

THINGS TO CONSIDER WHEN  
**BUYING A HOME**



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EDITION

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## 4 REASONS TO BUY YOUR HOME NOW!

Here are four great reasons to consider buying a home today instead of waiting.

### 1. Prices Will Continue to Rise

The Home Price Expectation Survey polls a distinguished panel of over 100 economists, investment strategists, and housing market analysts. Their most recent report projects appreciation in home values over the next five years to be between 10.5% (most pessimistic) and 25.5% (most optimistic).

The bottom in home prices has come and gone. Home values will continue to appreciate for years. Waiting no longer makes sense.

### 2. Mortgage Interest Rates Are Projected to Increase

Freddie Mac's Primary Mortgage Market Survey shows that interest rates for a 30-year mortgage have started to inch up, most experts predict that they will begin to rise even more over the next 12 months. The Mortgage Bankers Association, Fannie Mae, Freddie Mac & the National Association of Realtors are in unison projecting that rates will be up almost a full percentage point by this time next year.

An increase in rates will impact YOUR monthly mortgage payment. Your housing expense will be more a year from now if a mortgage is necessary to purchase your next home.

### 3. Either Way You are Paying a Mortgage

As a paper from the *Joint Center for Housing Studies at Harvard University* explains:

*“Households must consume housing whether they own or rent. Not even accounting for more favorable tax treatment of owning, homeowners pay debt service to pay down their own principal while households that rent pay down the principal of a landlord plus a rate of return. That’s yet another reason owning often does—as Americans intuit—end up making more financial sense than renting.”*

### 4. It’s Time to Move On with Your Life

The ‘cost’ of a home is determined by two major components: the price of the home and the current mortgage rate. It appears that both are on the rise.

But, what if they weren’t? Would you wait?

Look at the actual reason you are buying and decide whether it is worth waiting. Whether you want to have a great place for your children to grow up, you want your family to be safer or you just want to have control over renovations, maybe it is time to buy.

**If the right thing for you and your family is to purchase a home this year, buying sooner rather than later could lead to substantial savings.**



# YOU NEED A PROFESSIONAL WHEN BUYING A HOME

Many people wonder whether they should hire a real estate professional to assist them in buying their dream home or if they should first try to go it on their own. In today's market: you need an experienced professional!

## You Need an Expert Guide if You Are Traveling a Dangerous Path

The field of real estate is loaded with land mines. You need a true expert to guide you through the dangerous pitfalls that currently exist. Finding a home that is priced appropriately and ready for you to move in to can be tricky. An agent listens to your wants and needs, and can sift out the homes that do not fit within the parameters of your "dream home".

## You Need a Skilled Negotiator

In today's market, hiring a talented negotiator could save you thousands, perhaps tens of thousands of dollars. Each step of the way – from the original offer, to the possible renegotiation of that offer after a home inspection, to the possible cancelation of the deal based on a troubled appraisal – you need someone who can keep the deal together until it closes.

Realize that when an agent is negotiating their commission with you, they are negotiating their own salary; the salary that keeps a roof over their family's head; the salary that puts food on their family's table. If they are quick to take less when negotiating for themselves and their families, what makes you think they will not act the same way when negotiating for you and your family? If they were Clark Kent when negotiating with you, they will not turn into Superman when negotiating with the buyer or seller in your deal.

## Bottom Line

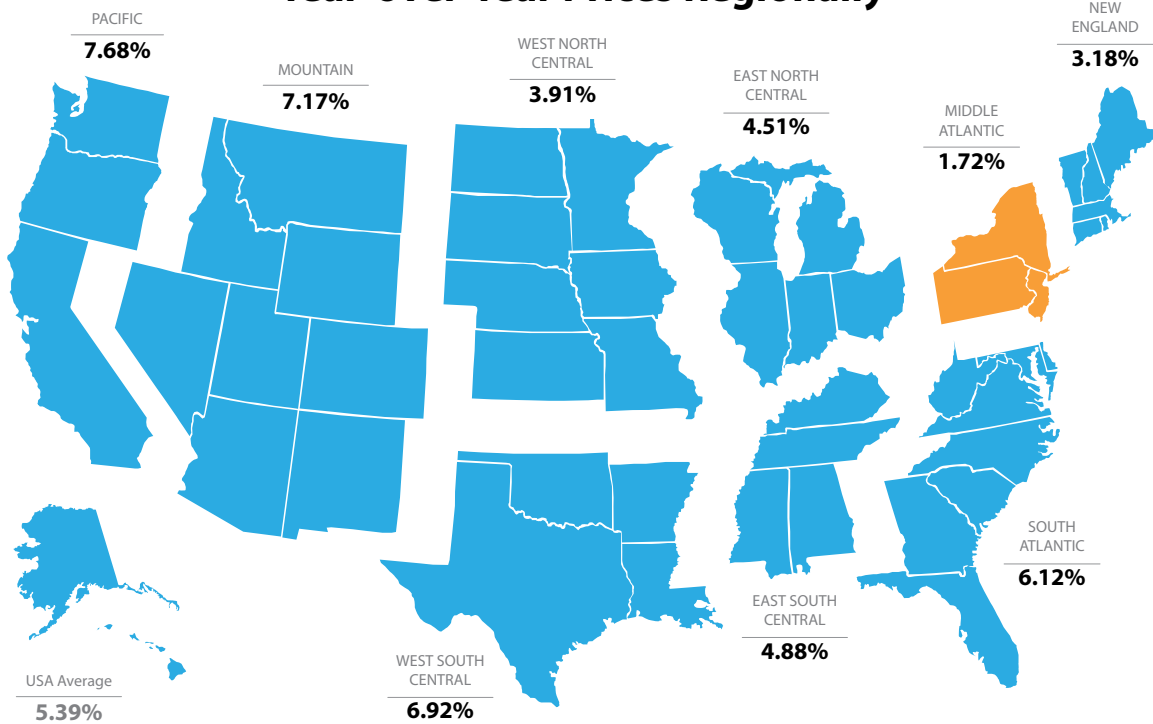
Famous sayings become famous because they are true. You get what you pay for. Just like a good accountant or a good attorney, a good agent will save you money...not cost you money.



