

Your Broker:



Rob Cassam

October 2020

# REAL ESTATE Update



The right real estate advice makes ALL the difference!

## Creating an Optimal Virtual Learning Space



Parents are wondering how they can facilitate the best possible experience for their kids

when they're learning virtually. A lot of that has to do with creating a good environment that's conducive to learning.

### Choose a Space Separate From Living Areas

One of the most important things to keep in mind when creating a learning space is that it needs to be quiet and separate from the main living and traffic areas of the home. You want your kids to not only be able to focus but also to be able to separate the time they're learning from the time they're doing other things.

### Organize It

Start brainstorming about the different things you'll have to organize throughout the semester and give everything its own space with a label. Provide a checklist your child can follow when the school day is done to make sure everything gets back to its designated area.

### Lighting

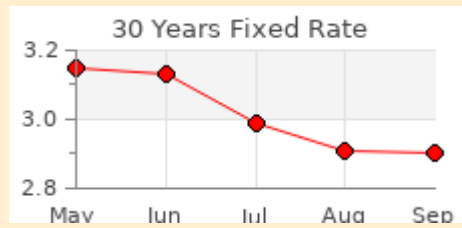
A learning area needs to be well-lit, and natural light is best. If the lighting is too dim, it can impact sleep cycles and your child's attention. Natural light can, on the other hand, improve achievement and overall health. Add a mirror across from the windows to reflect more natural light into the room or space where your child is learning.

### Ask For Your Child's Input

Every child is different and learns in their own way. If your child is old enough, ask for their input and what they prefer and would like to see in their learning area.

## Mortgage Rates U.S. averages as of October 2020:

30 yr. fixed: 2.90%  
15 yr. fixed: 2.40%  
5/1 yr. adj: 2.90%



## Financing a Rental Property: What to Know



When financing a rental, there are some things you need to know about before moving much further

along.

The first is how much cash you'll need at the closing table. Conventional loan programs ask for a minimum of 20% for a down payment and can offer slightly better terms with a 25% down payment. Next, interest rates for non-owner occupied homes will be slightly higher compared to owner-occupied properties. Another important item to note is the income generated from the unit. Lenders will factor in a vacancy rate of around 25%. And speaking of income, savvy real estate investors typically only look at properties that provide a positive cash flow each month. Otherwise, the asset turns into a monthly expense instead of monthly income. It's relatively easy to discover how much rent a unit is currently generating. An appraiser can also help. And finally, in order to use that income, there needs to be a record of at least two years of owning investment real estate. This means qualifying with at least two mortgage payments along with associated property taxes, insurance and maintenance.

## How to Destress Downsizing



There are a lot of reasons you might feel like it's time to downsize and move

into a smaller home. If you plan to downsize, decluttering and preparing can be intimidating, and the following are some tips to take some of the stress out of it.

### Take Inventory

If you're moving to a smaller home, you're inevitably going to have to get rid of things. This is one of the benefits of downsizing—reducing clutter and simplifying your living space. Start by taking inventory of what you have versus what you need. You can begin weeding out the things you're certain you want to get rid of, such as duplicate items.

### Start Small

Don't overwhelm yourself with the most challenging parts of your house first. For example, begin with your laundry room or perhaps a small closet. Don't start with your garage or your basement first—those can be the biggest projects to take on.

### Start Clearing Things Out

Once you have a general idea of how much space you have in your new home and your possessions, begin the process of clearing things out. Create four piles. The first pile will be giveaways. These are the things you're going to give to family and friends but don't save too many items in these piles. You may be overestimating how useful or valuable loved ones might find many of the things you plan to give them. The next pile will be donations. If something is in bad shape, don't put it in the donate pile because it probably won't be accepted. Your third pile can be more valuable items that you plan to sell. Finally, your fourth pile heads to the dump.



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Rob Cassam, ,CCIM BROKER MBA REALTOR  
E-mail: [rob@charlotteNCproperty.com](mailto:rob@charlotteNCproperty.com)  
Website: <http://www.charlotteNCproperty.com/residential>  
Toll Free: 800.587.4066  
Office: 704.442.1774 ext.100  
Fax: 704.442-8841

Carolina Realty Advisors  
704-442-1774  
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## How Can You Get a Mortgage If You're a Freelancer? By Ashley Sutphin

Being a freelancer, contract worker, gig worker, or anyone self-employed is more common and popular than ever right now. There are downsides, such as the lack of benefits like health insurance. At the same time, there are more upsides for many professionals who choose to work this way.

