Your Broker:

Rob Cassam

September 2022 Real Estate Update™

The right real estate advice makes ALL the difference!

What Happens During the Final Walk-Through?

The final walk-through is your chance to ensure the house is in the same condition as when you made an offer.

Who Comes to the Final Walk-Through? A buyer and buyer's agent usually go to the final walk-through. The contractor or builder might come if the house is a new build. During a new build walk-through, the goal is primarily to look for cosmetic issues. Since the home is brand new, buyers will have high expectations.

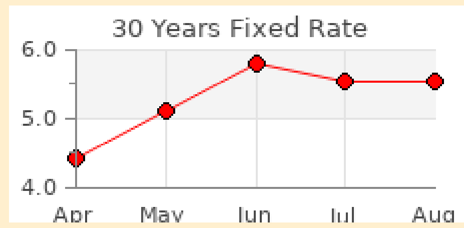
Scheduling: Most of the time, you'll do a final walk-through within 24 hours of your closing date. Your real estate agent can help you schedule and set the time with the seller's agent when the home can be accessed. Many buyers will do the final walk-through the night before or even on the way to the closing.

It's Not a Home Inspection: The walk-through is the chance to ensure any issues from the inspection were addressed. Your real estate agent should bring documents that help guide the walk-through and confirm everything's how it should be. This documentation will include the seller's disclosure form, inspection report, and repair amendments agreed on with the seller.

What If You Find An Issue? What might end up happening is that you delay your closing a few days to fix the problem or request a credit at closing so you can deal with the repairs needed after you move in. Most of the time, you can work out the issues by negotiating. Legally, if the property isn't meeting what's outlined in your real estate contract, you may be able to back out.

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

30 yr. fixed: 5.55%
15 yr. fixed: 4.85%
5/1 yr. adj: 4.36%



What is a Modular Home?

A modular home is built by section in factories that assemble homes based on the International Residential Code, or IRC, which requires facilities to make sure they're assembling homes that comply with state and local building regulations. IRC has similarities to HUD because both have standards for safety and quality. HUD requires manufactured homes to have an attached steel chassis that helps with transport. Homes constructed to IRC specifications are on a permanent foundation, like a site-built home.

Once a modular home is fabricated, the sections are then taken by truck to a building site. Using a crane, they can be assembled on the poured foundation. Once the home is assembled, the process is like a conventionally-built home. The home is hooked up to utilities, and the interior is fitted with things like flooring and cabinetry.

A modular home isn't the same as a manufactured home. The difference is that manufactured homes are also known as mobile homes or trailers, and they're built on a steel chassis, unlike a modular home that has a foundation. Modular homes aren't mobile once they're assembled, but manufactured homes are.

Are There Tax Advantages of Buying a Home?

Mortgage Interest Deduction: Homeowners can deduct interest on their home mortgage for the first $750,000 of mortgage debt. That limit is $375,000 if you're married and filing separately. If you bought your home prior to December 16, 2017, an old limit of $1 million applies, and $500,000 if you're married but filing separately. In January, at the tax year's end, a lender sends you Form 1098. This details the interest you paid over the previous year. You should include the interest you paid as part of the closing too.

Private Mortgage Insurance (PMI): If you have private mortgage insurance you may be able to deduct your payments. PMI usually costs anywhere from $30 to $70 monthly for every $100,000 borrowed. Whether or not you can deduct PMI payments can depend on when you bought your home and your income. The IRS says that homeowners can treat what you pay for PMI as interest on a home mortgage. If your adjusted gross income is under $100,000 or $50,000 if married, filing separately, you're eligible for the full deduction here. If you're above that threshold, the deduction is phased out. If your AGI is above $109,000 or $54,500 to file separately as a married person, you aren't eligible to take the deduction.

State and Local Tax Deduction: The state and local tax deduction, also known as SALT, lets you deduct some taxes you pay to the state or local government, but you have to itemize on your federal return. Under the Tax Cuts and Jobs Act, there was a cap on previously unlimited deductions. The cap is $10,000 per year in combined property taxes and either state income or sales taxes. It goes down to $5,000 if you're married and filing separately.

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Do You Pay Capital Gains on Inherited Property?
By Ashley Sutphin

When you inherit anything, whether money, property, or something else, it can help you financially, and it's a windfall. At the same time, inheritance can also make your taxes more difficult. If you inherit assets, such as property, you don't typically owe taxes unless and until you sell them. Then, your capital gains taxes are calculated based on a stepped-up cost basis. That means you pay taxes only on the appreciation once you inherit the property. If you're selling an inherited property, you may need to work with a financial advisor.

Inheriting property doesn't mean you automatically pay taxes. Three primary tax types apply to inheritance.