# HOME PRICES OVER THE LAST YEAR

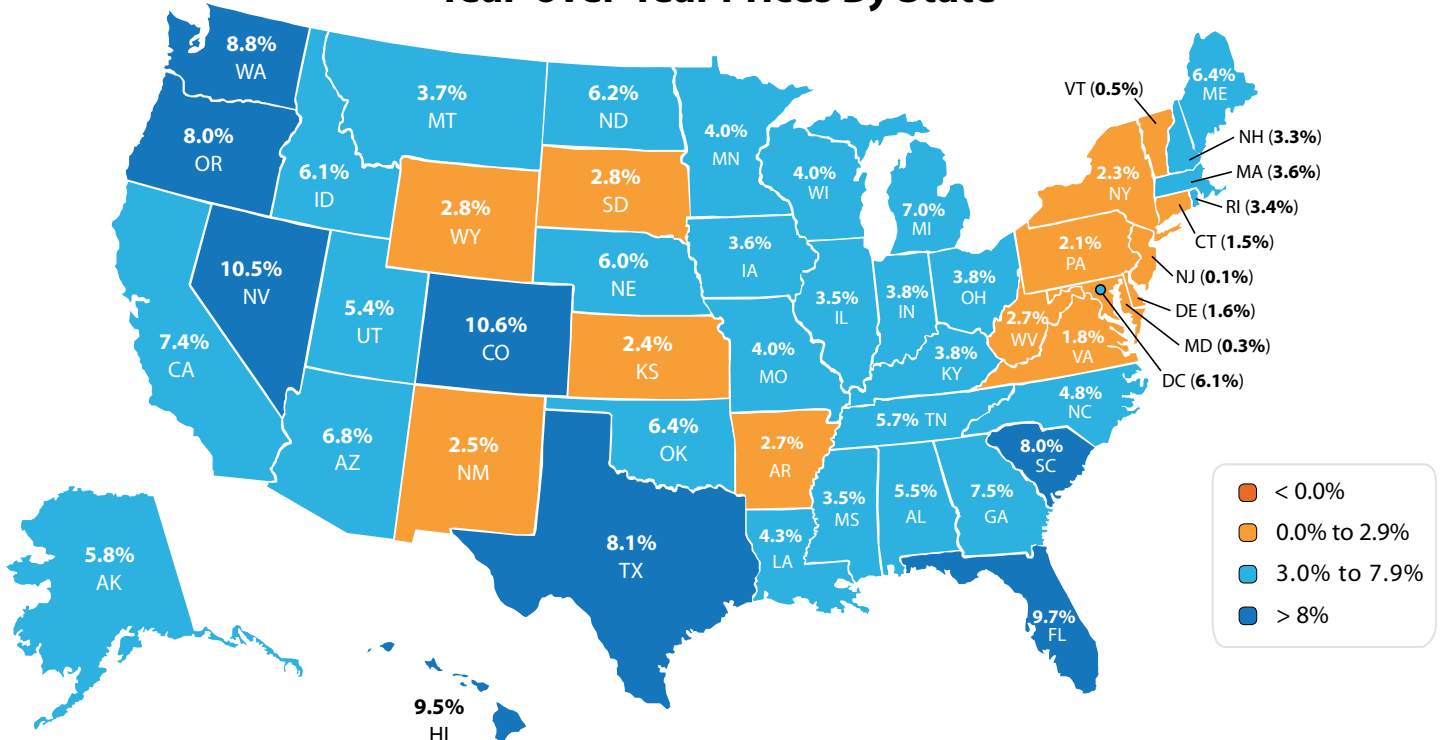
Every quarter, the Federal Housing Finance Agency (FHFA) reports on the Year-over-Year changes in home prices. Below you will see that prices are up, year-over-year in every region.

## Year-over-Year Prices Regionally



Looking at the breakdown by state, you can see that each state is appreciating at different rates. This is important to know if you are planning on relocating to a different area of the country. Waiting to move may end up costing you more!