Upsides include freedom and flexibility to make your own schedule, unlimited earning potential, and the ability to have the work-life balance that allows you to create your own lifestyle.

There is an issue that can arise if you're a freelancer or contractor, though. How do you get a mortgage? When you apply for a mortgage as a traditional employee, you'll probably show your proof of income through your job, but it can be a bit trickier if you don't have a traditional employer. You're also going to face more scrutiny from lenders.

### Keep Up with Relevant Documents

Over the years, it's easy to be disorganized as far as how you keep up with your earnings and expenditures, but come time to apply for a mortgage that can be problematic. As a freelancer or anyone who's self-employed, it's normal that your income is going to fluctuate, and you'll have up and down periods. What you want to be able to show a lender is your long-term earning average.

You should be able to calm the fears of your lender by showing them at least several years' worth of documents highlighting your earnings. You need to be able to demonstrate a pattern of earning. If you aren't able to do that just yet, you might have to hold off on buying a home. Even better than showing steady earnings is being able to show upward trends.

Another note—if you're self-employed, you likely try to write off as many of your business expenses as you can at tax time. This is understandable, but you also want to show as high an income as possible, so if you're thinking about buying a home anytime in the future, keep that in mind with your deductions.

Be prepared to show at least two years of tax returns, which will likely be your 1099s instead of your W2s. Beyond your tax returns, you may want to be able to show your bank statements, and any profit and loss statements. You can also provide letters from clients showing that you have a stable relationship.

### Income Calculation

Your income is calculated differently if you're a freelancer. Your lender will calculate an average monthly income by dividing the past two years of your adjusted gross income by 24.

### Save As Much As You Can

You should aim to save at least 20% of the purchase price of a home because this will let you avoid paying for private mortgage insurance. You also want to be able to show your reliability as a borrower, so with that in mind, the bigger the downpayment you can make, the better.

### Clean Up Your Finances

You can face more headwinds if you're trying to buy a home and you're self-employed in any capacity. You are inevitably going to be held to a higher financial standard, so prepare yourself for that. You should aim to get your credit score up to at least 740, and the higher, the better. Start working toward paying off debt, including your credit cards. Credit utilization is a big component of your score and also the willingness of a lender to offer you a mortgage. Try to have the amount of credit you're using below 30%.

Before you ever start trying to apply for a home loan, look at your credit report. This will allow you to see where you need to make improvements, and also spot any potential errors. There are errors on credit reports more often than we think. Don't open any new accounts or lines of credit before you're going to start applying for home loans, because that's going to impact your credit score negatively.

Finally, before you start the mortgage application process, separate your business and personal bank accounts. You shouldn't use a personal bank account for anything related to your business.

As a freelancer, getting a mortgage is certainly possible but also more challenging. The more you can prepare yourself for that, the better off you're likely to be in the process.

Rob Cassam, ,CCIM BROKER MBA REALTOR  
E-mail: [rob@charlotteNCproperty.com](mailto:rob@charlotteNCproperty.com)  
Website: <http://www.charlotteNCproperty.com/residential>  
Toll Free: 800.587.4066  
Office: 704.442.1774 ext.100  
Fax: 704.442-8841

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## How Much House Can You Reasonably Afford? By Ashley Sutphin

There's a term called house poor, and it's something you absolutely want to avoid. When you hear someone saying they're house poor, it means they're spending a significant portion of their income on all-things related to housing. This can include their mortgage payments but also maintenance, utilities, insurance, and taxes. When you're house poor, you can't afford many other things, and certainly not big extras like vacations.

Being smart when you buy a home and knowing what you can realistically afford can help you avoid being house poor. There are a few mistakes people commonly make in their home search that increases the likelihood they may feel house poor. One is simply being overly ambitious during the homebuying process and taking on a loan that's too big. Another big mistake is thinking only about mortgage payments and not anticipating the other expenses that go into homeownership.

The following are ways to get a home you can reasonably afford and lower your risk of being house poor.

