Your Broker:

Rob Cassam

July 2022 Real Estate Update™

The right real estate advice makes ALL the difference!

What's a Good Debt-To-Income Ratio?

When you have a low debt-to-income ratio, it's a healthy balance between your debt and how much you're making. The lower this percentage, the higher the chances you'll get a loan or line of credit.

If you have a high ratio, it shows a lender that your debt is already too high compared to your income, which could be a red flag you shouldn't take on more obligations financially.

To calculate your DTI, you should add your total monthly obligations that are recurring. These obligations can include mortgage and student loans, car loans, credit card payments, and child support. Then you divide this by your gross monthly income.

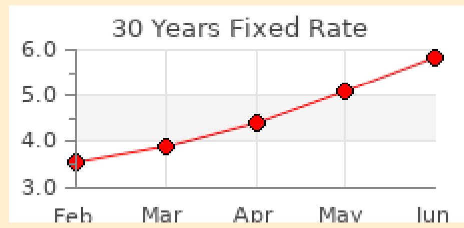
While every lender is different, most lenders want a DTI ratio smaller than 36%. They want to see that no more than 28% of your debt will go toward servicing your mortgage.

In most cases, 43% is the highest ratio you can have as a borrower and still get a qualified mortgage. Otherwise, if your number is above that, your lender will probably deny your application because your expenses each month would be seen as too high compared to your income.

Your debt-to-income ratio doesn't affect your credit score, and your income isn't included in calculations that credit-reporting companies do. What does count toward your credit score is another ratio—credit utilization. This is the amount of credit you use compared to your limits. Credit reporting agencies know your credit limits on individual cards and total. You should aim to keep the balances on your cards at no more than 30% of your credit limit. Lower is always better here.

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

30 yr. fixed: 5.81%
15 yr. fixed: 4.92%
5/1 yr. adj: 4.41%



Why Are Loan Requirements Different for a Rental Property?

Why are there differences between loans for a primary residence compared to a rental unit? The answer is due to elevated risk. The thinking goes like this: if someone gets into some pretty serious financial straits and starts having problems paying the bills, it's the rental unit that will be let go first. The homeowners need a place to live and if push comes to shove, the rental property will go first. If a foreclosure is in the picture, the primary residence stays and the rental is the one that will be foreclosed upon.

How does a lender verify the loan is used for a primary residence compared to a rental? Good question but the answer is fairly basic. Lenders can find out who lives in the newly purchased unit simply by having someone make a quick stop by the home after the deal is closed, knock on the door and see who answers.

Loan terms for rental properties are a bit more difficult but really not by a whole lot. Lenders need to compensate for the additional risk of financing a rental unit and they can partially offset that additional risk with more down payment and higher rates.

Is the Housing Market In a Correction?

According to analysts, the housing market shows signs that it might be in a correction, so what does this mean for prices? How will it affect both buyers and sellers?

Home sales are declining, and fewer buyers seek mortgages because they can't afford interest rates, home prices, and inflation. Real estate agents are already reporting smaller bidding wars, and sellers are cutting prices.

The majority of experts don't think the housing market is in a bubble, nor do most think there's a crash coming. There's still a housing shortage in the nation, and it's at a crisis point. Many millennials are just now reaching a point where they're considering homeownership, so prices will probably stay high. Plus, lenders are extending financing only to the most qualified buyers who are the least likely to end up in foreclosure. Prices won't drop drastically unless there's another short sale and foreclosure wave.

Housing tends to go in cycles, with booms and busts. In the past two years, home prices have gone up 32.4%. Higher prices mean higher down payments, and with everything costing more, it's harder to save for down payments. Most experts think the prices are set to flatten instead of dropping nationally because there are still more buyers than homes for sale. The fundamentals seem to be consistent, and the demand should continue exceeding the supply of homes. It could be that investors throw a wild card into the mix because they have the cash-on-hand, and could potentially keep fueling a strong market.

Equal Housing Opportunity

Rob Cassam, ,CCIM BROKER MBA REALTOR
E-mail: 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
1001 East Blvd. Suite B
Charlotte NC 28203

Home Listings Spike Amid Fears of Missing Out
By Ashley Sutphin

It seems that current homeowners could have a serious case of FOMO—fear of missing out—right now. According to Realtor.com, the supply of homes in mid-May went up 9% compared to last year's same week.

The mortgage brokerage Redfin also said new listings went up almost twice as fast as the four weeks that ended May 15 as they did a year ago. Pending home sales went down nearly 4%, a measure of contracts signed on existing homes. According to data cited by the National Association of Realtors, they were down over 9% from April 2021.

The significantly higher mortgage rates are causing a pullback in sales, but sellers are rushing into the market in response. They're hoping to get in on the action before what has been a record market cool off, possibly dramatically.

The 9% increase in the supply of homes for sale was the biggest annual gain Realtor.com has seen since tracking the data in 2017. Daryl Fairweather, Chief Economist at Redfin, said rising mortgage rates are causing the housing market to shift. Home sellers are trying to quickly find a buyer for their property before further weakening.