## Year-over-Year Prices By State



# WHERE ARE PRICES HEADED OVER THE NEXT 5 YEARS?

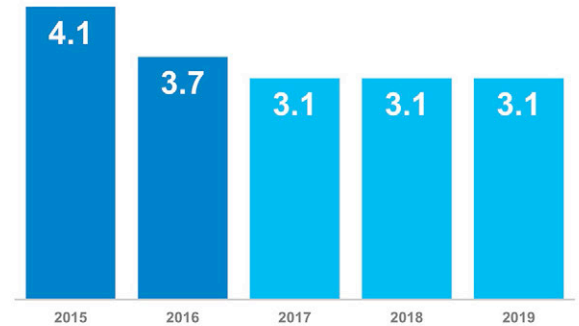
Today, many real estate conversations center on housing prices and where they may be headed. That is why there is tremendous value in the **Home Price Expectation Survey**. Every quarter, *Pulsenomics* surveys a nationwide panel of more than 100 economists, real estate experts and investment & market strategists about where prices are headed over the next five years. They then average the projections of all 100+ experts into a single number.

## The results of their latest survey:

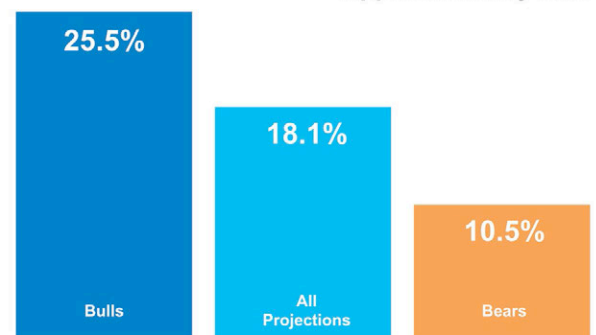
- Values will appreciate by **4.1%** in 2015
- Cumulative appreciation will be **18.1%** by 2019
- That means the average annual appreciation will be **3.4%** over the next 5 years.
- Even the experts making up the most bearish quartile of the survey still are projecting a cumulative appreciation of almost **10.5%** by 2019

Individual opinions make headlines. This survey is a fair depiction of future values.

## PROJECTED Mean Percentage Appreciation



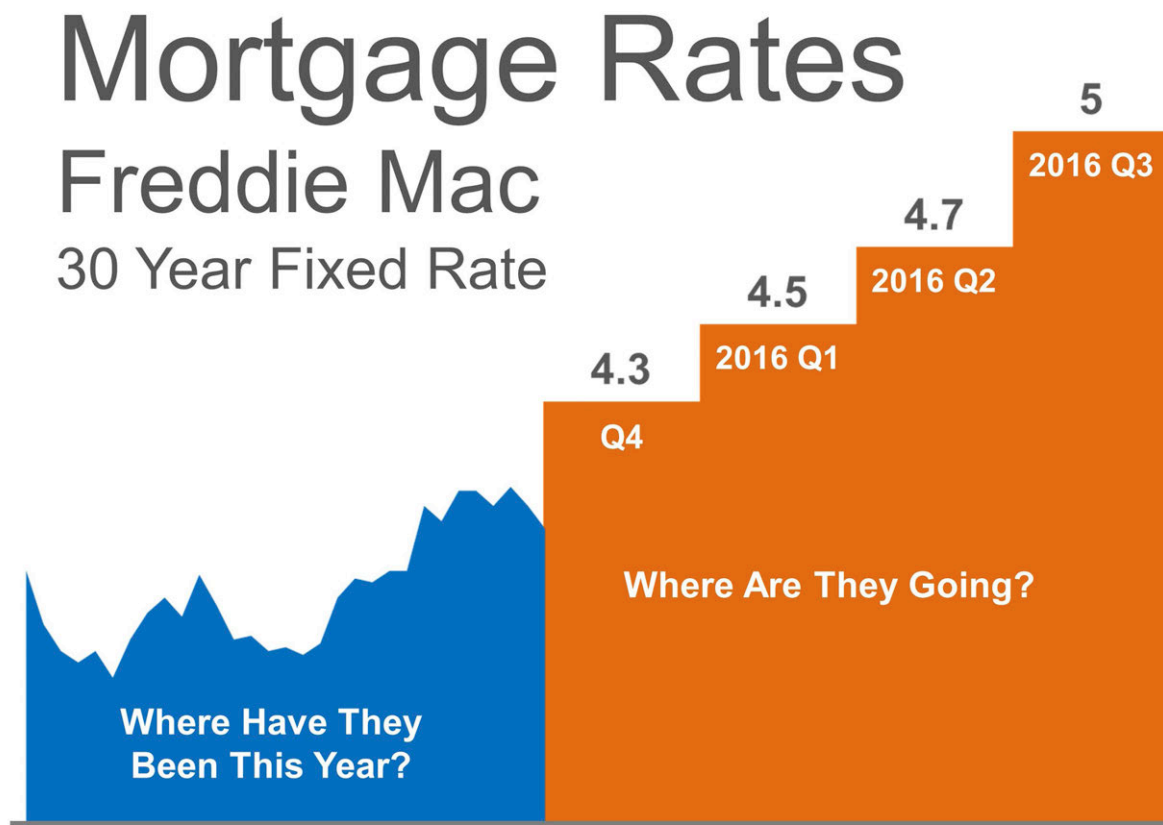
## Cumulative House Appreciation by 2019



# WHERE ARE MORTGAGE INTEREST RATES HEADED?

The interest rate you pay on your home mortgage has a direct impact on your monthly payment. The higher the rate the greater the payment will be. That is why it is important to look at where rates are headed when deciding to buy now or wait until next year.

Below is a chart created using *Freddie Mac's U.S. Economic & Housing Marketing Outlook*.



As you can see interest rates are projected to increase steadily over the course of the next year.

