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Rob Cassam

January 2022

REAL ESTATE Update™

The right real estate advice makes ALL the difference!

2022 Real Estate Market Predictions

What are the predictions looking like for the coming year?

Cities Could Surge Again
People may become comfortable with big cities again, following the pandemic's start, where many people relocated to the suburbs and less expensive states. That means some areas in the Northeast, Southeast and the West Coast could see an increase in real estate action.

Of course, we don't know how the pandemic will continue to unfold and whether that's going to play a role in how willing or reluctant people are to make a move back to cities. There are certainly headwinds still being felt in large metro areas that could keep buyers away.

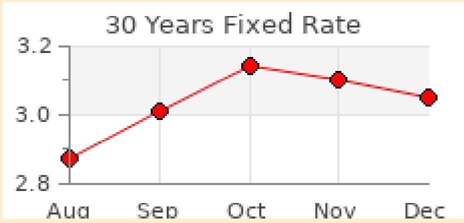
The Housing Boom May Lose Some Steam
Between August 2020 and August 2021, home price appreciation was 19.9%. That represented a 12-month record. However, some indicators indicate the boom is losing some steam, although analysts are eager to point out they don't necessarily see a crash in the near future.

Instead, it looks like there's some seasonality in the cooldown, which is typical during the holidays. It also seems that homebuyers are finally starting to take a pause against the surging prices in the real estate market.

For example, in October, just over 60% of sales involved a bidding war, down from an all-time high of 74.5% in April. There's also a pretty high likelihood the Federal Reserve will raise rates as a way of slowing inflation, and with a rise in mortgage rates, some buyers will be altogether priced out.

Mortgage Rates
U.S. averages as of January 2022:

30 yr. fixed: 3.05%
15 yr. fixed: 2.3%
5/1 yr. adj: 2.37%



What Other Income Can You Use to Buy a Home?

There are many types of income you may receive that could be considered if you were trying to get a mortgage. If you have investment dividends or Social Security income, these can be counted as income to get a mortgage. If you have a co-signer, this is another option.

Unemployment income isn't considered when you're applying for a mortgage because it's short-term. Therefore it's not qualified income. If you get a mortgage while you're unemployed, at least one person on your application needs to have financial documentation to show qualification.

Lenders need to document at least two years of a steady income in most cases. A lender also needs to show that income sources will continue well into the future—usually for at least three years. If you're newly unemployed, a lender can't verify your future earnings.

In most states, the maximum amount of time you're eligible for unemployment is 26 weeks at a time. That comes out to around six months, which is well below the three-year threshold.

These Projects Could Lower the Value of Your Home

Think twice before doing some of these projects unless you truly don't ever plan to sell your home.

Garage Conversions
A garage conversion is something that often reduces home values. Many homeowners want a garage, and if you spend a lot of money converting yours into something else, there's no guarantee you're going to recoup what you put into the project. Most homeowners say the storage and utility aspect of a garage is a big plus for them, especially if you live somewhere with a colder climate, where cars need to be stored indoors ideally.

Do-It-Yourself Projects That Look DIY
If you have the skills to do a DIY project in your home, it can add value to your home. In some cases, however, DIY projects can be very apparent and can turn off potential buyers. For example, if you're considering painting your cabinets, think very carefully about whether or not you should do that. Painting tile is another example of a DIY project that's best avoided.

Sunroom Additions
Sunrooms are one of the worst home projects to take on in terms of a return on your investment. Many sunrooms cost tens of thousands of dollars to build, adding little value to the home. Sunrooms are spaces that people simply don't use. You may add one only to find out you don't even use it. In cases where something like a sunroom addition does manage to add value to your home, it will seldom be as much of an increase as what it costs.

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Should You Hire an Interior Designer?
By Ashley Sutphin

Whether you're moving to a new home or considering a refresh or remodel for your current one, you might be asking yourself whether or not you should hire an interior designer. A designer is someone who can create a beautiful space, but this scenario isn't for everyone. The following are considerations and both pros and cons that come with working with a designer.

What is Your Budget?

Budget will have to be the biggest consideration when you think about whether you should hire a designer. Designers are not cheap, particularly when they're experienced. If you're doing a remodeling project or moving into a new home, you have to think about the significant costs a designer can add to your overall budget. Some designers will charge a flat fee. Others will charge by the hour. Some designers will make purchases on your behalf and charge a percentage on each item they buy.

Regardless of the pricing structure, talk to some designers in your area to get a feel for the rates. You may figure out a designer isn't even in your budget. It could force you to sacrifice in other areas of your project that you'd rather not if you hire someone.

What Services Do You Need?

Designers can do a lot of different types of work, and they may have varying areas of specialty. Services many designers offer can include design consultations, space assessment and space planning. Designers may offer purchasing and procurement or full-scale project management if you're doing a remodel or custom build. Some designers won't work with you unless you're paying for their full services, but others will charge by the hour and work with you on an as-needed basis.

Do You Have a Distinct Style?

