The Smart Home Buyer

A guide through one of your biggest financial decisions and on how to leverage the market to your advantage.

The Right Tools & Techniques

According to a Zillow group study, there are five things many buyers wish they would have done differently:

1. Started the learning process earlier
2. Decided to buy versus rent sooner
3. Chosen a different home
4. Chosen a different location
5. Used different or more online searching and researching tools

This book is designed to help you avoid the regrets that many buyers have faced in the past. The information contained in this book should put you in the driver's seat with the right tools and knowledge to be the Smart Home Buyer.

Table of Contents

A collection of experience & knowledge from the many great agents at BRIX Real Estate.

Special thanks to Kirk Duckwall, Chad Vandelogt, & Myra Jensen

The Two Ways to Buy a Home

There are two ways to buy a home: the shotgun approach and the surgical approach.

Shotgun Approach
This approach will end with frustration in one of three ways:

1. You view over 30 homes in-person, feel like there is nothing out there that you love, and you stop your search after months of looking.
2. You felt pressured into buying a house and aren't confident that it's the right house for you.
3. You found a house, but feel your agent or lender did not have your best interests in mind. You aren't sure if you could have gotten a better price or better terms for the home.

Surgical Approach
This approach will usually end in one way: finding a home that you are confident is the right one for you.

You'll know this home fits within your priority checklist. You will have experienced your agent and lender working directly with you to secure the best price and terms. In this book, we will focus on the surgical approach.

Set yourself up for success. Don’t be in a rush.

The top five homebuyer mistakes are made when people rush into buying a home.

These are as follows:

1. Not using the right home searching and researching tools
2. Not doing a homebuyer priority checklist
3. Not knowing what home style will work best for you
4. Not having financing or the right financing set up at the time you find the home you want to make an offer on.
5. Overpaying for a home

We’ll describe how to avoid these mistakes later in this book.

However, the first thing to avoid is putting yourself into a rushed position. Don’t play the lease roulette game.

If you are in a lease, start your search as early as you can. Don’t have much time left on your lease? Then get on a month-to-month lease. We understand that a month-to-month lease is more expensive. However, it is not as expensive as buying the wrong home because you don’t have enough time to find the right one. If you are always relying on when your year-long lease is up you may be severely limiting the homes you have to choose from.

Who Should You See First?

Should you start with a real estate agent or a loan officer?

It is best to see a real estate agent first or start with both at the same time. A real estate agent can help you establish the property type that works for you by going out on a few showings to get your feet wet. The best loan for you can be dependent on the property type, location or condition.

Starting with a loan officer first can get you pre-approved for the wrong type of loan. For instance, a loan officer may pre-approve a client for an FHA loan without knowing that the buyer is looking for a home that they might want to fix up a bit. Many fixer-uppers are not approved for FHA financing due to conditional restrictions. It can also be common for a buyer to get pre-approved for a loan that will not work in the area they are looking to buy in or for a loan that could eliminate many condos and townhomes. This can ultimately cause you to lose your dream home to another buyer that has pre-approval for the appropriate financing.

Once you figure out with your agent what property type, areas and condition you are interested in, you'll want to start the home loan application process right away. An early loan application can do nothing but help you in the process. The application process will help you figure out what loans and programs may be available to you. It may also give you an idea if there is anything you can do with your credit rating to help reduce your interest rate. Finally, it is the only way to get the approval letter you will need when you find the home you want.

Who Represents You?

Most people choose to have a buyer's agent working for them due to the size and importance of this transaction. An experienced full-time agent can be even more valuable. An experienced buyer is considered to have only purchased 3 or 4 homes in their life, whereas an experienced agent may have helped people with that many homes in just one month.

A buyer's agent provides information on individual markets, researches properties, gives advice about the process, and applies their negotiation expertise to get you the best price and terms. A valuable buyer's agent will do more than point out all of the positives. You probably don't need help noticing the pretty stuff. The true value comes in when they point out uncommon red flags and other less noticeable resale objections. The best part is that they do all of this at little or no cost to you.

You do not want to choose your realtor out of obligation (for example, a realtor who also happens to be a friend or relative). Also be wary of making a choice just based on ease of access (the listing agent, for example). Be cautious of agents who try to show their value through using a gimmick like a commission rebate.

This is one of your biggest financial decisions. You want to choose an agent with a wealth of knowledge who can be your guide, your representative, and a problem solver. This should be someone you want to work with and talk to—not just another real estate agent.