Sellers are seeing the obvious softening of the market. The pending home sales going down almost 4% is an important index because it looks at the signed contracts on existing homes rather than closings. That makes it a timely measure of how buyers perceive and react to higher mortgage rates. This was the sixth consecutive monthly drop in sales, and it was the slowest pace in almost ten years.

The April numbers for the sales of newly built homes, which is something also measured by signed contracts, went down by 16% compared to March. The gap was much wider than most expected. At the start of the year, the average interest rate on a 30-year fixed mortgage was 3%, now over 5%. During the initial two years of the pandemic, housing prices rose steadily, but the mortgage rates tended to offset the high prices.

Home sellers were definitely at an advantage six months ago, but now there's less competition from buyers, and there's a significant decline in some places. Redfin has a demand index that measures requests for home tours and certain home buying services. That index was down 8% year-over-year during the week ending May 15. That was the biggest decline since April 2020, which was a time when the pandemic paused the majority of people's homebuying activity.

There are three big reasons for the shift in the housing market. The first is what was discussed above—the Federal Reserve is working to combat inflation, and their biggest tool to do so is raising interest rates. The Fed is putting significant upward pressure on mortgage rates to cause demand destruction.

The second factor is that the housing market is overvalued. Moody's Analytics recently found that 96% of regional housing markets are overvalued, with home prices above what local income levels can realistically support.

The third factor is the U.S. economy. The Fed has signaled that by pulling inflation down, there will also likely be an increase in unemployment. Plus, if there is a recession, employers might have more leverage to force their employees back into the office, ending the effects of work-from-home on homebuying. The good news for buyers is that levels of inventory are finally going up again.

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Styling the Most Welcoming Guest Room
By Ashley Sutphin

Your guest room is a part of your home you want to be a welcoming oasis for everyone who comes to visit, for a night or even longer. A hotel-like guestroom experience will ensure your friends and family feel comfy, cozy, and like they're important and special to you. The following are tips to get that perfect guest room design in your home.

It's All About the Bedding

If you splurge on anything in your guestroom, make it the bedding. Think about what makes a hotel visit feel so special for you, and try to replicate those things.

One big one is probably how comfy the bed is. When you're away from home, there's nothing better than sinking into fresh, sumptuous sheets and bedding that makes you feel like you're on a cloud, so why not create an oasis for your guests?

Lighter colors for your bedding feel freshest, so think about neutrals like whites and creams, or perhaps light gray. A good rule of thumb is to keep your major pieces neutral in your guestroom. The guestroom bedding isn't getting as much use as the items in your other bedrooms, so you might be able to splurge a bit, knowing you can get years of potential use out of it.

Provide not only pillows on the bed but a few different other sleeping pillow options stashed away. Some guests like a full pillow, while others prefer something that's a bit flatter. While a few decorative pillows are a nice touch, especially for layering, don't go overboard because it can start to feel cluttered, particularly if your guest room is small. If the pillows are on the floor while your guests are sleeping, they may have to navigate around them.

Put the Essentials in Reach

Think about some of the things you need as essentials when traveling. For example, a clock, some tissues, and a USB cord or outlet are all things you should keep handy and within reach of the bed. You don't want your guests to feel like they're doing acrobatics by plugging in their phones to charge for the night. Lamps with built-in USB outlets are a great option too.

It's also a nice touch to stock a guestroom with toiletries. For example, packets of Tylenol or Advil, shampoo and conditioner, body wash and toothpaste, and a toothbrush are all nice when staying at someone else's house. You can also add a little basket of snacks or hot tea so your guests don't have to feel like they're bothering you if they'd like a treat at night.

Go for Symmetry

Sometimes, it can make more sense in a guestroom to do two smaller beds rather than a bigger bed, depending on who typically comes to stay with you. Two small beds create a visually symmetrical space that's appealing, and it's going to give you more versatility in how you host people overnight.

Avoid Clutter

One deterrent to getting a restful night's sleep is clutter. You want to make your guestroom clean and simple, without clutter. You don't have to add clutter to create feelings of warmth. Plus, you want your guests to feel like they have space to unpack and spread out when they're staying with you. Finally, if someone's coming to stay with you, never underestimate the value of fresh flowers in the room. It's an instant mood-lifting, and having fresh flowers shows that you've gone the extra mile to welcome your guests.

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How Appraisers Determine Comps
By Ashley Sutphin

You may go through an appraisal if you're buying a home with a mortgage or refinancing your current mortgage. An appraisal can also be a key part of the transaction if you're selling to anyone aside from an all-cash buyer. Understanding how appraisals work is important whether you're a buyer, seller, or owner. The appraisal is an unbiased opinion of the value of your home from a professional. It's used any time a mortgage is involved with the property.

Qualified appraisers create reports based on an in-person inspection they do. They also use recent sales of similar properties, aspects of the home like floor plans and amenities, and current trends in the market. These appraisals are a way to make sure the contract price for a home is appropriate, given the factors above. A lender doesn't want anyone overborrowing because the home is the collateral for the mortgage.

