
Real Q3 | 2023
Estate

Determining Resale Value

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Even the property considered a 'forever home' might sell one day

You might be ready to level up, or maybe to downsize. Perhaps your job is taking you to a new town. Or maybe your local market is simply so hot that it just makes sense to sell. That's when it's time to determine the resale value.

HOW IT WORKS

A professional appraiser is the best person to give you an estimated resale value on a property. They'll take into consideration a range of elements including square footage, structure quality and any improvements you've made. Their expertise is also critical when you are ready to purchase in order to ensure that you're not overpaying. Real estate agents and related websites can provide context in the form of prices for comparable homes in your area. Visiting local open houses and private agent showings may also help you get a better idea of how your property stacks up.

RED FLAGS

If you're purchasing a property with an eye on its resale value, there are a number of red flags you should be on the lookout for. Beware of homes that have been on the market for an extended amount of time. There could be issues with the property, or it may simply be overpriced. Stay away from the highest-priced home in a neighborhood. It'll be harder to get a return on your investment. Buying a property with an eye on making some specific improvements may ultimately help with its resale value, depending on the work that's done. But don't buy anything that needs extensive renovations — in particular, if they're required to make the home suitable to live in. Research area schools, crime rates and related taxes.

LOCATION, LOCATION, LOCATION

You've probably heard the familiar saying that real estate is all about location. That's because it's true. You can make improvements to the physical structure, and decorate everything nicely. But a home's value will inevitably suffer if it's too far away from desirable amenities, in a faltering school district or in an economically depressed area. Take these factors into account before you buy, since you may not get your investment back. On the other hand, if you are already in an area that's experiencing growth and the associated influx of homebuyers, it may be time to sell.

Time To Prequalify

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Talk to a mortgage broker to begin your homebuying journey

Prequalifying for a home loan sounds just like what it is: experts analyze your financial situation and then estimate what you can comfortably borrow. This helps you narrow search parameters, while also instilling confidence with sellers.

HOW IT'S FIGURED

Banks and mortgage brokers develop a prequalification number based on provided information concerning your finances, including income, credit rating, how much you owe and assets like savings or retirement accounts. You may also learn more about various mortgage options, including those that may require smaller down payments. There are sometimes incentives available for first-time buyers. Specific rules are also in place for those who are seeking to purchase investment properties. Work with your lender to find the right fit for your budget and plans.

INSIDE THE PROCESS

You'll begin by completing a mortgage application, with detailed information that your lender and their underwriting team will verify on the way to preapproval. There may be additional questions along the way, and more financial documentation might be required. In some cases, the process takes weeks. If everything checks out, the accompanying confirmation letter will include a specific amount that they're willing to lend. This approval is typically valid for 90 days, though individual lenders may have different timelines.

GETTING PREPARED

Lenders will be looking deeply into your general financial health as this process unfolds. Key focus areas will include your payment history, how much you owe and to whom, and how much you make. Understand that nothing involving your income, assets and debts will be off limits. This can admittedly feel invasive, in particular for first-time home buyers. Get prepared by taking a deep dive into your finances beforehand so that you can easily and quickly provide needed answers and documentation.

ADDED BENEFITS

An added benefit of these preparations is that you'll get a firmer grasp on how much is coming in and how much is going out, making it easier to make any needed budget adjustments. You may be surprised by your debt-to-income ratio, a key number in determining your ability to get credit approval. Cut back on unneeded expenses, pay down bills and commit to building your savings. With smart planning, you'll be in a position to see a much bigger prequalification next time.

Moving Made Easier


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The last step in the process can be the biggest stumbling block

You've found a new home, secured a loan and closed on the property. It might seem like the hardest part is over. But moving can be a huge logistical challenge, beginning with how to deal with everything you've accumulated over the years. Then there's booking a moving company, transporting your things to the next place and then getting it all into your new home.

PLAN IT OUT

Begin by deciding how you'll move everything. Are you going to hire a moving company, or rent a truck and move it yourself? Will family and friends help out? If not, there will be added expense — and that figure can skyrocket, depending on how much and how far you are moving. Moving companies typically require long lead times in order to fit moving jobs into their busy schedules. If you do it yourself, you might save some money, but it can be more difficult to coordinate. You also won't have access to pros who know how to pack and ship your belongings so they arrive undamaged. There are also insurance options available with moving companies in case the worst happens.