### How Will This Impact Your Mortgage Payment?

Depending on the amount of the loan that you secure, a half of a percent (.5%) increase in interest rate can increase your monthly mortgage payment significantly.

Waiting to secure the home of your dreams may mean having to tighten the budget, or sacrificing on luxuries that may be taken for granted today.

The experts predict that home prices will appreciate by 4.5% over the next 12 months. If both predictions become reality, families would wind up paying considerably more for their home.

### Bottom Line

Even a small increase in interest rate can impact your family's wealth. Meet with a local real estate professional to evaluate your ability to purchase your dream home.



# BUYING A HOME? CONSIDER COST NOT JUST PRICE

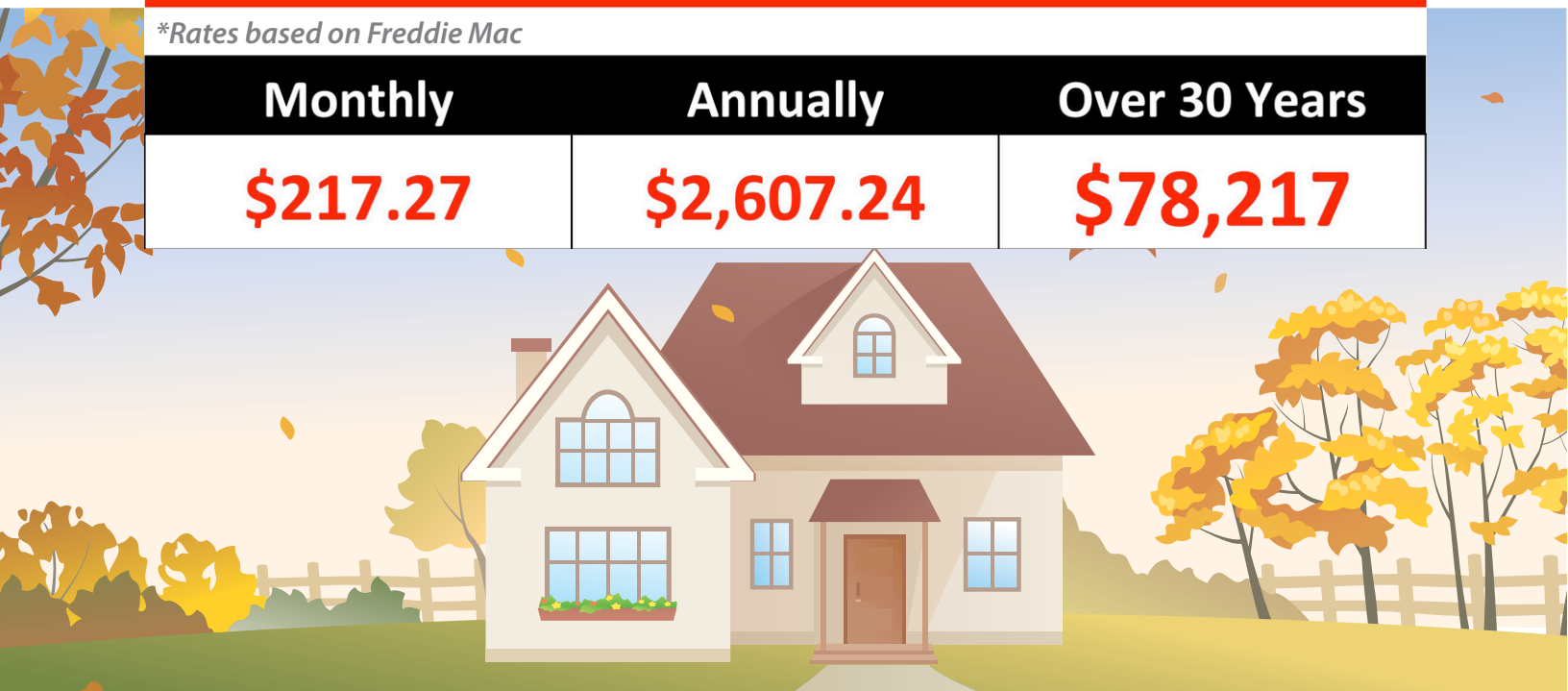
As a seller, you will be most concerned about 'short term price' – where home values are headed over the next six months. As a buyer, you must be concerned not about price but instead about the 'long term cost' of the home.

The *Mortgage Bankers Association (MBA)*, the *National Association of Realtors*, *Fannie Mae* and *Freddie Mac* all projected that mortgage interest rates will increase by **almost a full percentage point over the next twelve months**. According to *CoreLogic's* most recent *Home Price Index Report*, home prices will appreciate by 4.5% over the next 12 months.