### Crunch the Numbers

Before you ever start the actual process of shopping for homes, look at the numbers. You'll need to take into account how much you earn every month, as well as your partner's earnings if applicable. Then, outline all of the housing costs, which include: The down payment, property taxes, homeowner's insurance, utilities and maintenance.

Tally up all of the expenses that you currently have and have to pay out each month. Then, look at your discretionary spending and include that as well. Including that discretionary spending is important and sometimes overlooked. It's those extras that you want to be able to continue to pay for, even when you buy a home.

### Follow the 28/36% Rule

Many financial professionals advise that you spend no more than 28% of your gross monthly income on your housing expenses. You should also plan to spend no more than 36% on your total debt, including not just your home loan but your credit cards, car loan, and student loans.

### Affordability Considerations

Some of the things that you should think about beyond your income and expenses include:

- How much savings do you have set aside? You want to have a reserve of cash in case something happens, and if your down payment or mortgage costs are going to dip into your savings, it's problematic. Your mortgage may also affect how much you can set aside in savings or retirement, so this is something to think about.
- How much of a down payment can you afford? The traditional wisdom is that you put 20% down, but there are loans with options to put as little as 3% down. That's going to raise your payment, however.
- Is there a different type of mortgage outside of a traditional bank loan that you might qualify for? For example, FHA loans are backed by the Federal Housing Administration and you may qualify with a lower credit score and down payment compared to a traditional loan.

### Take Steps to Get a Competitive Interest Rate

Interest rates are historically low right now, which is likely why the real estate market has been strong despite the economic fallout of the coronavirus. Even with rates low, you should take the time to put yourself in a position to get the most competitive possible rate.

Your credit score is going to either help you or hurt you as far as getting a low interest rate. Before you buy a home, look at your credit report, and clean it up if necessary. Try to minimize how much debt you have compared to your income. You also want to lower the ratio of credit utilized to credit available.

### Err on the Side of Caution

When you start looking at homes, you should always err on the side of caution. Keep your house hunt focused on the lower end of what you can technically afford. If you're a first-time buyer, it can be tempting to want to go all-in with the belief that you're buying your forever home. Your life can change over the years, and your first home is probably not your forever home. Focus on a starter home that works for your current needs to protect yourself from being house poor.

You can't just think about your current income either. Think about what might happen if you lost your job or your partner lost their income. How would that change the equation? Finally, one option that can help you better stay within your budget is buying a fixer-upper. You can find a great deal, and then you have the option to gradually create the home of your dreams as your budget allows, rather than having to go all-in right away.

Rob Cassam, CCIM BROKER MBA REALTOR  
E-mail: [rob@charlotteNCproperty.com](mailto:rob@charlotteNCproperty.com)  
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Toll Free: 800.587.4066  
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## What Should You Know About Homeowners Associations? By Ashley Sutphin

If you're thinking about moving, there are a lot of factors to consider aside from the house itself. Homeowners associations are one example. Living in a community with a homeowners association can have its benefits but also its downsides. It's important to be well-aware of the implications of living in a community with a homeowners association before you make an offer on a house.

### The Basics: What Is An HOA?

An HOA is a governing body in a community, and you'll often find they're present in gated neighborhoods, planned communities, and apartment and condo buildings. An HOA is funded and operated by residents, and there's a board of directors. HOAs have meetings, create budgets, and are responsible for enforcing regulations and rules. The rules set by an HOA are legally enforceable.

A well-run HOA can improve property values because they work to make sure the community maintains a certain standard as far as how homes and lawns look. Poorly run HOAs can be expensive and make it difficult to own a home in the neighborhood because of the bureaucracy.

If you're a member of an HOA, you might pay dues monthly, quarterly, or yearly. The dues are meant to go toward keeping up common areas like clubhouses, pools, walkways, and lighting. Fees vary significantly depending on location and the neighborhood or building itself. HOA fees might be \$50 a month to thousands of dollars a month.

### How Do the Rules of an HOA Work?

HOA rules are referred to as conditions and restrictions, or covenants. If there is an HOA in a community where you're thinking about buying a home, you need to understand them well.

The majority of HOA rules are going to be related to the exterior of a home. For example, you may be required to maintain your lawn in a certain way. You may only be able to paint your house in particular colors. In condos and apartments, the rules might be related to things like pet ownership.