You’re Not Ready Until You’re Pre-approved

First and foremost, apply right away!

Some people will say they are not “ready” to apply for a loan yet or they know they will be good when they are “ready.” Hands down, you are not “ready” to be starting your home search until you apply for a loan.

There are some unfounded fears about applying for a mortgage and having it wreck your credit. Don’t worry, this will not happen. This is an urban legend, most likely coming from a person who applied for multiple types of credit multiple times all at once thus dropping their score drastically. Applying for a mortgage is not a negative. You can shop with multiple mortgage providers in a short period of time and not have it be treated any differently than if you just applied with one provider.

You have nothing to lose and everything to gain by applying early. Such as learning how you might improve your credit score (thus potentially getting you a better interest rate and saving you lots of money). You may also learn that if you pay off a specific small debt that you have, you might increase your purchasing power by thousands of dollars. This is far better than waiting until the last minute to find out you have a higher rate than expected or that you do not meet the debt to income ratio to qualify for the home you fell in love with.

Companies that say “click now, get mortgage” are just click bait. The pre-qualification letters they issue are worthless. You want a real pre-approval to be taken seriously as a buyer by a potential seller and their agents. If a listing agent does accept one of these pre-qualification letters by chance, you are in for a big surprise. Not only will you now have to provide all those documents you thought you might not need to, but your closing may also be delayed because this was not handled at the time you applied. A delay in closing may cost you extra fees or hassles from movers/friends and potentially a premium cost or per-diem fee to extend the purchase contract. When your documents go through processing, you will find out what your real rate/pricing will be vs the "click bait" price. This is typically not a happy moment. Many people feel stuck at this point because time may be running out to change lenders. So they'll just decide to move forward with the "click bait" rates.

Usually all this trouble is for nothing. A quality local lender will surpass any of these "click" lenders in not only fees and rates, but in service as well. Do yourself a favor and get pre-approved with a reputable lender early so you are truly "ready!"

What Loan Works For You?

Many loan officers will often try to push consumers into one of two types of loans to improve their profits or for their own convenience—not taking into consideration what might be right for you.

A good loan officer should be asking a lot of questions and requesting certain documentation upfront. They do this to not only avoid hiccups later in the process, but to also figure out what loan types might be best for you—not just what is best for them. There are many different loan options out there.

Here are just a few options, along with some criteria and considerations:

CONVENTIONAL

The down payment can range from as low as 3% to above 20% if you like. Usually this loan is a good option for people with credit scores in the area of 680 or higher. This type of loan has the least amount of restrictions in regards to what types of properties you can purchase (i.e. condos, townhomes, and fixer-uppers). Many of these loans have the option to remove the mortgage insurance once there is 20% or higher equity in the home. This will lower the monthly payment once it is removed.

FHA

FHA (Federal Housing Administration) loans are not just for first-time homebuyers. These can be particularly beneficial to people with credit scores that fall in between 600-680. This type of loan is also attractive due to its 3.5% minimum down payment. Families with higher monthly debt payments may also benefit from this type of loan. Unlike conventional loans, the mortgage insurance is collected for the life of the loan.

VA

This is a veteran exclusive loan that is truly 0% down and has no mortgage insurance. VA loans usually have the best loan pricing. Therefore, it is the “go-to” loan for those who are eligible and looking for a single family home. However, it can be difficult to find condos that have associations approved for VA financing.

MHFA, USDA RURAL DEVELOPMENT, HOME READY, & HOME POSSIBLE

These programs have minimum down payments ranging from 0% to 3% of the sale price. They also may have income limitations based on the area. These are low down payment programs. However, they may not have the best interest rates or payments depending on a person’s financial situation.

PORTFOLIO

These loans are for buyers or properties that don’t conform to FHA or conventional guidelines. Portfolio loans may be a good option if you are looking for a fixer-upper or if you are self-employed. They typically require a higher down payment of 20% or more and may have a slightly higher interest rate.

Mortgage Shopping

Advertising tells us that the interest rate is the most important factor when shopping for mortgages. This is just not true.

You should start by searching for an experienced local loan officer. Make sure they offer a large variety of products and are knowledgeable about the products that they offer. If they don't seem confident describing the pros and cons of each product offered based on your financial situation, then it is probably time to talk to another loan officer.