## What Does This Mean as a Buyer?

Here is a simple demonstration of what impact an interest rate increase would have on the mortgage payment of a home selling for approximately \$250,000 today if home prices appreciate by the 4.5% predicted by *CoreLogic* **over the next twelve months**:

	Mortgage	Interest Rate*	Payment (P&I)**
Today	\$250,000	3.94%	<b>\$1,184.91</b>
Q3 2016	\$261,250	5.0%	<b>\$1,402.18</b>
<b>Difference in Monthly Payment</b>			<b>\$217.27</b>
<i>*Rates based on Freddie Mac</i>			
<b>Monthly</b>	<b>Annually</b>	<b>Over 30 Years</b>	
<b>\$217.27</b>	<b>\$2,607.24</b>	<b>\$78,217</b>	



# What You Need to Know About The MORTGAGE PROCESS

## What You'll Need to Qualify in Today's Market:

- ✓ **Downpayment:**  
Generally between 5-20% of the purchase price (*40% of buyers are putting down less than 10% - with many putting down as little as 3%*)
- ✓ **Income Verification, Credit History & Asset Documentation**
- ✓ **Impartial Third-Party Appraisal:**  
Your lender needs this to verify the value of the house you want to purchase.
- ✓ **Stable Income**      ✓ **Good Credit History**



You will interact with various **professionals** during the home buying process, all of whom are **valuable resources** & perform **necessary roles**.

## Steps To Take:



**Find out your current credit history & score.**  
You don't want to start out with any surprises.



**Start gathering all of your documentation:**  
Income Verification (W-2 forms, tax returns, employment), Credit History & Assets (such as bank statements to verify your savings)



**Contact a professional** to help you develop a spending plan & determine how much you can afford.



**Consult with your lender to review your income, expenses & financial goals** to determine the type and amount of mortgage you qualify for.



**Talk to your lender about applying for a mortgage & getting a pre-approval letter.** This letter provides an estimate of what you might be able to borrow (*provided your financial status doesn't change*) & demonstrates to home sellers that you are a serious buyer.



### Bottom Line:

Do your research, reach out to the professionals, stick to your budget & be sure you are ready to take on the financial responsibilities of being a homeowner.

Source: Freddie Mac

# GETTING A MORTGAGE: WHY SO MUCH PAPERWORK?

Why is there so much paperwork mandated by the bank for a mortgage loan application when buying a home today? It seems that the lender needs to know everything about you and requires three separate sources to validate each and every entry on the application form.

Many buyers are being told by friends and family that the process was a hundred times easier when they bought their home ten to twenty years ago.

There are two very good reasons that the loan process is much more onerous on today's buyer than perhaps any time in history.



## **1. The government has set new guidelines that now demand that the bank prove beyond any doubt that you are indeed capable of paying the mortgage.**

During the run-up in the housing market, many people 'qualified' for mortgages that they could never pay back. This led to millions of families losing their homes. The government wants to make sure this can't happen again.

## **2. The banks don't want to be in the real estate business.**

Over the last seven years, banks were forced to take on the responsibility of liquidating millions of foreclosures and also negotiating another million+ short sales. Just like the government, they don't want more foreclosures. For that reason, they need to double (maybe even triple) check everything on the application.

## **However, there is some good news in the situation.**

The housing crash that mandated that banks be extremely strict on paperwork requirements also allowed you to get a mortgage interest rate probably around 4%.

The friends and family who bought homes ten or twenty years ago experienced a simpler mortgage application process but also paid a higher interest rate (the average 30-year fixed rate mortgage was 8.12% in the 1990's and 6.29% in the 2000's).

If you went to the bank and offered to pay 7% instead of near 4%, they would probably bend over backwards to make the process much easier.

## **Bottom Line**

Instead of concentrating on the additional paperwork required, let's be thankful that we are able to buy a home at historically low rates.



## 217,726 REASONS TO BUY A HOME NOW

In the inaugural *Opportunity Cost Report* released by *realtor.com* they explained that “with interest rates and home prices expected to climb in the next year, the financial penalties of delaying or forgoing a home purchase in today’s market have become very steep”.

The report estimates that, based on today’s dollars, the average purchaser would accumulate **\$217,726 in increased wealth** over a 30-year period as a homeowner.

### What could this mean to someone sitting on the fence waiting to buy?

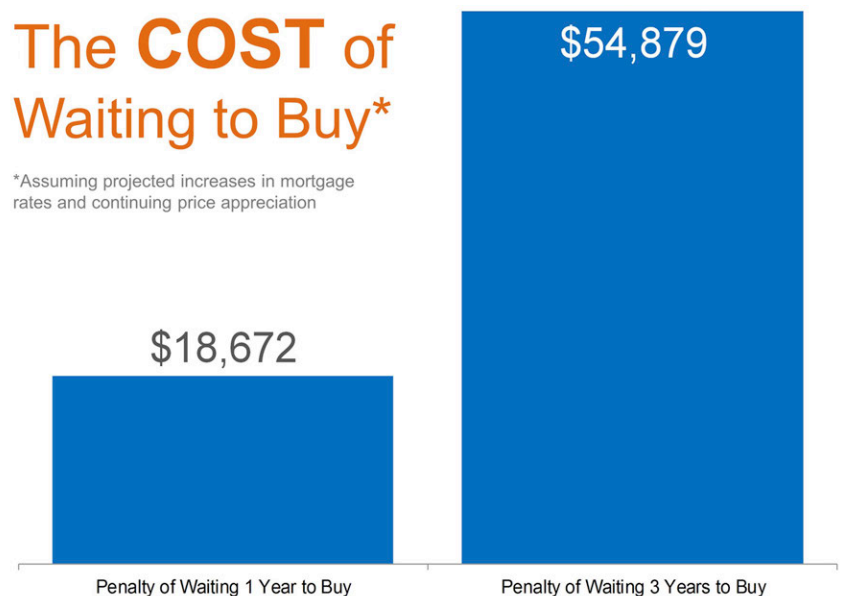
Experts believe that both home prices and mortgage interest rates will increase over the next twelve months. Obviously, if this does happen, the monthly cost of a home one year from now will be dramatically higher than it is today.