If a borrower defaults on the mortgage and then goes into foreclosure, the lender sells the home to get back the money it lent. An appraisal is a form of protection for the bank because it doesn't want to lend more than is recoverable if a worst-case scenario happens.

A borrower will usually pay the appraisal fee, and it's important because if the appraised value comes in lower than expected, it can delay the transaction or even lead to a cancelation. The following is a guide to how the comps affect an appraisal.

What Are Comps?

While the home itself is key in the appraisal, so are the comps. Real estate comps are the homes recently sold that are like the property the appraiser is assessing. The similarities might include location, condition, size, and features. The goal is to use these comps as part of a larger puzzle to determine the fair market value of a home.

The sales comparison approach uses the substitution principle to determine the value of a specific home. This principle indicates you can determine a home's value by finding out what it would cost to buy a similar and theoretically equally desirable property. The more equivalent comps to a property being appraised, the more accurate the pricing.

The properties' location, condition, and square footage should be as close to identical as possible. Other elements of a home are also taken into consideration, like the lot size, special features like garages and pools, and the age.

For true similarity, the comps should have sold in the last 3-6 months under conditions that are as close to the state of the current market as an appraiser can get.

An appraiser can determine how your property differs and calculate how the differences might affect the sales price. For appraisals specifically, they're only supposed to look at sales that happened within the last 90 days. If there aren't enough sales, they could go back 6-12 months, even though the ideal is 90 days.

How Do Appraisers Gather Information?

Appraisers will look at the MLS to get a lot of their information for comps. Around 90% of appraisers use the MLS as their reported primary source of gathering data, but they still have to cross-check the information they find there. They have to compare largely against public records.

If there's a lack of comps or in states with no MLS or disclosure, the appraisal still must be done accurately. When there aren't good comps, an appraiser may use an income or cost approach.

In the cost approach, the appraiser determines what you'd pay for the house's land based on what land sells for in the local area. Then the appraiser would figure out what you'd pay to build the property that's on it. Appraisers are trying to make a case for value, so they have to be specific in the way they go about weighing a comp.

With the income approach, the appraiser will estimate the value of a property based on the income it generates. The appraiser uses the net operating income of the rent collected and then divides it by the capitalization rate.

According to Fannie Mae, an appraiser must use at least three closed sales, and the subject property can actually be a fourth comp if it sold recently. The appraiser might use a one-mile radius for comps if a home is in a suburban area, but that's not a hard and fast Fannie Mae rule.

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When Should You Lower Your Home's Listing Price?
By Ashley Sutphin

As the U.S. housing market appears to finally be cooling somewhat, some buyers are breathing a sigh of relief. Home sellers are frantically entering the market, hoping to take advantage of the remnants of the pricing boom. For the four weeks ending on May 22, almost 1 in 5 sellers dropped the price of their home. It's the highest rate since 2019. During the same four-week period, there were 13% fewer "homes for sale" searches on Google, and there was a 12% year-over-year decline in tours and related services from agents on Redfin.

Sellers are still asking a premium for homes, with the median asking price up 17.8% year-over-year. However, sellers are also starting to see the writing on the wall as buyers are more cost-conscious with rising interest rates. Thus the price drops. If you're a seller with a home on the market, how do you know it's time to lower the price?

Price Is Usually the Reason Your Home Is Still On the Market

If your home has been on the market for a while and it's not getting the attention you think it should, or you're not getting offers, it's frustrating. More often than not, according to real estate professionals, the issue is the price. Buyers can overlook many other factors if they feel like the price is right.

Some of the signs your price might be too high include getting little traffic and no offers. You might also get good traffic, but the offers you're getting are a lowball. A third sign of thinking about having good traffic but negative reactions from potential buyers. If buyers consistently make comments about the price, it might be time to pay attention to what they're saying.

When To Lower the Price

If you think you should reduce the price of your home, you should do it quickly. Usually, within two weeks of initially putting it on the market is ideal, especially with inventory remaining low. As a rule, you'll see the most activity within the first 21 days of your home going on the market, so make sure you're taking advantage. You'll also want to look at some of the indicators in the housing market where you are, like the average days on the market.

One guideline that some real estate pros recommend is a price adjustment after a house is on the market for ten days. There are marketing steps your realtor should take before a price reduction. For example, maybe they need to revisit your photos and ensure they're good enough. The home also needs to be listed in multiple places, and you should address buyer feedback.

What to Know About Price Cuts

No one wants to make a price reduction, but the reality is that you may even have to do it more than once. The more your days on the market go up your potential need for price adjustments increases.

It's advisable to make no more than three price reductions. If you go beyond that, it will start to become a red flag to buyers.

You also want to be careful and strategic in how much you reduce the price. For example, if you priced high to start with, maybe you reduce it by around 4% to no more than 9%. If your initial price was comparable to market value, you might need an incremental cut.

Some real estate agents think it's better to go ahead and reduce your home by a significant enough amount initially, so you don't have to do it more than once. That's something to talk to your agent about. There is the potential that multiple smaller cuts are just dragging out the process of selling your home, which isn't what you want.

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