Here are the most important things to consider once you have found the best loan for you, in order of importance:

1) DOWN PAYMENT

The amount of your down payment combined with the loan program will affect your rate. Contrary to popular belief, a higher down payment does not mean you will get a lower rate. Depending on the loan program, you may find lower rates with a lower down payment than someone with 5 to 20% down. So make sure you talk with your trusted loan officer to go over what make the most sense for you.

2) TERM (LENGTH OF LOAN)

Reducing the term of the loan by a minimum of five years can effectively save you tens of, if not hundreds of, thousands of dollars in interest over the life of the loan. Reducing the term may also drop your interest rate.

3) MORTGAGE INSURANCE

There is almost always mortgage insurance for loans with less than 20% down. This can make up over a hundred dollars of your total monthly mortgage payment, thus totaling thousands of dollars over the time period that it is applied. Depending on the loan type, you may be able to eliminate the mortgage insurance by doing what is referred to as a single premium within the closing costs of the loan. You could also look into lender-paid mortgage insurance. This could raise the interest rate, but lower the overall monthly payment.

4) CLOSING COSTS

Within closing costs, there may be a portion dedicated to discount points (buying down the interest rate). There is usually a point where it makes financial sense to buy down the rate slightly. This again is dependent on the loan type.

5) INTEREST RATE

As you can see, there are many factors that need to be considered prior to looking at the interest rate. Keep in mind interest rates are borrower specific. The rates advertisers put out for lenders are just ads and not specific to you. Interest rates are adjusted based on the property type, down payment amount, your credit score and potentially your debt-to-income ratio. There may be a slight differential from lender to lender that you may want to consider. However, they usually tend to be very close once all factors are decided. That is why it is vitally important to do apples-to-apples comparisons on all terms and services versus just rate shopping.

Understanding Closing Costs

Closing costs (seller-paid contributions to buyer's closing costs) are one of the most confusing concepts of the offer process for buyers and sellers. This is completely understandable because most real estate agents and loan officers do not effectively communicate the net effect to the buyer and seller. Buyers must understand what makes up the closing costs. Buyer's closing costs are composed of the following:

- Property tax escrow
- Homeowner's insurance escrow
- Loan fees including rate buy down, if applicable
- Broker admin fee
- Title settlement charges
- Lender's and buyer's title insurance

The second thing to understand about seller-paid contribution to buyer's closing costs is the seller never actually pays the closing costs. They are either financed into the loan or paid out of pocket.

Here is an example for clarification:

A buyer goes to make an offer on a 1 BR condo. The list price of this condo is $105,000. The buyer and their agent determine that the condo is valued at $97,000.

So, what are the different ways the buyer can cover their closing costs?

A) FINANCED CLOSING COSTS

The buyer decides that they would like to finance the closing costs into the loan. Therefore, they will offer the seller $100,000 and request $3,000 in "seller-paid contribution to buyer's closing costs." This is what is actually known as financed closing costs. This is essentially offering the seller a net offer of $97,000. The benefit to the buyer is that they have reduced their cash out of pocket at closing by $3,000.

B) OUT OF POCKET

The buyer decides to pay their closing cost out of pocket thus increasing their cash required at closing by $3,000. They offer the seller $97,000.

These examples have the same net effect on the seller. The only difference is the loan amount is higher for the buyer in the first example.

The buyer's cash out of pocket is greater in the second example and the seller never actually paid the closing costs. This is simply a vehicle to allow buyers to finance their closing costs by artificially inflating the value of the home.

Home Priority Checklist

If this is your first home, remember back to when you were buying your first car—you never thought it was your forever car! Approach buying your first home the same way. **Buy a home for what you think you will need for the next five years**. The average person stays in their first home for between 3 to 5 years. Setting your sights too high can put you back in another lease or experiencing the "Cost of Saving" (see Appendix C, pg 37).

Compromises will be made in every home purchase. This is true for both new construction and existing homes. It is also true for those on a tight budget or very large budget. Buyers should ask themselves some questions:

Where do I want my home to be located? How much space do I need and why? Would I be interested in a fixer-upper? Would I be interested in a condo or townhome? Would I be interested in new construction? What features and amenities do I want? What do I really need?

