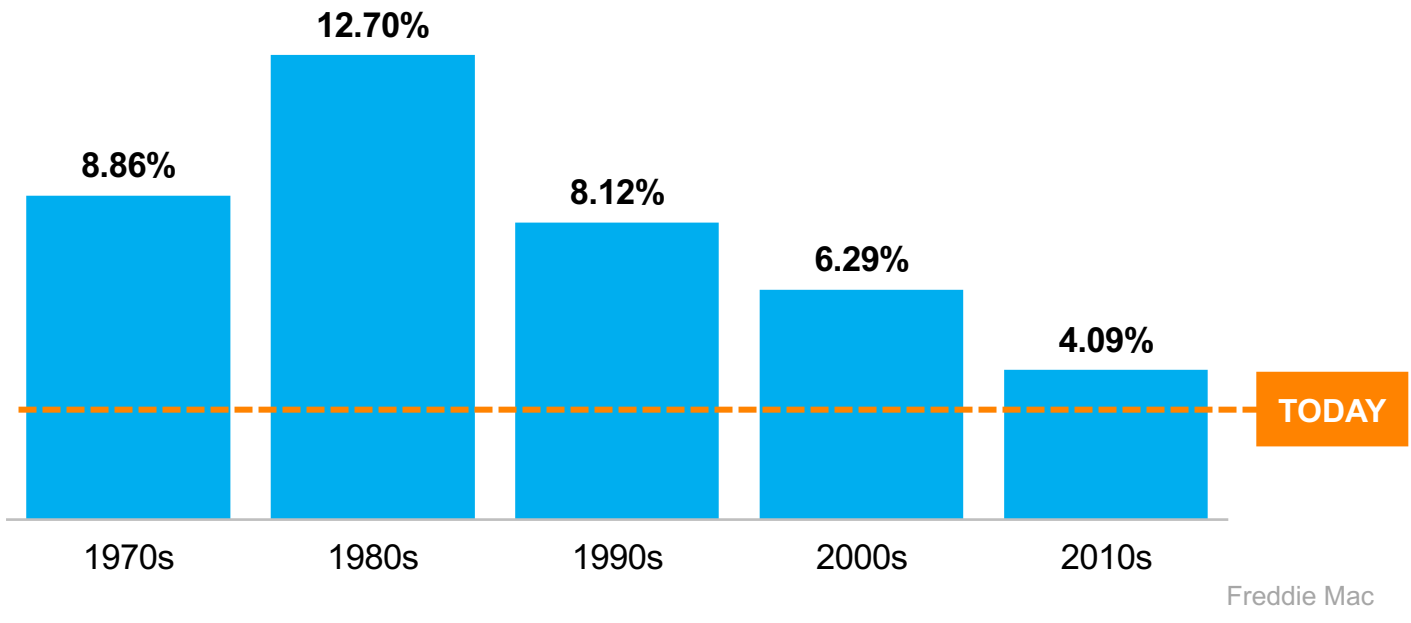
With the average 30-year fixed mortgage rate climbing above 3%, rising rates are one of the big topics of discussion in the housing market today. But as a homebuyer, what do 3% mortgage rates really mean?

Today's Rates Still Give Buyers Great Opportunity

Buyers don't want mortgage rates to rise, as any upward movement increases your monthly mortgage payment when you purchase a home. But it's important to put today's average mortgage rate into perspective. **Even though rates today are climbing back into the 3% range, they're still incredibly competitive.** To truly give you the full picture, take a look at the last 50 years *(see graph below).* **Looking back, today's rate is outstanding by comparison.**

Today's Rate Is Lower than the Average in Each of the Past 5 Decades

Based on historical data from Freddie Mac



What Does This Mean for You?

Being upset that you may have missed out on sub-3% mortgage rates is understandable. But it's important to realize, buying now still makes sense, as experts project rates will continue to rise. And when rates rise, it will cost more to purchase a home.

