



What the Buyer Must Know

Q: Is it a sellers market or a buyers market? What does that mean?

A: It's a sellers market. In fact the market has never seen such low supply as it did in 2020-2021, and demand for housing has been stronger than ever.

More on the market:

When the level of housing inventory is low, between 1-3 months of supply, the market *favours sellers*. We call that a sellers market. 4-6 months of supply = balanced market. More than 6 months supply = the market *favours buyers*, therefore we call it a buyers market.

Buyers Market – 6+ Months Supply
Sellers Market – 1-6 Months Supply

Price – Prices are always either rising or falling, and supply is constantly changing. When supply is increasing, prices decrease.

Q: How much money should I expect to pay at closing?

A: 8-10% of purchase price. Many of our buyers don't put large down payments, and with their closing costs AND down payment, invest about 8-10% of their purchase price to close.

Q: What about monthly payment?

A: Use the info below to approximate your payment:

\$5/month for every \$1000 in loan amount

\$6/month for FHA loans

Add monthly taxes

Add monthly insurance

Q: Will my property taxes go up after closing?

A: Yes Many homes are currently undertaxed. The **taxable value** is ½ of the properties actual cash value, and it needs to be considered if the buyer is tax/payment/cost sensitive. We can determine what the new tax *could* be, by finding (on Google) the municipality's millage and multiplying by the new taxable value. The current taxable value is likely much lower than what it will be after you buy it. The **new taxable value** can be found by dividing the price of the home in half.

The formula:

(New Taxable Value) x millage / 1000 = **New tax bill**

Q: How much will it cost me to upgrade/fix up the house?

A: We aren't contractors, but here are some typical and current prices that we see in our own investment and construction projects:

Costs of common upgrades needed (Estimated)

Furnace/AC - \$1500-\$3000

Electric panel \$1000

Electric service line \$500

Roof 4000-6000

TJ had his roof replaced in 2021 for \$5800 with a full tear off and dimensional Certainteed shingles.

Re-wire an entire house \$3000.

Plumbing in pex for a standard entry level home \$3000

Basic kitchen remodel \$15,000

Basic bathroom remodel \$7500

Utilities \$300-400/mo depending on cable and consumption



How to mark properties that you want us to show you

The homes you receive from us come from the **MLS**. The **MLS**, or **multiple listing service** is where Realtors list property for sale. It's a database for real estate listings. Only Realtors can be members. And our MLS is what feeds the listings that you see on Zillow, Trulia and Realtor.com in addition to the dozens of other websites that we syndicate through. Our database is the most trusted and reliable source. We are the source. You won't need to login, simply click the link in the email that we provide to you. The link will stay active for seven days.

Mark **red hearts on** any *properties that could be the one*. *These are properties that you want us to show you*. Mark as a **yellow heart** any properties that *you want to keep an eye on, but don't necessarily want to see at the moment*. You can discard any listings that you know for sure you won't want to buy. However, be careful not to trash houses that may be overpriced. If the property comes down in price by 10,000-20,000 or even more and you might be interested, you'll want to know!

Q: How many homes does the average buyer typically look at when buying a home?

A: According to the National Association of Realtors (NAR) the average buyer sees about 12.

Q: Do you need a notice for when we want to schedule showings?

A: With a 24 hour notice, someone on the team can usually accommodate your showing request.

Q: What happens at a showing?

A: We spend a few minutes walking through the inside and outside of the house, to see if you want to make an offer. One of our agents will meet you at the first house, and let you into the home. Usually, it will be a home that we've never seen before, and usually, we will be representing you and not the seller, so it's uncommon for us to have seen that home before we see it with you.

Q: How long are showings usually?

A: +/- 15 minutes, depending on the size of the home and grounds and your level of interest

More about showings:

Rating scale – We will ask you to rate the homes you like on a scale of 1-5. If you like the home, we will ask you what the pluses and minuses are. Then we will have you rate the home, eventually ranking them to stay organized on which homes you like best.