If you don't follow the rules of HOA, initially, you'll be asked to comply. If you don't, you may have to pay fines, and then if it gets beyond that point you may face a lawsuit. Additionally, if you don't pay HOA fees, the board can put a lien on your home or even require you to foreclose, depending on the state where you live.

### What to Find Out About an HOA Before Buying

If you're looking at a home with an HOA, the following are things to find out or ask your real estate agent to find out for you:

- Ask if you can attend an HOA meeting, or if that's not possible, request a copy of the most recent minutes. This will give you a feel for the behavior of the board members and whether their top priority is resident well-being.
- Your HOA should be in good financial standing. Otherwise, you may be hit with an unexpected assessment that you have to pay if work needs to be done in the community.
- Are there are a lot of issues between the board and homeowners?
- You'll have to consider how well the HOA's rules will fit with your lifestyle and if you're comfortable with that kind of control being exercised over your home and living environment.
- Go over, in detail, what HOA fees will include.

Finally, along with thinking about how HOA fees and rules will affect you now, you have to think about how it's going to affect the resell value of a home you buy. There are a lot of buyers who simply don't want an HOA, and if you do want to sell your home, your pool of buyers may be limited. Over time, as HOA fees go up, it may put living there out of many people's price ranges, making it tough to sell your home.

Rob Cassam, ,CCIM BROKER MBA REALTOR  
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## Should You Go Solar at Home? By Ashley Sutphin

Installing roof solar panels has become an increasingly popular option among homeowners in the United States. Solar panels will convert sunlight into energy, and then you can use that energy to power your home. While the cost of solar panels has gone down over the years, and increasingly people are installing them, it's still a significant investment. There's a lot to consider and both pros and cons to weigh.

### Is Your Home a Good Fit for Solar Panels?

Solar panels can work in any climate, but your roof may not be suitable for installation. Tree coverage or age could be two factors making your roof unsuitable. For example, if trees shade your roof too much, rooftop panels may not be optimal.

In most cases, solar panels work best on south-facing roofs, with a slope up to 40 degrees. If your roof is old and nearing the time for replacement, this may also make your home unsuitable for solar. There are alternatives if your roof doesn't make you a viable candidate for solar panels, including ground-mounted panels or a community solar garden.

### When Do You Plan to Move?

If you plan to move in the near-term, solar panels are probably not a good investment. First, since they are an investment, it can take time to see a return. It usually takes around seven to eight years to pay off the cost of solar panels. If you're going to move any time soon, not only will this investment not yet have paid itself off, but you may limit your pool of interested buyers when you hit the market. When your solar system is installed, it is almost impossible to move it to a new location.

### How Much Do You Pay for Electricity?

If you don't pay a lot for electricity each month, then you're not going to save much with solar panels. Residents of some states pay more than others for electricity and therefore may find solar panels have more financial benefits for them.

### What's the Weather Like Where You Live?

Weather and, in particular, the sun are the most important things with solar panels. If you live somewhere there's a lot of cloudy weather or rain, you're not going to get as many benefits from going solar. If you have long or harsh winters, your solar system is also going to be less productive.

### Will You Qualify For Financing?

There are flexible options to help consumers afford the initial, upfront costs of solar panels. There are financing options, and there are also state and federal tax credits and incentives available. You should explore what you qualify for. Otherwise, you're going to pay a lot out-of-pocket upfront and you may not have the cash sitting aside to do that. Many of the solar financing programs are state-based loans. There are also power purchase agreements and leases available.

### Are There Quality Installers Where You Live?

If you live in a bigger city or near a metro, finding solar panel installation professionals may not be a challenge. However, finding a reputable company can be more challenging in certain parts of the country. You'll have to do the research and find a company with a strong background, and also one that's not going to try pushy sales tactics to lock you into a long-term contract that you might not want.

### The Benefits of Solar Panels

While the above are questions to ask yourself, there are benefits of solar panels including:

- Reduced electric bills are one of the biggest reasons homeowners opt to install solar panels. Over 20 years, you could save anywhere from \$10,000 to \$30,000, depending on where you live and the size of your home.
- Solar panels allow you to be energy independent.
- You can reduce your carbon footprint when you go solar.
- Solar panels are almost entirely maintenance-free.

Solar panels certainly have pros and cons. While they don't work for every family or home, they can have big advantages in some cases, making them a worthwhile consideration.

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