When you hire a designer, even if their vision is similar to your own, ultimately they're bringing their personal style to your home. Some people like this, but if you have a style that you prefer or a vision, you might be better off doing things yourself.

If you're someone, on the other hand, who's indecisive and takes a long time to figure out what you like, a designer can actually end up saving you time and money. They can become someone who guides your decisions.

Some people love to make decisions and find that it's easy for them to do so, and if you're that person, you could find it hard to work with a designer. On the other hand, if you're someone who's overwhelmed by choices, a designer can be well worth their fee.

You may find that a designer doesn't create a space you feel reflects who you are. A good designer will work with you to learn about your family, your priorities, and how you use spaces, but still they may not capture these elements as you would.

Are You Patient?

An interior designer can help you figure out the logistics of home design that you might not otherwise think about. They do tend to take their time with projects, however. Good design can take time, and designers will often carefully select items, and they may opt for custom pieces as well. If you want to work quickly, it's unlikely a designer will be the best choice.

You might instead pick all of your items online or from a local store so that you can bring everything together at once rather than piece by piece.

For some people, hiring a designer is absolutely the best option. It makes things easier for them and helps ensure they get a beautiful and cohesive space. For other people, a lot of the fun of a home project or buying a new home is decorating it and personalizing the space, so you have to decide which category you fall into.

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Refinancing: The Risks of Waiting
By David Reed

If you've been thinking of refinancing lately, as many certainly have, it might be a good move to go ahead and make the move. Especially for those who have been on the fence over the past few months. The market has been relatively positive for interest rates as mortgage rates in general have been floating in a very tight range. If you're thinking of refinancing, there are some risks of waiting.

What are these risks? The biggest is rates moving to higher levels and never looking back. Conventional fixed rate mortgages are tied to mortgage bonds. And just like any other type of bond, when there is a demand for the bond the price goes up which inversely affects the yield, or the rate of return. Investors pour money into bonds not as a vehicle for income but more importantly as a safety vault. Stocks can be volatile, but the returns can be greater. Conversely, stocks can also move down causing investors to lose money. Bonds provide protection for such volatility. Bonds aren't there to provide a healthy rate of return but a healthy dose of safety.

Rates moving lower typically means a series of unflattering economic reports over a period of time. Rate volatility can also be impacted by geopolitical moves. Global instability can cause investors to get nervous, pulling money away from the stock market and into the safety net of bonds.

If something does happen that causes investors some concern, bonds will be in strong demand which pushes rates lower. But, when things settle down or continue to remain relatively calm, mortgage rates will continue on an upward trend. If you're waiting for rates to come down just a little bit further, just one news event can spoil the rate party.

Another risk of waiting is the accrued cost of doing so. Let's say that refinancing your existing loan will save you $150 per month. But you're trying to squeeze out another 0.125% which would save an additional $15. I think you see the picture here. There really aren't any 'do-overs.' Waiting a few months just to squeeze out just a little bit more could cost you. Even the savviest of economic advisers can't accurately predict the future.

There's some math homework to be done here. There will be closing costs on every mortgage, the difference is who is going to pay for them. With a purchase money loan, the sellers, the buyers or the lender can offset some or all of those costs. With a refinance, those costs belong to the borrowers. The easy math is dividing the monthly savings into the closing costs associated with getting the mortgage. The result is how many months it would take to 'recover' the closing costs in the form of the new monthly payment.

If refinancing now makes sense, then the prudent move is to move forward quickly. Get your application in along with the needed documentation to get your loan in a position to lock. One final note, if you go ahead and refinance in today's market and a year from now rates fall far enough where it makes sense yet again for another refinance, there's nothing holding you back about refinancing all over again.

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What Should You Know About Buying a Starter Home?

By Ashley Sutphin

You may hear the term starter home pretty frequently, but wonder as a buyer, what does that really mean? When you're buying a home for the first time, you have to not only understand what a starter home is for you but also whether it's best to skip ahead and invest in your forever home.

What's Considered a Starter Home?

A starter home can be a single-family house, a condo, or a townhome. Starter homes are something the average first-timer buyer can afford but will likely outgrow. A starter home, relative to the local real estate market, will be on the lower end of things. These homes may be older, small, or generally modest. They might also be brand-new but still designed to meet the needs of entry-level buyers. There aren't going to be all the features you maybe hope to have someday, but you can envision that for the near-term future, a starter home will suit your lifestyle.

You may find that you stay in your starter home forever, for whatever reason. You might, on the other hand, move up eventually to a home that's in a more desirable neighborhood or is more expensive.

What's a Forever Home?

A forever home is one that can be not just larger but may be updated or have more outdoor space. A forever home can have some of those features that are highly desirable and make a property competitive when it hits the market. It may have a big, private yard and be in a great school district, for example.

Of course, a forever home is subjective. For some people, that home may be one where they can envision raising a family. For others, a forever home might be a fixer-upper that needs some TLC but is in a great neighborhood. A forever home doesn't have to be inherently luxurious, but one defining feature is that they tend to be bigger than a starter home.