- The first is inheritance taxes, which an heir would pay on the value of an inherited estate. There aren't federal inheritance taxes. Only six states require you to pay any type of inheritance tax.
- Then, there are estate taxes. These are paid out of the estate before anyone inherits from it. There's a minimum threshold to pay estate taxes, which was $11.7 million in 2021, so it will not affect most people.
- The one area of taxes that does affect people when they inherit something more often is capital gains taxes. These taxes are paid on asset appreciation for something you inherit through an estate. You're responsible for these taxes only once you sell the asset for a gain, but not when you inherit it.

Stepped-Up Basis

If you inherit property, including real estate, the IRS uses a stepped-up basis for that asset. This means for purposes of your taxes, the base price of the asset rests on the value on the day you inherited it. You don't owe taxes if you inherit real estate and sell it immediately. Capital gains taxes are paid once you sell the property and only on the profit when you make the sale.

Two prices come into play when establishing capital gains taxes. First is the sales price. This is how much you sold the asset for. The original cost basis is how much you bought it for. If you have real estate, this is different.

If your grandparents bought a house for $100,000 many years ago and now it's worth $500,000, they would pay capital gains taxes for the $400,000 profit if they were to sell it.

If, instead, your grandparents passed away and left their house to you, the IRS considers the house's original cost basis stepped up to the current market value. If you held the house for a year, and the price goes up during that year by 50,000, you owe capital gains only on that $50,000. Because of the stepped-up basis, it's pretty rare for an heir to pay substantial taxes on an inheritance.

Capital gains taxes get very complicated, though, and it's a good idea to work with a financial advisor if you've inherited property and then have sold it or plan to sell it. You can avoid paying capital gains on inherited properties through different approaches and don't automatically pay taxes on inherited properties.

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Will Homeowners' Insurance Cover Natural Disasters?
By Ashley Sutphin

We've been hearing about a lot of natural disasters around the country lately, which are fairly common during the summer months and even year-round. No one ever thinks they'll be impacted by a natural disaster, but it does happen. Unfortunately, if you aren't prepared, you might be facing a lack of insurance coverage to repair or rebuild your home. Your homeowners' insurance is something that can, in some cases, protect you against extreme natural disasters, but not always. Knowing what your coverage excludes is important.

What Doesn't Homeowners' Insurance Cover?

While every policy and company can be different, it's likely that your homeowners' insurance excludes flooding and earth movements. Depending on where your home is, you might also have limited coverage for hail damage.

Flood damage and mudflows are very often excluded from homeowners insurance. That means you need to go through the National Flood Insurance Program (NFIP) to get a flood insurance policy. This is a federal program that researches flood damage in the U.S. and then works with private insurance to provide flood insurance that's federally sponsored. There's typically a 30-day waiting period for flood insurance, so you should think about buying a policy before the peak of flood season.

Most homeowners policies don't include damage from earthquakes or sinkholes either. You might see these exclusions referred to as damage caused by the movement of the earth. It can also include landslides and mudslides. Depending on where you live, you could need separate sinkhole or earthquake insurance. Some states have insurance for landslides and mudslides, particularly on the west coast. The policies can be expensive, though.

Your home insurance policy probably protects you against hail damage unless you live somewhere hail storms are especially prevalent, like the Great Plains states. In these places, you might have a higher deductible for hail damage, or the insurance company could restrict payments for hail-induced cosmetic damage. You might be unable to file a claim unless the hail causes structural damage.

What About Tornadoes?

Spring and summer are a time when we tend to see a fair amount of tornadoes, but luckily, most standard homeowners insurance policies do cover damage from these storms. For the purposes of insurance, wind damage stemming from tornadoes isn't distinct from the damage that comes from smaller gusts. If you live somewhere that's especially vulnerable to tornadoes, insurance might get a bit trickier. For example, in Oklahoma or Texas, insurance companies can charge separate deductibles for claims related to wind instead of the all-perils deductible. Wind deductibles may be a flat amount, but more commonly, it's a percentage of your total property coverage.

If you live somewhere prone to tornadoes and strong storms, you might consider whether you have enough coverage to allow you to rebuild if you suffer a complete loss. For example, your homeowners' insurance may cover tornadoes but only the depreciated value of your home and property, as compared to the full value.

If you have homeowners insurance that only covers the depreciated value or actual cash value of your home, you might think about upgrading to replacement cost coverage. This is a reimbursement structure that doesn't take into account depreciation, so it may facilitate you being able to rebuild your home back to the way it was before your loss.

Are Hurricanes Covered?

Your homeowners' insurance may partially cover hurricane damage, but flood damage from a hurricane is almost always excluded. If a hurricane destroys your house, your insurance company determines if the destruction was from the wind or due to a storm surge before they compensate you. If you live somewhere that gets a lot of hurricanes, you should think seriously about getting flood insurance.

Once you experience a natural disaster, the compensation you get from the insurance company depends on your coverage. Your dwelling coverage comes in three types. There's actual cash value, replacement cost value, and extended or guaranteed value.