As Mark Fleming, Chief Economist at *First American*, explains:

> *"Rising mortgage rates, all else equal, will diminish house-buying power,* ***meaning it will cost more per month for a borrower to buy 'their same home.'"***

In other words, the longer you wait, the more it will cost you. Being educated and informed on the homebuying process is incredibly important today, so you can make the best possible decision about when to purchase a home.

Bottom Line

While it's true today's average mortgage rate is higher than it was a few months ago, 3% mortgage rates shouldn't deter you from your homebuying goals. Historically, today's rate is still low.

Consider this an opportunity rather than a hurdle. Let's connect so you can lock in a great rate now.

The Non-Financial Benefits of Homeownership

There's no denying the financial benefits of homeownership, but what's often overlooked are the feelings of gratitude, security, pride, and comfort we get from owning a home.

This year, those emotions are stronger than ever. We've lived through a time that has truly changed our needs and who we are, and as a result, homeownership has a whole new meaning for many of us. According to the *2021 State of the American Homeowner Report* by *Unison*:

> *"Last year, staying home became a necessity and that caused many homeowners to have **renewed gratitude for the roof over their head**."*

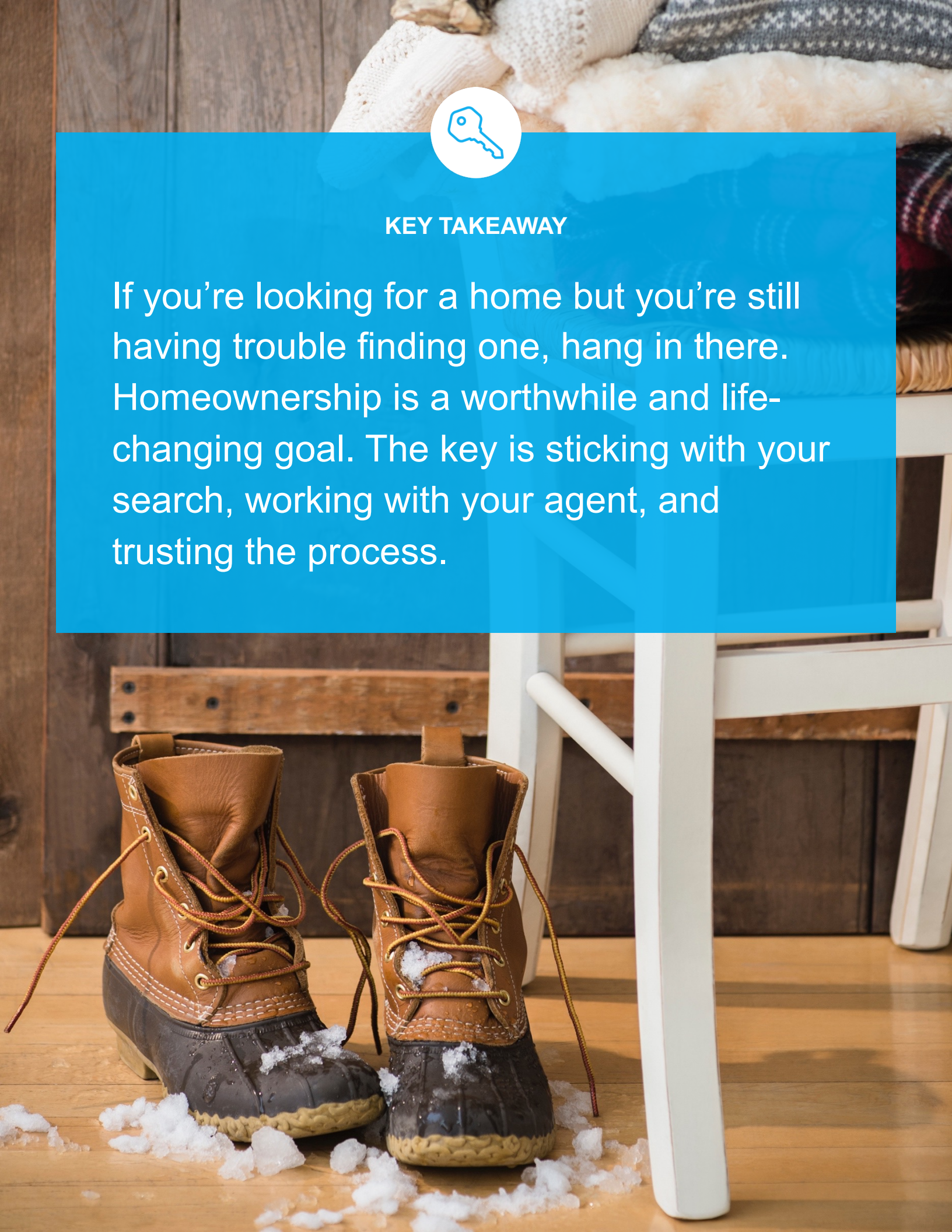
That's because, over the past year and a half, we've spent more time than ever at home: working, eating, schooling, exercising, and more. The world around us changed almost overnight, our needs shifted, and our shelters became a place that protected us on a whole new level. The same study from *Unison* notes:

