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THINGS TO CONSIDER WHEN **BUYING** A HOME



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HARVARD: 5 FINANCIAL REASONS TO BUY A HOME

Eric Belsky is Managing Director of the Joint Center of Housing Studies at Harvard University. He also currently serves on the editorial board of the Journal of Housing Research and Housing Policy Debate. This year he released a new paper on homeownership - *The Dream Lives On: the Future of Homeownership in America*. In his paper, Belsky reveals five financial reasons people should consider buying a home.

Here are the five reasons, each followed by an excerpt from the study:

1.) Housing is typically the one leveraged investment available.

"Few households are interested in borrowing money to buy stocks and bonds and few lenders are willing to lend them the money. As a result, homeownership allows households to amplify any appreciation on the value of their homes by a leverage factor. Even a hefty 20 percent down payment results in a leverage factor of five so that every percentage point rise in the value of the home is a 5 percent return on their equity. With many buyers putting 10 percent or less down, their leverage factor is 10 or more."

2.) You're paying for housing whether you own or rent.

"Homeowners pay debt service to pay down their own principal while households that rent pay down the principal of a landlord."

3.) Owning is usually a form of "forced savings".

"Since many people have trouble saving and have to make a housing payment one way or the other, owning a home can overcome people's tendency to defer savings to another day."

4.) There are substantial tax benefits to owning.

"Homeowners are able to deduct mortgage interest and property taxes from income...On top of all this, capital gains up to \$250,000 are excluded from income for single filers and up to \$500,000 for married couples if they sell their homes for a gain."

5.) Owning is a hedge against inflation.

"Housing costs and rents have tended over most time periods to go up at or higher than the rate of inflation, making owning an attractive proposition."

Bottom Line

We realize that homeownership makes sense for many Americans for many social and family reasons. It also makes sense financially.





HOMEOWNERSHIP'S IMPACT ON NET WORTH

Over the last five years, homeownership has lost some of its allure as a financial investment. As homeowners suffered through the housing bust, more and more began to question whether owning a home was truly a good way to build wealth. A recent study by the Federal Reserve formally answered this question.

Two of the findings revealed in their report:

- A homeowner's net worth is over **thirty times** greater than that of a renter.
- The average homeowner has a net worth of **\$174,500** while the average net worth of a renter is \$5,100.

Bottom Line

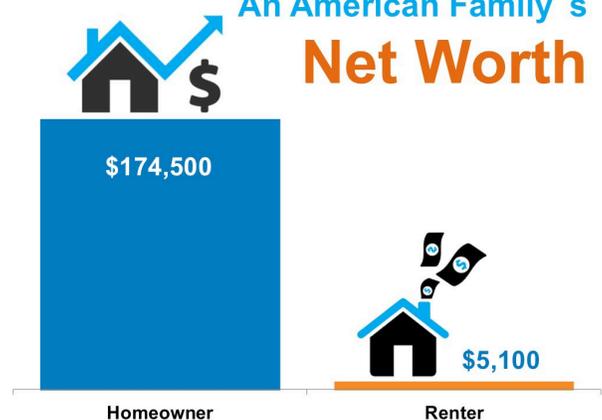
The Fed study found that homeownership is still a great way for a family to build wealth in America.

Homeowners Net Worth...

OVER 30X greater than renters



An American Family's Net Worth



EXPERTS PREDICT INTEREST RATES WILL INCREASE SIGNIFICANTLY THIS YEAR

Most experts are calling for an increase in mortgage interest rates throughout the year. The Fed has begun pulling back some of their stimulus package which has helped the housing market by keeping long term mortgage rates at historic lows for the last few years.

Below are the most recent projections of where rates will be at this time next year by the four major agencies.

Mortgage Rate Projections



Analyst	Projected Rate 1Q 2015
Fannie Mae	4.9%
National Assoc of Realtors	5.5%
Freddie Mac	5.1%
Mortgage Bankers Assoc	5.1%

However, we believe that the government is not afraid to shoot right past these levels.

Doug Duncan, Chief Economist for Fannie Mae, last summer announced:

"I don't think the Fed ultimately would be troubled with a 6.5% mortgage rate."

And Frank Nothaft, Freddie Mac VP and Chief Economist, at nearly the same time explained:

"As the economy continues to improve, we expect to see continued upward movement in long-term interest rates... At today's house prices and income levels, mortgage rates would have to be nearly 7 percent before the U.S. median priced home would be unaffordable to a family making the median income in most parts of the country."

Only time will tell. However, many feel that rates will be in the **5.25-5.5%** range by this time next year.

WHERE ARE PRICES HEADED OVER THE NEXT 5 YEARS?

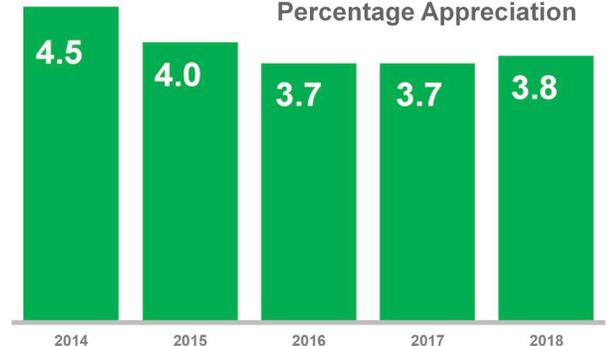
Today, many real estate conversations center on housing prices and where they may be headed. Every quarter, *Pulsenomics* surveys a nationwide panel of over one hundred economists, real estate experts and investment & market strategists about where prices are headed over the next five years. They then average the projections of all 100+ experts into a single number.