Level 3 - this is a property that you like, but not enough to make an offer on it. It's possible to be at 3.5 or for one person to be a 3.5, and one to be a 4.

Level 4 – A property you like enough to make an offer on. It checks the boxes. Doesn't mean you *will* make an offer on it.

Level 5 – A property you like so much, you don't want to lose it. Could be based on other homes you made offers on but lost on, or after seeing everything you've seen, you can't believe this one fell in your lap. Either way, you will usually do everything in your power, and allow us to do everything in our power, to get this house.

It's our goal to show you 3-5 homes the first time we go out, and at least a few each time after. This gives you a side by side by side comparison, and allows you to really get a good feel what your money will buy you. It also helps to avoid emotional decision making.

Ready to Make an Offer

Q: Can I start with a low offer to negotiate with the seller?

A: Yes! Although on average, sellers are getting near 100% of their list price - when the market is balanced or buyer favored, a lower starting place to negotiate is appropriate.



Typically the seller, in the first 7-15 days of their listing, will be a bit inflexible to negotiation. It a good idea to plan to pay more than the listed price for most homes and price points.

Q: If I offer them the asking price, don't they have to take it?

A: No. In fact, the seller doesn't even have to respond or acknowledge the offer. In the modern market, it's not uncommon for a seller to field 5-10 offers from the opening weekend.

Q: So I might actually need to offer more than the listing price?

A: Yes. Many newly listed properties will be expecting multiple offers and other buyer concessions.

Making Strong Offers – Buyer Concessions

Buyer concessions strengthen the buyer's offer and make it more attractive for the seller. Anything the buyer does to enhance their offer could be called a concession.

Examples include: **appraisal guarantees, escalation clauses, high earnest money deposits (EMD), free occupancy after closing, credits toward costs from the buyer or agent, waived inspection, waived city repairs** and more.

In 2021 we had a client who *made 6 offers before getting their 7th one accepted*. The offers they had been submitting were great offers, but there was always someone with a higher guarantee or a waived home inspection taking the cake. The offer we ultimately got accepted was 25k over asking, escalation clause to \$45k over asking, with a \$20,000 EMD, waived inspection, conventional financing, with a \$25k appraisal guarantee.

Q: What's an appraisal guarantee?

A: It's when a buyer is offering to cover the gap between the amount offered, and the appraised value, in case it's less

Q: Does that mean I'll be paying more than the house is worth?

A: Value is established by the demand for something. If we are willing to pay a certain price, that's because that's what it's worth to us. The appraisal? YOU are not THEIR client. The BANK is their client. They are protecting the bank.

Q: With all due respect, you didn't really answer my question?

A: Yes. An appraisal guarantee could result in you paying more for the house than it's appraised for. However, in this market, prices are appreciating at 1-2% per month. Appraised values are based on the PAST. It's tough to see what's in front of you when you can only look in the rearview mirror!

Q: How does an escalation clause work?

A: It says that if a competing offer is received, and the seller is willing to show proof, that we would automatically "escalate" our offer up to a certain maximum ceiling. We usually escalate the price by \$1000-\$3000 to beat the higher offers.

Q: So what if the appraisal comes in for more than we agreed to pay?

A: Nothing! You just get more instant equity.

Q: So the maximum sale price is the price we offer, or the price we escalate to...but not more than that?

A: Correct.

Q: How much should my earnest money deposit be? (EMD)



A: 1-3% is generally appropriate. The more you offer, the more attractive it will be to the seller.

Seller concessions

Seller concessions typically refers to the seller paying for closing costs. Uncommon in the modern market. Probably won't be common again until at least 2023.

Hidden land mines

Flood zones are common throughout SE Michigan. We will be sure to check the flood zone map to see if the property you're about to make an offer on is located in a flood zone. Flood insurance can cost \$80-\$150/mo for the average home. We do have options for properties that FEMA has classified as being in flood zones. They construct these maps on macro-geologic data, not based on the actual home sites themselves. Many of the homes that are "in the flood plain" have elevations that can take them out with a survey.