BEFORE THE MOVE

It's easy to get caught up in the details of your new life as moving day draws near. There are utilities to turn on and home insurance policies to update. You might even be picking out new furniture, drapes or decor. But you'll also have to get everything packed and ready to go on an abbreviated time frame, since most closings happen over a period of 30 to 45 days.

Take stock of everything you have, building an inventory of belongings — including furniture, personal items, clothing and appliances. Contracted moving companies will often base their estimated cost based on how many rooms are involved, but they'll also ask about larger pieces of furniture and things like refrigerators and washing machines. A detailed inventory will make it easier to give them a clear idea of what needs to go.

PACKING UP

As you go about packing, consider selling or donating unneeded items, or things that haven't been used over a lengthy period of time. Next, begin assembling boxes of various sizes, packing tape and bubble wrap so the process goes as smoothly as possible. Running out of these needed items will only lead to frustrating delays.

Inside Home Warranties

There's a way to ease worries about a major systems breakdown

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Conventional insurance policies have you covered if a new home purchase is damaged by mishaps like fire or you're the victim of theft. Unfortunately, critical systems are not mentioned as part of these policies, leaving owners in a tough position if air conditioning, plumbing or appliances fail because of everyday wear and tear. That's where a home warranty comes in handy.

HOW THEY WORK

A home warranty can be bought by a homeowner, or included with the purchase of a home as part of the closing agreement. Those who are buying an older home are often encouraged to protect themselves with a warranty, since systems may be approaching the end of their natural lifespan. Once an agreement is in place, company-hired technicians repair and/or replace covered items and systems as needed over the life of the warranty. Replacements will be new items of a similar quality and price. As with typical insurance policies, home warranties can be extended — usually on an annual basis.

EVALUATING PROVIDERS

If you're contracting with a home warranty provider, it's important to do your homework. Most offer information on their website, including things that are typically covered and their user agreement. Make sure there is clear language about coverage caps and exclusions, since that will dictate their responsibilities if something goes wrong in the home. There will typically be a range of warranty plans which allow you to expand coverage. More comprehensive coverage may seem like the way to go, but there will also be more expense involved. Those who've purchased a new build may not need a top-level warranty.

WEIGHING THE COSTS

Home warranties can alleviate a lot of the worries associated with moving into an unfamiliar home — but they also add another level of financial responsibility to your mortgage. In addition to the annual premium, you'll also typically be required to pay service fees or deductibles for each service call. The home warranty technician will then determine whether the item can be repaired or should be replaced. Your signed agreement with the company will determine its maximum liability. Warranties usually expire after one year, at which time you can decide whether to extend this agreement, terminate it or choose a different provider.

Home Owners Associations

Research the rules and community standards before you buy

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Homeowners Associations can provide critical protections for residents, but some people may grow uncomfortable with their involvement in daily life. That's why it's important to make yourself fully aware of how an HOA governs your property prior to completing any sale. There are also dues involved, and this added expense can have a huge impact on your monthly note.

HOW THEY WORK

Homeowners Association board members are elected from among residents, though they may be appointed during the association's earliest days. This group then assumes collective responsibility for things like building and grounds maintenance. Other responsibilities vary, but HOAs typically purchase and maintain master insurance, handle upkeep of common areas and oversee facility improvements. Carefully read provided HOA documents to find out more.

FACTORING THE COST

The agreement signed at closing will detail which duties are yours and which are the responsibility of the association. Monthly HOA dues are usually more for properties with a range of amenities. The budget-conscious may decide to look elsewhere, but it makes sense to pay a higher fee if you're interested in living near a pool, on-site gym or well-appointed community room. All of these costs will be apportioned into owners' monthly fees. One-time assessments may also be levied in order to cover unexpected expenses to the community, including something like storm damage. If you're unsure, consider consulting with an accountant or financial planner to determine how much you can comfortably pay in fees that go above and beyond your mortgage.