- **91%** of homeowners say they feel secure, stable, or successful owning a home
- **64%** of American homeowners say living through a pandemic has made their home more important to them than ever
- **83%** of homeowners say their home has kept them safe during the COVID-19 pandemic

As we've learned throughout this health crisis, homeownership can provide the safety and security we crave in a time of uncertainty. That sense of connection and emotional stability genuinely reaches beyond just the financial aspect of owning a home.

Bottom Line

If you're considering buying a home, it's not entirely about the dollars and cents. Don't forget to weigh the non-financial benefits that may truly change your life when you need it most.



KEY TAKEAWAY

If you're looking for a home but you're still having trouble finding one, hang in there. Homeownership is a worthwhile and life-changing goal. The key is sticking with your search, working with your agent, and trusting the process.

Key Terms To Know When Buying a Home

Appraisal

Report highlighting the estimated value of the property completed by a qualified third party.

Lenders rely on appraisals to validate a home's value and ensure they're not lending more than the home is worth.

Closing Costs

The fees required to complete the real estate transaction. Paid at closing.

Ask your lender for a complete list of closing cost items, including points, taxes, title insurance, and more.

Credit Score

A number ranging from 300–850 that's based on an analysis of your credit history.

Helps lenders determine the likelihood you'll repay future debts.

Down Payment

Down payments are typically 3–20% of the purchase price of the home. Some 0% down programs are also available.

Ask your lender for more information.

Mortgage Rate

The interest rate you pay to borrow money when buying a home.

The lower the rate, the better.

Pre-Approval Letter

A letter from a lender indicating you qualify for a mortgage of a specific amount.

This is a critical step in today's competitive market.

Contingency

A provision in a contract requiring certain acts to be completed before the contract is binding.

In today's highly competitive market, some buyers are minimizing contingencies to make their offers seem more appealing.

Affordability

A measure of whether someone earns enough to qualify for a loan on a typical home based on the most recent price, income, and mortgage rate data.

As prices and mortgage rates continue to rise, that will impact how much home you can afford.

Equity

The value in your home above the total amount of liens against your home.

With current home price appreciation, many homeowners are realizing they have more equity than they thought and they're using it to move.

Sources: FTC, First American, NAR

The Importance of the Appraisal and Inspection

When it comes to finding the home of your dreams, it's easy to get emotionally attached even before your offer is accepted. In a competitive market like today's, some buyers wonder whether they should waive the appraisal and inspection in their offer to improve their chances of getting the home. But is that the best move?

Here's a breakdown of why getting an appraisal and an inspection can potentially save you a lot of time, money, and headaches down the road.