The results of their latest survey:

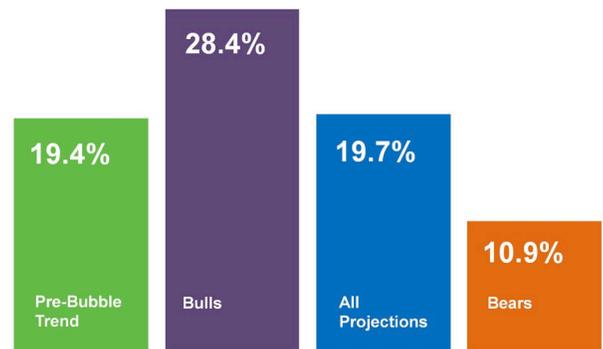
- Values will appreciate by **4.5%** in 2014
- Cumulative appreciation will be **19.7%** by 2018
- Even the experts making up the most bearish quartile of the survey still are projecting a cumulative appreciation of almost **11%** by 2018

Individual opinions make headlines. This survey is a fair depiction of future values.

PROJECTED Percentage Appreciation



Cumulative House Appreciation by 2018



5 Reasons to Hire a Real Estate Professional



They help with all disclosures and paperwork necessary in today's heavily regulated environment.



They are well educated in and experienced with the entire sales process.



They act as a "buffer" in negotiations with all parties throughout the entire transaction.



They help understand today's real estate values when setting the price on a listing or on an offer to purchase.



They simply and effectively explain today's real estate headlines and decipher what they mean to you.

YOU NEED A PROFESSIONAL WHEN BUYING A HOME

Many people wonder whether they should hire a real estate professional to assist them in buying their dream home or if they should first try to go it on their own. In today's market: you need an experienced professional!

You Need an Expert Guide if you are Traveling a Dangerous Path

The field of real estate is loaded with land mines. You need a true expert to guide you through the dangerous pitfalls that currently exist. Finding a home that is priced appropriately and ready for you to move in to can be tricky. An agent listens to your wants and needs, and can sift out the homes that do not fit within the parameters of your "dream home".



You Need a Skilled Negotiator

In today's market, hiring a talented negotiator could save you thousands, perhaps tens of thousands of dollars. Each step of the way – from the original offer, to the possible renegotiation of that offer after a home inspection, to the possible cancellation of the deal based on a troubled appraisal – you need someone who can keep the deal together until it closes.

Realize that when an agent is negotiating their commission with you, they are negotiating their own salary; the salary that keeps a roof over their family's head; the salary that puts food on their family's table. If they are quick to take less when negotiating for themselves and their families, what makes you think they will not act the same way when negotiating for you and your family? If they were Clark Kent when negotiating with you, they will not turn into Superman when negotiating with the buyer or seller in your deal.

Bottom Line

Famous sayings become famous because they are true. You get what you pay for. Just like a good accountant or a good attorney, a good agent will save you money...not cost you money.

BUYING A HOME? CONSIDER COST NOT JUST PRICE

As a seller, you will be most concerned about 'short term price' – where home values are headed over the next six months. As a buyer, you must be concerned not about price but instead about the 'long term cost' of the home.

The Mortgage Bankers Association (MBA), the National Association of Realtors, Fannie Mae and Freddie Mac all projected that mortgage interest rates will increase by about **one full percentage over the next twelve months**. Many experts are calling for home prices to also increase over the next year.

What Does This Mean to a Buyer?

Here is a simple demonstration of what impact an interest rate increase would have on the mortgage payment of a home selling for approximately \$250,000 even if home prices remain the same:

The Cost of Waiting

	Mortgage	Interest Rate	Payment (P&I)
Today	\$250,000	4.3%	1,237.18
Next Year	\$250,000	5.3%	1,388.26
Monthly Difference			\$151.08





HOW THE **SERENITY PRAYER** MAY HELP WHEN **BUYING A HOME**

You may be frustrated while attempting to buy a home in today's market. You may feel powerless in the process. How could YOU possibly know whether the current good news about housing will continue? There is no doubt that today's real estate market is extremely difficult to navigate. However, we want you to know that thousands of homes sold yesterday, thousands will sell today and thousands will sell each and every day from now until the end of the year.

It is totally within your power to decide whether it is the right time for you and your family to move. Even in the current market.

"How?" Let's look at the simplicity of the famous Serenity Prayer and apply it to buying a home in today's real estate market.

"God, grant me the serenity to accept the things I cannot change; courage to change the things I can; and wisdom to know the difference."

Accept the things you cannot change

The two main concerns many talk about when discussing the housing market are:

1. The current lack of inventory impacting housing prices
2. The impending raise in interest rates

As an individual, there is very little you can do to impact either of those two situations. The best think-tanks in the country are struggling to discover what impact each of these items have on real estate.

Have the courage to change the things you can

Whether you are a first-time buyer or a move-up buyer and you believe now is the right time for your family to purchase a home – DO IT! Prices will only be higher later this year and though interest rates are rising they are still at historic lows. That means that your monthly housing expense will still be lower than almost any time in the last 50 years – and probably lower than your current rent payment.

The wisdom to know the difference

With the winter ending, the outlook on inventory is positive. Sellers will look to come out of hibernation and list their homes. The question is whether or not it makes sense to delay moving on with your life until everything gets 'better'. Should you not buy a house and enable your kids to attend the school you have already decided is best for them? Should you spend another winter up north even though your doctor recommends you move to a climate better suited to your current medical situation?

This is where your wisdom must kick in. You already know the answers to the questions we just asked. You have the power to take back control of the situation by moving forward. The time has come for you and your family to move on and start living the life you desire. That is what truly matters.