The Benefits of a Starter Home

If you're at a point where you weigh whether you should buy a starter home or a forever home, both have pros and cons. A starter home will be less expensive typically so you can save for a down payment faster. Then you can begin to build equity sooner as well. If you wait to afford a forever home, that's more time you're going to sink into rent and less you're investing in equity. When you're ready for your forever home, you can then use the equity you've gained to buy it.

The downside of a starter home is that you'll likely outgrow it when you enter another phase in your life. For example, maybe you'll get married or have kids, and a starter home will no longer meet your needs. If you decide it's time to move from your starter home, you have to sell or rent it. You'll have to find another home, get approved for another mortgage, and pay closing costs.

The Benefits of a Forever Home

If you think you might like to skip the starter home and go straight to your forever home, there are benefits. There's a peace of mind that comes with knowing you plan to stay in your home for the long term without having to worry about selling it or moving. You can take time to settle in and make the home perfect for your needs gradually. The downside is that a forever home will probably be more expensive, meaning it takes longer to save a down payment and you're delaying building equity.

Which is Right For You?

The most important thing when you're buying a house, whether a starter or forever home, is to spend what you can genuinely afford. The general rule of thumb is to spend no more than 28% of your gross monthly income on anything related to housing costs. You shouldn't pay more than 36% on debt including not just your mortgage but other loans and credit cards.

If you shop for a forever home, it can be a good move in terms of taxes. When you sell a home too fast after buying it, you may have to pay a capital gains tax if the value goes up. There's an exclusion of up to $250,000 if you file taxes individually or $500,000 if you're a married couple filing jointly for capital gains on real estate. You lose that exclusion if you own the home for less than two years. Along with budget and tax benefits, think about the long-term value of a home before you buy one. You want to look for properties, no matter the price, that have an excellent potential resale value. Sometimes you do also have to remember that what you think is forever right now might not really be forever.

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Assets and Your Mortgage Application: What to Know
By Ashley Sutphin

When you're applying for a mortgage, you shouldn't underestimate the important role of including your assets. Making sure you list all your assets can affect the type of mortgage you get, as well as your interest rate. When lenders are assessing applications for a home loan, they look at your credit score, debt and income, and also your total net worth. Your net worth is how much money you actually have. To calculate your net worth, the lender will subtract the debts you owe from your total assets. Your assets are relevant because the higher your net worth, the more likely you will get approval.

Your lender will consider your assets to make a determination of how you'd make your payments if you lost your job, for example, and whether you could float your expenses for a few months.Below, we go into more detail about what you should know as far as assets and their role in the process of applying for a mortgage.

What Are Assets?

Assets are things you own with a monetary value. We can usually group them into three broad categories—cash, cash equivalents, and property. Your total asset value will usually go up as you move through life. Your salary and income information are part of your mortgage application but aren't an asset.

Cash and Cash Equivalents

Cash is anything you have on hand that's already liquid. For example, if you have money in a checking or savings account, this would be an asset. Cash equivalent assets might include what you have in certificate of deposits or money market accounts, for example.

Physical Assets

Your physical assets are things that theoretically if you needed to, you could sell for funds that you would then use to qualify for a home loan or make payments on it. This could include houses, cars, jewelry, art, RVs or boats. If you're going to use a physical asset to qualify for a mortgage, you have to sell that asset before you close.

Nonphysical Assets

A nonphysical asset can include things you have that have value but aren't liquid and don't have a physical presence. A house is a physical asset. An IRA or stocks are nonphysical assets. Yes, you can make them liquid, but they're not immediately available. There's a fine line between nonphysical assets and liquid assets. A liquid asset can be converted into cash very quickly, so a stock you can trade and get cash from right away is a liquid asset. A nonphysical asset might be a retirement account, by contrast. Yes, you can get some money from it, but again, it can be more complicated to do so.

Fixed Assets

Fixed assets can include furniture and some types of real estate. The value can change over time, and you can sell them for cash, but it takes longer.

Equity Assets

If you have ownership in any businesses, like mutual funds, they can be equity assets. As you might have noticed, there is often overlap in the categories of assets. What's important is that you include an exhaustive list when you apply for a mortgage.

Which Assets Do Lenders See As Most Important?

In the eyes of a mortgage lender, cash and cash equivalent assets are most important. You could use these liquid assets quickly if you needed to pay your mortgage. Physical assets are also somewhat important to a lender. If you have items like artwork that you aren't sure of the value of, you may need to work with an appraiser.

Do Lenders Verify Your Assets?

Keep in mind that if you list any assets on your mortgage application, your lender will verify them and make sure everything you provide is correct. Your assets need to be traceable, and they need to be verifiable as your own. As far as being traceable, if you have a big cash deposit in your account and there's no resource to trace it back to you, a lender might have questions. If you're overwhelmed about including assets on your mortgage application, you might want to talk with a financial professional. They can help go over your assets and make sure there aren't any red flags that would prevent you from being approved.

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