The Home Appraisal

The appraisal is a critical step for securing a mortgage on your home. When you apply for a mortgage, an unbiased appraisal – typically required by your lender – is the best way to verify the current value of the home. An appraisal ensures the lender doesn't loan you more than what the home is worth. As *Home Light* explains:

> *"… lenders typically require an appraisal to* ***ensure that your loan-to-value ratio falls within their underwriting guidelines****."*

When buyers are competing like they are today, bidding wars and market conditions can put upward pressure on prices. A buyer's contract price may end up higher than the value of the home. This is known as an **appraisal gap**.

In the current market, it's common for the seller to ask the buyer to make up the difference if this occurs. That means, as a buyer, you may need to be prepared to bring extra money to the table if you really want the home.

The Home Inspection

Like the appraisal, the inspection is important because it gives an impartial evaluation of the home. While the appraisal determines the current value of the home, the inspection determines the current condition of the home. As the *American Society of Home Inspectors* notes:

> *"Home **inspections are the opportunity to discover major defects** that were not apparent at a buyer's showing … Your home inspection is to help you make an informed decision about the house, including its condition."*

If there are any concerns during the inspection – an aging roof, a faulty HVAC system, or any other questionable items – you have the option to discuss potential issues with the seller. Your real estate advisor can help you navigate this process and negotiate what, if any, repairs need to be made before the sale is finalized.

Keep in mind, home inspections are critical because they can shed light on challenges you may face as the new homeowner. Without an inspection, serious and sometimes costly issues could come as a surprise later on.

Bottom Line

The appraisal and the inspection are both important in order to protect your best interests as a buyer. Work with your trusted real estate advisor so you have an expert guiding you throughout the entire process.

The Path to Homeownership

1

Save for Your Down Payment

Create a budget and do your research. There are lots of low down payment options available.

2

Know Your Credit Score

Learn your score and clean up outstanding debts like student loans and credit cards.

3

Find a Real Estate Agent

Contact a local professional to guide you through the process.

4

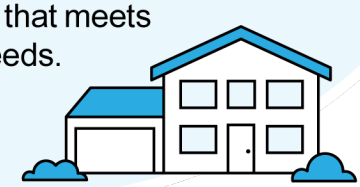
Get Pre-Approved

Differentiate yourself as a serious buyer and have a better sense of what you can afford.

5

Find a Home

Work with your agent to find a home in your budget that meets your needs.



6

Make an Offer

Determine your price and negotiate the contract.

7

Have a Home Inspection

Address any hidden issues in the home with the seller.

8

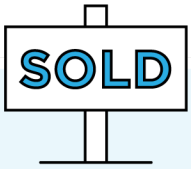
Get a Home Appraisal

Ensure the property is worth the price you are prepared to pay.

9

Close the Sale

Schedule a closing date once the loan is approved so you can sign the final paperwork.



10

Move In

Congrats!

You're a homeowner.

Is a 20% Down Payment Really Necessary?

There's a common misconception that, as a homebuyer, you need to come up with 20% of the total sale price for your down payment. But is that really how much you have to save?

A survey by *Lending Tree* asks buyers what's keeping them from purchasing a home. Over half of those surveyed say their biggest hurdle is the ability to afford a down payment.

That may be because those individuals assume a 20% down payment is necessary. While putting more money down if you're able can benefit you as a buyer, putting 20% down isn't always required.