Finally, if you want to make sure you receive compensation for your home's full value, you need to purchase extended replacement value. This coverage makes sure that if something comes up in rebuilding your home and it exceeds your policy limit, you're still compensated.

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What Exactly is a HELOC?
By David Reed

The mortgage industry really isn't very different compared to others as it relates to industry jargon. HELOC is one of those bits of jargon. What exactly is a HELOC? We'll explain.

There are different ways to tap into home equity. A common one is a cash out refinance. When someone refinances a loan due to a lower rate, shorter or longer term or part of the process to take someone off the title to the home. When refinancing an existing mortgage, the borrowers can choose to also pull some of that equity out during the process. Refinancing in order to just take out some equity isn't the best strategy.

A refinance is still a new mortgage. It replaces an existing loan with a new one. Because it's a new mortgage, there will also be a host of new closing costs needed in order to follow through with the refinance. This is why refinancing for the sole purpose of tapping into home equity doesn't make sense. A HELOC, however, can.

HELOC is the acronym for Home Equity Line of Credit. Okay, so how does a HELOC work in practice? A HELOC typically comes in the form of a second mortgage, meaning it takes a subordinate role to an existing first mortgage. When the home is sold, the new mortgage pays off the existing first mortgage and the next payoff is the second mortgage. Due to this secondary position, it's possible, although relatively rare, there won't be enough funds to cover both the first and the second.

But a HELOC is not simply a second mortgage. Instead, it's a line of credit. This means someone can borrow some or all of the limit and pay it back over time at their leisure. Most HELOCs do however require borrowers to take out a minimum amount as well as make minimum payments at some point.

The lender will lay out all the terms of the second lien. If a HELOC carries a $25,000 credit line, the borrowers might decide to pull out maybe $5,000. The borrowers can then pay down the balance minimum or pay more. A HELOC can be used over and over again, just like a credit card. Make a charge, then have the option of paying the minimum, a little more than the minimum or the entire outstanding balance.

Most HELOCs work like any other, it's just the individual lender that sets the terms.

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Buyers Increasingly Back Out of Deals
By Ashley Sutphin

For the past two years, the demand for real estate has been enormous. Several factors converged for that to be the case. For example, the pandemic meant people could work remotely, so they could move anywhere in the country. Inflation led buyers to want a hard asset, like property, and there's also a low inventory of homes, so buyers were clamoring and often engaged in bidding wars.

Now, after two years of a frenzied market, things might be changing.

According to a new report from Redfin, around 60,000 purchase agreements fell through in the U.S. in July, which was around 15% of all the homes that went under contract in June. This was the highest cancellation rate since early 2020 when the initial days of the pandemic led to an almost complete stop of the real estate market and associated transactions.

So why are people backing out of their deals?

One reason is that there's less competition. When people are facing a lot of competition as buyers, they don't want to miss opportunities. There's a sense of urgency. Now, there's less competition because the market appears to be slowing, so buyers have more room to negotiate, which can, in certain situations, lead them to back out of deals.

Buyers are keeping contingencies like inspections and appraisal contingencies, whereas even just a few months ago, they were waiving those to stay competitive. When the buyers have these contingencies in place, they have the flexibility to deal with issues that might come up as they're in the buying process.

Another reason for people backing out of deals is the highest interest rates, which are making homes less affordable.

The Fed is working on pouring water on red hot inflation through tightening. In June, the Fed raised benchmark interest rates by 75 basis points. It was the largest hike in rates since 1994. Then, at the end of July, they announced another 75 basis point rate increase.

We don't know yet if raising rates will help slow inflation, but it is making it more expensive to borrow money. That can significantly change the plans of would-be buyers.

If you made an offer when rates were 5%, but you didn't lock it in, and the deal is going to close at nearly 6%, you may not be able to afford the same home, or you might not qualify for a loan anymore.

A third major factor is that there's a general sense of uncertainty and unease about the economy.

According to Fannie Mae's Home Purchase Sentiment Index, only 20% of respondents recently said they think it's a good time to buy a home.

The labor market seems to be faring well after the recession induced by the pandemic, but regardless, consumers and homebuyers are growing increasingly concerned.

In June, 81% of consumers said the economy was on the wrong track. Fannie Mae's senior vice president and chief economist said it shows that people are frustrated with inflation and the slowing economy. There were also more than 20% of respondents that said they had worries about their job stability.

It looks as if people's concerns might not be abating anytime soon.

Mortgage rates are likely to continue to go up. They've already gone from just over 3% for the average 30-year fixed rate loan in January to around 6%. Until there's strong evidence inflation has peaked, rates will likely stay on an upward trajectory. On the flip side, because there is still a housing shortage, prices are likely to keep going up in the coming months, although appreciation rates will probably slow. Inventory is improving but still tight because builders have slowed their production of single-family homes.

Finally, in very pricey markets where homes were already unaffordable, most will be more sensitive to rate changes for mortgages, so there may be opportunities for some buyers they wouldn't have had otherwise.

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