The *Opportunity Cost Report* breaks down exactly how much a purchaser could lose over increments of one year and three years.

The results based on an average purchaser in the U.S. delaying their purchase are on the right.

### The **COST** of Waiting to Buy\*

\*Assuming projected increases in mortgage rates and continuing price appreciation



### Bottom Line

If you are ready, willing and able to buy a home, **waiting doesn’t make sense.**



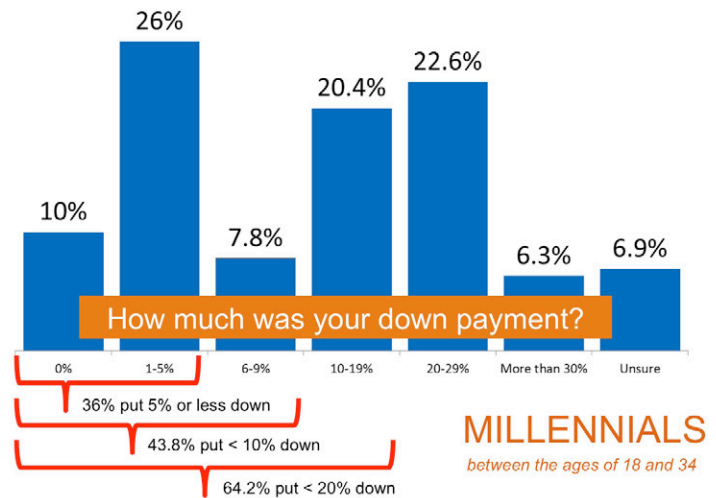
# WHAT DO YOU REALLY NEED TO QUALIFY FOR A MORTGAGE?

A recent survey by *Ipsos* found that the American public is still somewhat confused about what is actually necessary to qualify for a home mortgage loan in today's housing market. The study pointed out two major misconceptions that we want to address today.

## 1. Down Payment

The survey revealed that consumers overestimate the down payment funds needed to qualify for a home loan. According to the report, **36% think a 20% down payment is always required.** In actuality, there are many loans written with a down payment of 5% or less.

*On the right are the results of a Digital Risk survey done on Millennials who recently purchased a home.*



## 2. FICO Scores

The *Ipsos* survey also reported that two-thirds of the respondents believe they need a very good credit score to buy a home, with 45 percent thinking a "good credit score" is over 780. In actuality, the average FICO scores of approved conventional and FHA mortgages are much lower.

*On the right are the numbers from a recent Ellie Mae report.*



## Bottom Line

If you are a prospective purchaser who is 'ready' and 'willing' to buy but not sure if you are also 'able', sit down with someone who can help you understand your true options.

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# 5 Reasons to Hire a Real Estate Professional

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## Paperwork

They help with all disclosures & paperwork necessary in today's heavily regulated environment.



## Experience

They are well educated in and experienced with the entire sales process.



## Negotiations

They act as a "buffer" in negotiations with all parties throughout the entire transaction.



## Pricing

They help you understand today's real estate values when setting the price of a listing or an offer to purchase.



## Understanding of Current Market Conditions

They simply & effectively explain today's real estate headlines & decipher what they mean to you.



## **HARVARD: 5 FINANCIAL REASONS TO BUY A HOME**

Eric Belsky is Managing Director of the Joint Center of Housing Studies at *Harvard University*. He authored a paper on homeownership - *The Dream Lives On: the Future of Homeownership in America*. In his paper, Belsky reveals five financial reasons people should consider buying a home.

Here are the five reasons, each followed by an excerpt from the study:

### **1.) Housing is typically the one leveraged investment available.**

*"Few households are interested in borrowing money to buy stocks and bonds and few lenders are willing to lend them the money. As a result, homeownership allows households to amplify any appreciation on the value of their homes by a leverage factor. Even a hefty 20 percent down payment results in a leverage factor of five so that every percentage point rise in the value of the home is a 5 percent return on their equity. With many buyers putting 10 percent or less down, their leverage factor is 10 or more."*

### **2.) You're paying for housing whether you own or rent.**

*"Homeowners pay debt service to pay down their own principal while households that rent pay down the principal of a landlord."*

### 3.) Owning is usually a form of “forced savings”.

*“Since many people have trouble saving and have to make a housing payment one way or the other, owning a home can overcome people’s tendency to defer savings to another day.”*

### 4.) There are substantial tax benefits to owning.

*“Homeowners are able to deduct mortgage interest and property taxes from income...On top of all this, capital gains up to \$250,000 are excluded from income for single filers and up to \$500,000 for married couples if they sell their homes for a gain.”*

### 5.) Owning is a hedge against inflation.

*“Housing costs and rents have tended over most time periods to go up at or higher than the rate of inflation, making owning an attractive proposition.”*

### Bottom Line

We realize that homeownership makes sense for many Americans for many social and family reasons. It also makes sense financially.