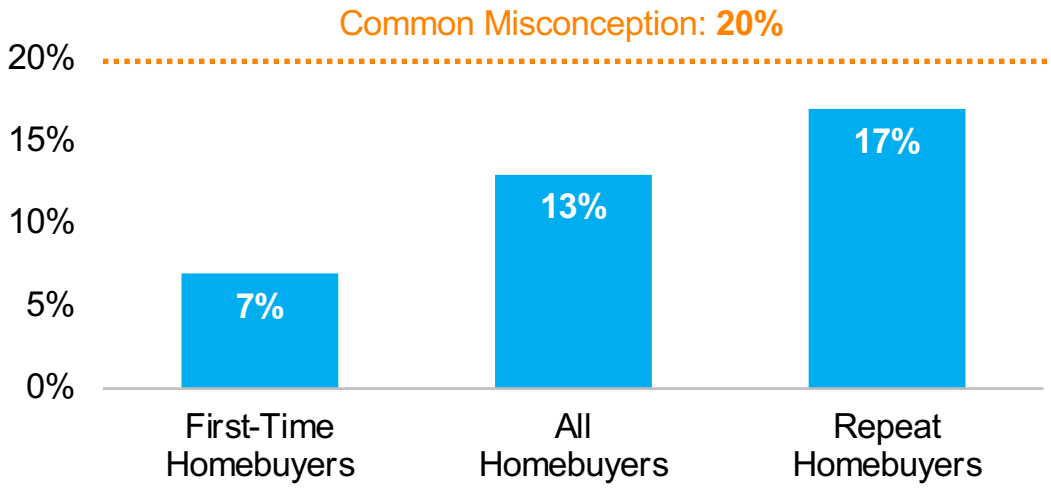
According to the latest *Profile of Home Buyers and Sellers* from the *National Association of Realtors* (NAR), **the median down payment hasn't been over 20% since 2005**.

It may sound surprising, but today's average down payment is only 13%. That number is even lower for first-time homebuyers, whose average down payment is only 7%.

> *The most damaging down payment myth—since it stops the homebuying process before it can start—is the belief that 20% is necessary.*
>
> *- Freddie Mac*

Median Down Payments

Today's median down payment is less than 20%



What Does This Mean for You?

If you're thinking of buying a home, it's important to know you don't always have to put 20% down. And while saving for any down payment amount may feel like a challenge, keep in mind there are programs for qualified buyers that allow a down payment as low as 3.5%. There are also options like VA loans and USDA loans with no down payment requirements for qualified applicants.

To understand what's available, do your homework. If you're interested in learning more about down payment assistance programs, information is available through sites like *downpaymentresource.com*. Be sure to also work with a real estate advisor from the start to learn what you may qualify for in the homebuying process.

Bottom Line

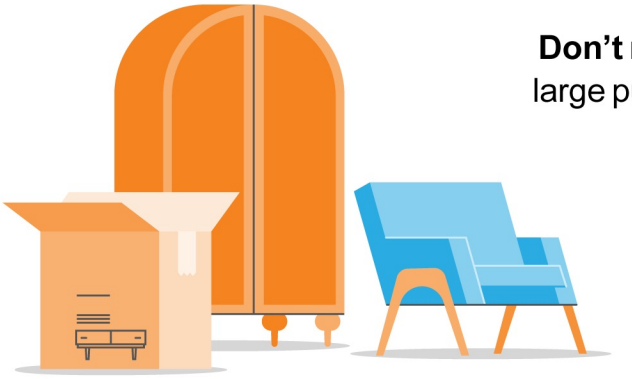
Don't let down payment myths keep you from hitting your homeownership goals. If you're looking to buy a home, let's review your options together.

Things To Avoid After Applying for a Mortgage

Consistency is the name of the game after applying for a mortgage. Be sure to discuss any changes in income, assets, or credit with your lender, so you don't jeopardize your application.

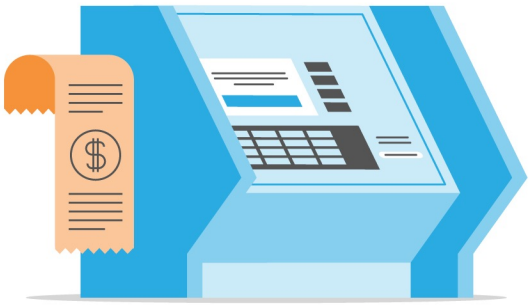
Don't change bank accounts.

Don't apply for new credit or close any credit accounts.