Easements aren't very common in the suburbs we work in. In a more rural area, knowing if someone has the right cross over, enter or use your property is very important. All properties have easements prescribed for the utility companies to come and service their property. A survey will uncover these.

Encroachments also aren't terribly common in suburban areas. This is when someone has placed a fence or outbuilding on your property. A survey can uncover these too.

Clue reports come from the insurance companies. When they are evaluating a property's price for insurance, they will run a claims history that goes back 7 years. Fire, wind, flood damage and other types of claims are all disclosed. MAKE CERTAIN to get a homeowners insurance quote ASAP after your offer is accepted.

Title issues can be a problem for home buyers. We will order title as soon as the offer is accepted, or when the inspection contingency is cleared for sure. You can rest assured that any defects or clouds in title will be disclosed to us quickly. The seller can usually remedy these issues, but more time could be needed to do so.

Inspections

According to one of our inspectors, Bob Jeffries, the inspection will normally turn up 10-20 items that need to be caulked, sealed, repaired or at least monitored. Most of them aren't deal breakers. These are common findings in homes that are 40, 50, 60 years old (or older!)

We once had a new construction home that we sold to the first owners. They relocated the next year and when I sold it 10 months later; there were 24 items that came up on the home inspection!

What are the steps in the mortgage process?

1) Offer accepted

2) Inspection: 3-5 business days *per contract*. Some buyers are waiving inspection to make their offers more attractive to the seller. Usually costs about \$400-\$600.

3) Mortgage application signed: within 5 days after contract signed *per contract*
Very important to get with your lender IMMEDIATELY when your offer is accepted.

4) Appraisal ordered: usually at time of mortgage application

After inspection period is over and we are satisfied with the results, it's time for the lender to order the appraisal. This costs 400-600 for most homes. Large homes may cost more.



5) Appraisal accepted by an appraiser: usually within 48 hours of order

6) Appraisal appointment scheduled: usually within 48 hours of acceptance

7) Appraisal report completed: usually within 5 days of appraisal appointment Sometimes the appraiser giving the opinion of value, who's a human, will disagree with our opinion of value. Appraisal is an art, not a science.

If the appraisal is for less than the agreed purchase price, the seller usually isn't obligated to sell at that price. Likewise, if it comes in higher than contract price, you aren't obligated to pay more.

8) Initial Underwriting complete (conditional approval): usually within 7-14 days of application. The lender will provide a list of conditions that must be complied with to get you the loan.

Q: I thought I was already pre-approved?

A: You were! The pre-approval process is a basic qualification of the income you report and a shallow dive into your credit. This is a deep dive. They verify and question everything. This is to protect the bank, but also to protect you as the consumer from getting a loan you can't afford.

9) Submit final conditions back to underwriting: usually within 14 days of conditional approval.

Loan commitment usually issued within 72 hours of final conditions being submitted. Usually comes with a **clear to close**.

Closing date normally within 30-40 days of offer acceptance
per contract

Mortgage process

When it comes to your mortgage, be OPEN with your lender. Tell them what's going on. Do not try to hide things from them. Usually, even if you're able to get something by your loan officer, the processing part of the loan finds it. They run fraud checks on everyone. They will know if you've been divorced, had a short sale, filed bankruptcy or have a tax lien. The sooner you tell them about potential issues, the more they can help you find a solution.

Don't change jobs! If you have an upcoming job change, TELL YOUR LENDER.

Don't open or close any credit accounts. Don't apply for any new credit.

Lots of documents will be required. Sometimes you'll have to provide the same document more than once. Any paystubs, bank statements or other "time sensitive" documents will have to be re-supplied each time a new one is issued.

Be patient. They don't get paid until you get keys. They really want that to happen!



Rate trends – Rates are also always changing. Every 1% in interest rate (for most of our clients) will cost about \$100/month. If rates are 3.5 for example and they go up to 4%, it will cost most of our clients about \$50/mo. Historically, rates below 5-6% are uncommon.