## RISING HOME PRICES & FAMILY WEALTH

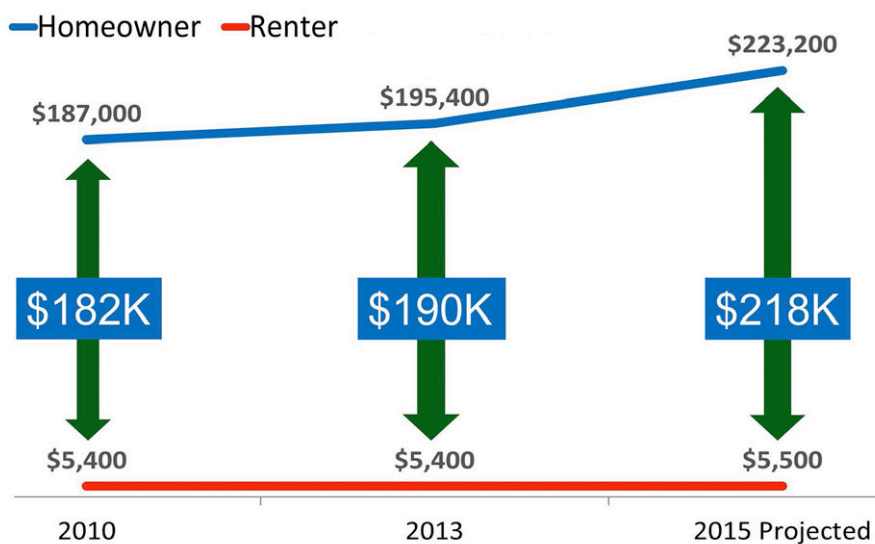
The *National Association of Realtors (NAR)* recently released a report revealing that the growing wealth gap in this country has been impacted by the recent increases in real estate values coupled with the drop in homeownership rates. The report discloses:

*“Over 90 percent of metro areas have experienced declining homeownership rates at a time when home values have risen and incomes have remained flat.”*

Increasing home values in many regions of the country have helped homeowners build housing wealth in recent years. However, the continued decline in homeownership means this increase in wealth is shared by fewer people and likely leading to worsening inequality in the U.S.

Below is a chart showing the aforementioned increasing gap between renters and homeowners in regard to family wealth:

### Increasing Gap in Family Wealth



Source: Federal Reserve & NAR

#### Bottom Line

If the experts are correct and a homeowner will really have an average of 40x the net worth of a renter by the end of the year, doesn't it make sense to evaluate if a purchase could be in your future?



## 4 DEMANDS TO MAKE ON YOUR REAL ESTATE AGENT

Are you thinking of buying a home? Are you dreading having to walk through strangers' houses? Are you concerned about getting the paperwork correct? Hiring a professional real estate agent can take away most of the challenges of buying. A great agent is always worth more than the commission they charge just like a great doctor or great accountant.

You want to deal with one of the best agents in your marketplace. To do this, you must be able to distinguish the average agent from the great one.

Here are the top 4 demands to make of your real estate agent when buying a home:

### 1. Tell the Truth About the Price

Too many agents just take your offer at any price and then try to 'work' both the seller and you while negotiating later. Demand that the agent prove to you that they have a belief in the price you are offering. Make them show you their plan to get both the seller - *and the bank* - to accept that price. Every house in today's market must be sold twice – first to you and then to your bank.

The second sale may be more difficult than the first. The residential appraisal process has gotten tougher. A recent survey showed that there was a challenge with the appraisal on 24% of all residential real estate transactions. It has become more difficult to get the banks to agree on the contract price. A red flag should be raised if your agent is not discussing this with you at the time of the original offer.

## 2. Understand the Timetable with which Your Family is Dealing

You will be moving your family into a new home. Whether the move revolves around the start of a new school year or a new job, you will be trying to put the move to a plan.

This can be very emotionally draining. Demand from your agent an appreciation for the timetables you are setting. Your agent cannot pick the exact date of your move, but they should exert any influence they can, to make it work.

## 3. Remove as Many of the Challenges as Possible

It is imperative that your agent knows how to handle the challenges that will arise. An agent's ability to negotiate is critical in this market.

*Remember:* If you have an agent who was weak negotiating with you on parts of the purchase offer, don't expect them to turn into a superhero when they are negotiating with the seller for you and your family.

## 4. Find the Right HOUSE!

There is a reason you are putting yourself and your family through the process of moving.

You are moving on with your life in some way. The reason is important or you wouldn't be dealing with the headaches and challenges that come along with purchasing. Do not allow your agent to forget these motivations. Make sure that they don't worry about your feelings more than they worry about your family. If they discover something needs to be done to attain your goal, insist they have the courage to inform you.