OTHER CONSIDERATIONS

Ask for financials to make sure the HOA is being well managed, and that their ledger is balanced and accurate. Review the reserves, which will tell you how healthy the association is financially — and how ready they are in the case of an unexpected expense. Many HOAs are professionally managed, so it may make sense to meet personally with their team to learn more. Ask questions about the HOA's history of special assessments. Be on the lookout for any association rules or standards that seem unclear. Tour the property, making note of deferred maintenance or other obvious issues that may require a large outlay of funds to repair. Unfortunately, properties with bad curb appeal often signal a poorly operated homeowners association.

Becoming a Landlord


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Creating another revenue stream is not without its challenges

As with any other investment, buying a rental property should follow a great amount of due diligence. You'll want to discuss your plans with local real estate agents, attorneys and nearby property owners before buying. Review local laws, past performance with rental income and then do the math.

KNOW THE LAW

A variety of laws are in place to govern rental properties, so be prepared to do some legal research. An attorney can tell you more about federal rules regarding anti-discrimination and habitability. Landlords are not allowed to make decisions about renting based on color, race, religion, gender, national origin, disabilities or whether a tenant has children, among other things. Other legal requirements for renting may be in place at the local or state level.

DO THE MATH

While rental income can bolster your bottom line, it's important not to overextend financially. The monthly note paid by renters should ideally exceed what you're paying in monthly mortgage payments, or it won't make sense to become a landlord. Remember to factor in property taxes into your overall calculations, as well as maintenance, insurance and repairs.

Your bank or lender may also have additional requirements before offering a loan. Consult with an accountant or financial planner to learn more about tax benefits associated with being owner and manager of a rental property, including depreciation, mortgage interest and repairs.

FINDING TENANTS

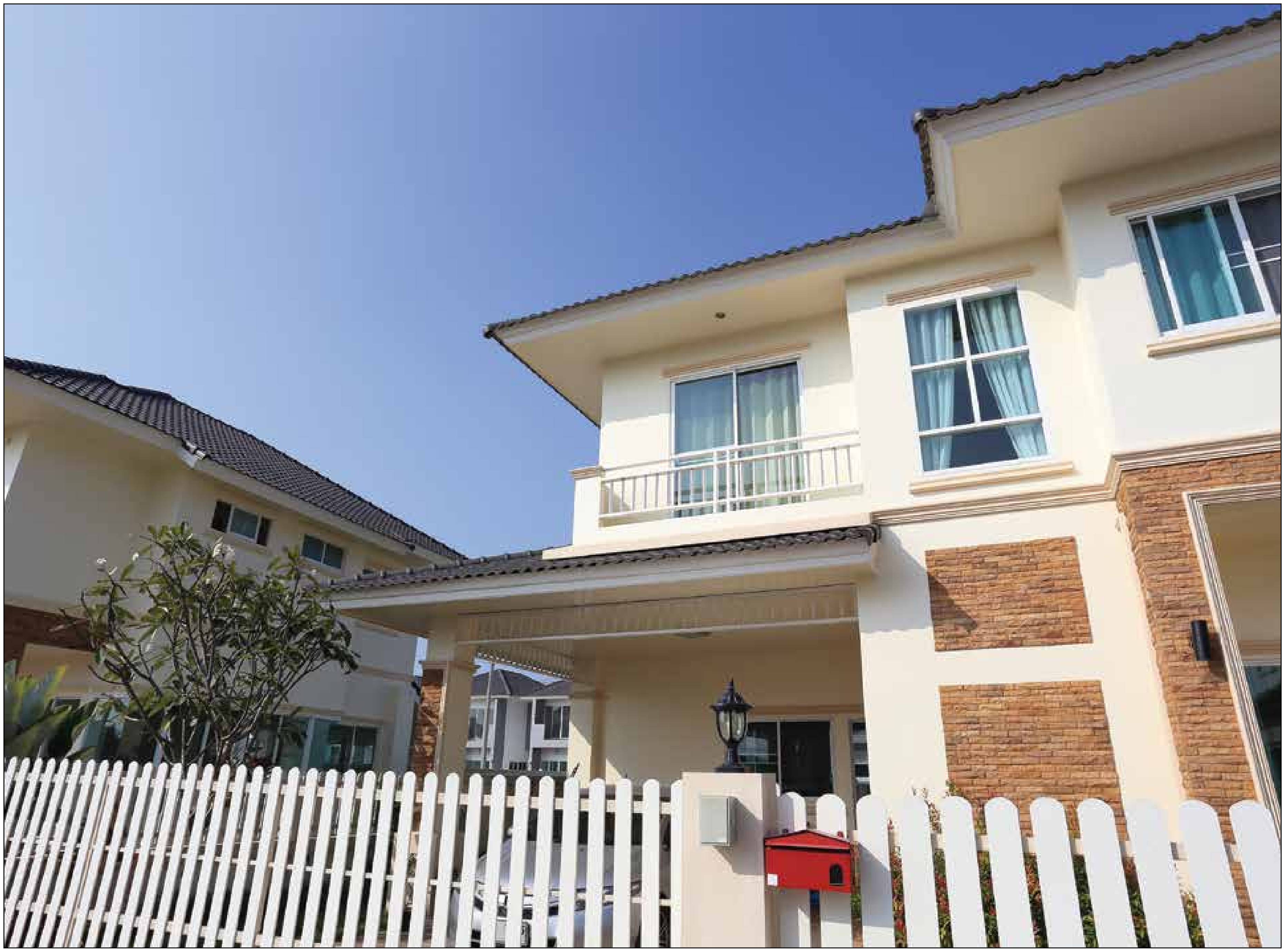
Finding the right place and favorable financing is just the beginning of your journey as a landlord. Consider talking to local experts before drawing up your rental agreement to make sure it covers all the bases, including penalties and parameters for early departure, among other key elements. They may be able to make suggestions that you haven't thought of as a new landlord.