Don't make any large purchases.

Don't deposit cash into your bank accounts before speaking with your bank or lender.



Don't co-sign other loans for anyone.

The best plan is to fully disclose and discuss your intentions with your lender before you do anything financial in nature.

Is Offering Asking Price Enough?

If you're hoping to buy a home in today's highly competitive market, it's important to make your offer stand out. If you've gotten advice from someone who's purchased a home before, know that what's worked in the past may not ring true anymore.

Today's buyers shouldn't shop for a home and expect to negotiate a lower sales price. In a typical housing market, buyers try to determine how much less than the asking price they can offer and still get the home. From there, the buyer and seller typically negotiate and agree on a revised price somewhere in the middle.

Today is different.

The current housing market is anything but normal. According to the *National Association of Realtors* (NAR), homes today are:

- Receiving an average of 3.6 offers
- Selling in a median of just 18 days

This is due, in large part, to the fact that there just aren't enough homes available for the number of buyers who are eager to purchase them. Low supply and high demand means homes often sell for more than the asking price. In some cases, they sell for a lot more.

You may need to rethink how you look at a home's asking price.

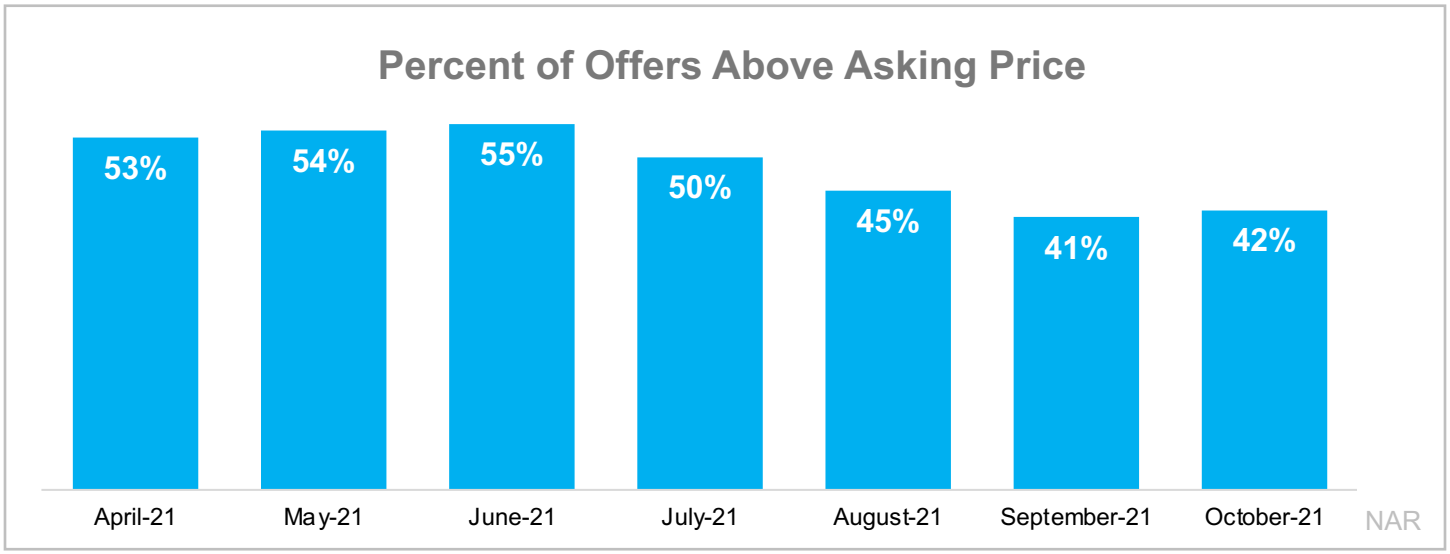
If you've found your dream home, you need to be realistic about today's housing market and how that impacts the offer you'll make. Offering below or even at a home's asking price may not cut it right now. Currently, the asking price is often the floor of the negotiation rather than the ceiling. That's important to keep in mind as you work with your agent to craft an offer.