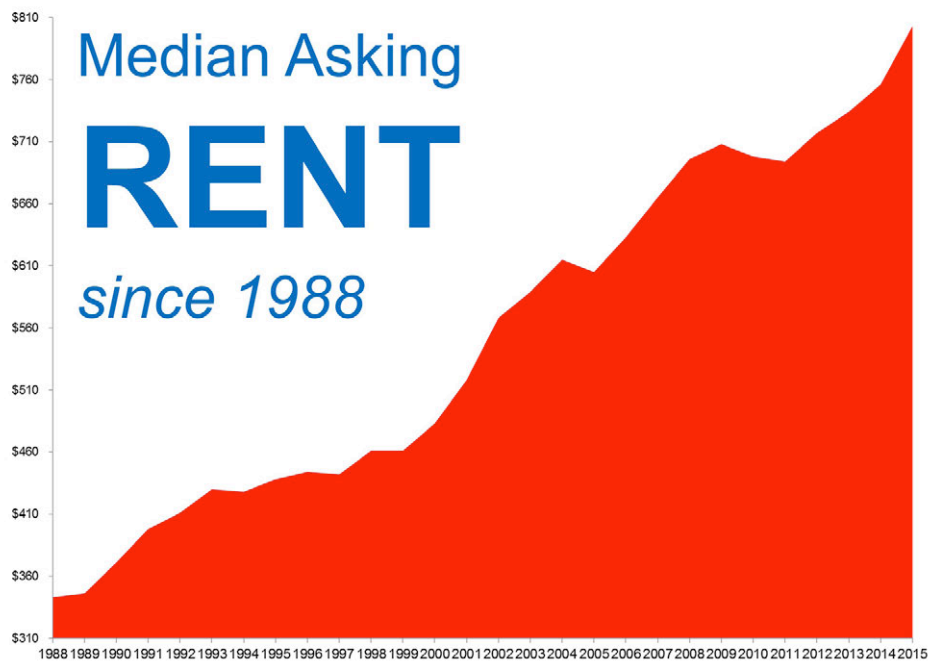
**Good agents know how to deliver good news. Great agents know how to deliver tough news. In today's market, YOU NEED A GREAT AGENT!**



# WHEN IS IT A GOOD TIME TO RENT? DEFINITELY NOT NOW!

People often ask whether or not now is a good time to buy a home. No one ever asks when a good time to rent is. However, we want to make certain that everyone understands that today is NOT a good time to rent.

The Census Bureau just released their second quarter median rent numbers. The graph below shows median rent increases from 1988 until today.



At the same time, a report by *Axiometrics* revealed:

*"The national apartment market's annual effective rent growth rate of 5.1% in June 2015 represented a 47-month high, and continued a streak of 5.0%-plus rent growth that is now the longest in at least six years, according to apartment market research. The effective rent growth in June 2014 was 3.7%, putting June 2015's exceptional performance into perspective.*

*This is the highest rate since the 5.3% of July 2011. The metric has reached at least 5.0% for five straight months, the longest such streak since Axiometrics started monthly reporting of annual apartment data in April 2009."*

## Where will rents be headed in the future?

Stephanie McCleskey, Axiometrics vice president of research, commented on the above report in an article by Real Estate Economy Watch:

*"Rent growth is just shy of the post-recession peak, and the June metrics reflect the continued strength of the apartment market. The demand for apartments is still strong, despite the record number of new units being delivered this year. Tight occupancy is why landlords can push rents higher."*

## Bottom Line

If you are ready, willing and of course able to buy, now may be the time.

# The Cost of **RENTING** vs. **BUYING**

**HISTORICALLY:**

**NOW:**

Percentage of Income Needed to Afford **Median Rent**

**25.0%**

**30.1%**

Percentage of Income Needed to Afford a **Median Home**

**22.0%**

**15.3%**

If you are renting & think you can't afford a home... **THINK AGAIN!**

***BUYING COSTS SIGNIFICANTLY LESS THAN RENTING!***

*Either way you're paying a mortgage, why not have it be YOURS?*



Source: *Pulsenomics*

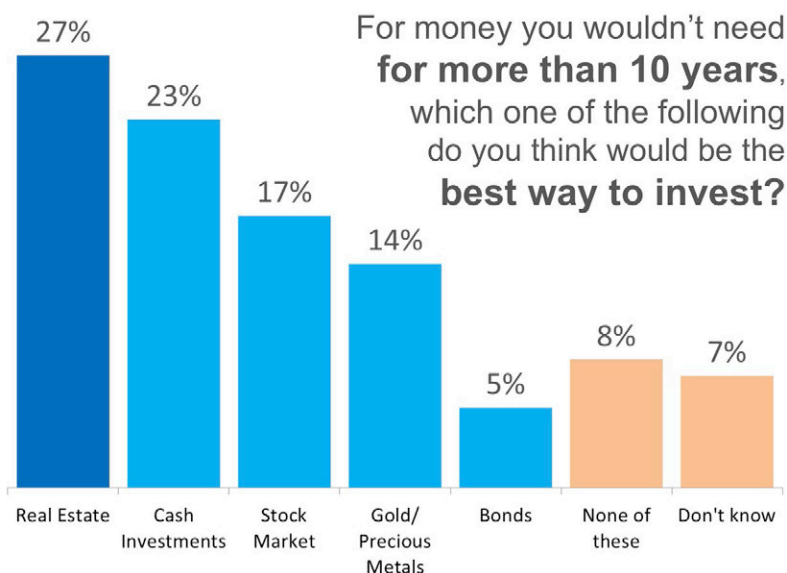
# REAL ESTATE AGAIN SEEN AS BEST INVESTMENT

We are almost back to 'pre-housing crash' home values. The inventories of distressed properties (foreclosures & short sales) are shrinking dramatically. The economy is improving. The job numbers are headed in the right direction.

The big question that still remains: Have Americans regained their confidence in real estate as a worthy investment?

According to a survey conducted by *Princeton Survey Research Associates*, Americans have put real estate back into first place as the best of all investments.

## Here are the results of the survey:



## Bottom Line

Homeownership never lost its place as a key component of the American Dream for a host of financial and non-financial reasons. It is good to see that it has regained the top spot as best overall investment.