Next, you'll have to find responsible tenants. Conduct credit and background checks before signing a rental agreement. Ask for references from their place of employment, and previous landlords if possible. Then meet in person.

No approach is foolproof, but these pre-approval activities should give you the best possible sense of who'll be renting. Finally, be prepared to keep accurate and consistent records. This is essential for tax purposes, but it will also help you better understand the impact of this secondary income stream. Hire an accountant as needed.

Buying a Foreclosure

They have an attractive price, but may not always be a good fit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Strictly from a cost standpoint, foreclosures make all the sense in the world. These properties have been repossessed after nonpayment, just as a vehicle would be. The loan holder takes back the property when an owner fails to pay their note on time. The asset is then put back on the market, typically at a much lower price.

DO YOUR RESEARCH

Laws governing foreclosures vary widely depending on which state you live in, so do your research beforehand. In some cases, the process of buying a foreclosure can take months, or even years. There may also be additional hoops to jump through when it comes to financing, depending on your bank or lender. Once you've settled all of these issues, then it's time to begin digging more deeply into available foreclosures.

TYPES OF FORECLOSURES

There are two kinds of foreclosed homes, bank-owned and real-estate owned. Understanding the differences can improve your position at the negotiating table. Banks usually put a home up for auction after finalizing a foreclosure in an attempt to recover financial losses. Potential buyers make bids, and the home is only listed traditionally if the home fails to sell during the auction. That's when the property becomes a real-estate-owned foreclosure. A special agent will show the property, with the potential for an even better deal since the sale is taking so long.

UNDERSTANDING THE RISKS

The price might be right, but there are still unique risks associated with foreclosed properties. They've typically been vacant for a lengthy period of time as the auction process unfolded. Vacant homes are subject to the development of mold, mildew or other issues relating to the lack of maintenance. They may also attract vandals, the unhoused or thieves, any one of whom can leave behind a damaged property.

Always hire an inspector to check out a foreclosure before agreeing to buy, then bid out any repair work to local contractors to see if it's worth the hassle. If nothing else, this information can become part of your negotiating argument to get the lowest possible price. In some cases, property owners may have the right to buy back their foreclosed home within a certain timeframe. Make sure that period has passed before signing on the dotted line.