More homes may be on their way, giving you more options.

If you're having trouble competing against other buyers, there is good news. There are some signs more sellers are about to enter the market. George Ratiu, Manager of Economic Research for *realtor.com*, says:

> "*Recent survey data suggests* ***the majority of prospective sellers are actively preparing to enter the market this winter.***"

As a buyer, that means more homes will likely be listed this season, which gives you hope for more options. Just remember, you still need to be prepared to make a competitive offer if you really love the home. Here's a look at the percent of offers over asking price, so you can get a feel for what to expect.



Bottom Line

Even if more sellers list their homes this season, it will still be a highly competitive market. Be ready to ***act quickly*** *when you find the right home for you. Then, let's work together so you can submit a strong offer based on today's current conditions.*

5 Tips for Making Your Best Offer

As a buyer in a sellers' market, you may feel like you're stuck between a rock and a hard place. When you're ready to make an offer on a home, remember these five easy tips to rise above the competition.

1. Know Your Budget

Knowing your budget and what you can afford is critical to your success as a homebuyer. The best way to understand your numbers is to work with a lender so you can get pre-approved for a loan. As *Freddie Mac* puts it:

> *"This pre-approval allows you to look for a home with greater confidence and demonstrates to the seller that **you are a serious buyer**."*

Showing sellers you're serious can give you a competitive edge. It enables you to act quickly when you've found your perfect home.

2. Be Ready To Move Fast

Speed and the pace of sales are contributing factors to today's competitive housing market. According to the *Existing Home Sales Report* from the *National Association of Realtors* (NAR):

> *"Eighty-two percent of homes sold in October 2021 were on the market for **less than a month**."*

When homes are selling fast, staying on top of the market and moving quickly are key. A skilled agent will do everything possible to ensure you see the latest listings and help you submit your best offer as soon as you find the perfect place to call home.

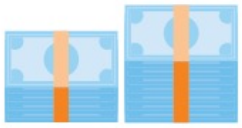
3. Lean on a Real Estate Professional

No matter what the housing market looks like, rely on a trusted real estate advisor. As *Freddie Mac* says:

> *"The success of your homebuying journey largely depends on the company you keep. . . . **be sure to select experienced, trusted professionals** who will help you make informed decisions and avoid any pitfalls."*

Agents are experts with unique insight into what's worked for other buyers in your area and what sellers may be looking for in an offer. It may seem simple, but catering to what a seller may need can help your offer stand out.

4. Make a Strong, but Fair Offer



According to the *Realtors Confidence Index* from NAR, 42% of offers today are above the list price. In such a competitive market, emotions and prices can run high. Having an agent to help you submit a strong, yet fair offer is critical in these situations. Your agent can help you understand the market value of the home and recent sales trends in the area.

5. Be a Flexible Negotiator

When putting together an offer, your trusted real estate advisor will help you consider which levers you can pull, including contract contingencies (conditions you set that the seller must meet for the purchase to be finalized). Of course, there are certain contingencies you don't want to give up. *Freddie Mac* explains:

> *"**Resist the temptation to waive the inspection contingency,** especially in a hot market or if the home is being sold 'as-is', which means the seller won't pay for repairs. Without an inspection contingency, you could be stuck with a contract on a house you can't afford to fix."*

Bottom Line

Today's competitive landscape makes it more important than ever to make a strong offer on a home. Let's connect to make sure you rise to the top along the way.

Buying a home is not just a financial decision. It's also a lifestyle decision.

- Mark Fleming, Chief Economist, *First American*

Let's Chat.

I'm sure you have questions and thoughts about the real estate process.

I'd love to talk with you about what you've read here and help you on the path to buying your new home. My contact information is below, and I look forward to working with you.

John Backer

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EQUAL HOUSING OPPORTUNITY