The search process will likely take an exhausting amount of time if you do not have a clear understanding of your priorities. There are five main decisions that need to be prioritized, listed below. Order them one through five. If you are shopping for a home with a significant other, we apologize in advance. We call this list the "fight starter." However, it is vitally important that you come to an agreement as to the order—you can only have one list per couple. Unless, of course, you do not want to find a home. The key is to be honest with yourself.

- Price range
- Size (floor plan/layout)
- Condition (updates and amenities)
- Location (suburb, city, distance from work)
- Neighborhood (surrounding homes, parks, schools)

Try not to compromise on your top two priorities. This will prevent you from the frustration of looking at the wrong homes while the right ones are selling right in front of your eyes. Some of these priorities you may not know yet and that is ok. If you find yourself saying, "I'm not picky" or "I am open," it may be beneficial to do an exploratory set of showings with your agent. Check out different layouts, sizes, areas, and so forth. This will help you determine what is truly important and what to steer clear of.

Finding the Right Floor Plan / Layouts

Just like most pickup trucks have a lot in common from one manufacturer to another, layouts of specific styles of homes will not vary much from builder to builder. This is equally true for townhomes as well. You should focus on property styles that fit your specific wants and needs.

You may come to realize that your desired floor plan/layout may not exist in the location or neighborhood that you were initially looking in. Therefore, you may have to reconsider location if floor plan is a higher priority.

The metro area is kind of like the rings of a wedding cake. You will find primarily Victorian-era homes within that first ring. It is next to impossible to find a modified two-story with an open layout within the city limits.

Conversely, you are unlikely to find a charming craftsman-style bungalow in an outer ring suburb. Condo and townhouse layouts also tend to differ between city and suburbs. You will want to set up a series of showings to explore the cities and layouts in order to find the ones that work the best for your situation.

If you find yourself looking at multiples of the same layout but you are saying to yourself "something just doesn't feel right" over and over, then it is probably time to focus on other layouts. You do not want to be focusing on the wrong homes while the right home is still out there somewhere.

On the next page, we have put together just a few different styles of homes and the features that you will find within a majority of them. As you will probably realize, some of these layouts will work better for some people's situations versus others. There are many more styles out there than we've presented. You'll want to discuss the pros and cons of different styles with your agent.

Story & a Half

This style usually has two bedrooms on the main level and one on the upper. These quite often will have more limited headroom on the upper level unless bump-outs were added.

Two-Level Split

Two-level splits typically have a more open kitchen, dining and living area, as well as two bedrooms on the main level and one or two bedrooms on the lower level.

Mid-Century Rambler

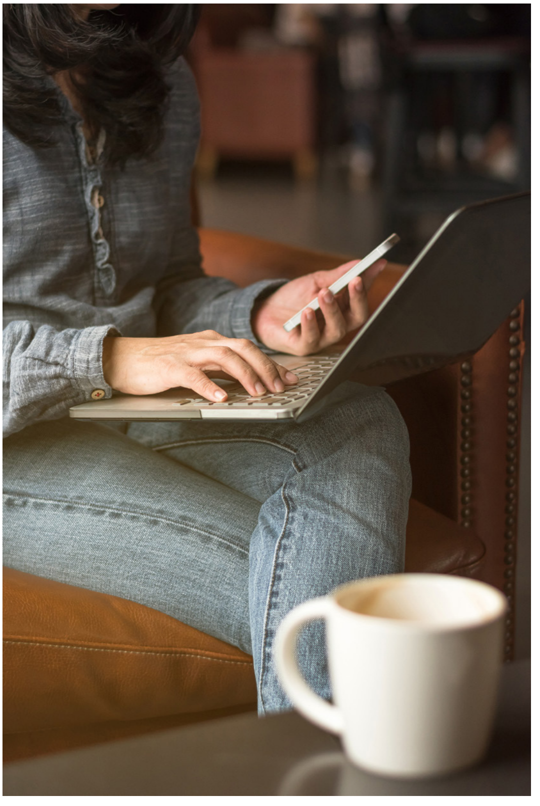
Many mid-century ramblers will have three bedrooms on the main level. However, one of the bedrooms is considered a flex room. The flex room can either function as an office or dining room at some point depending on your needs. Commonly these homes will have a narrower galley style kitchen with a pocket door.

Two-Story House / Townhome

All primary bedrooms will be located on the upper level of a two-story house or townhome. These houses may have a half-bath on the main floor and can be more segmented due to the need for load-bearing supports.

Use the Right Tools

If you are looking for a great way to increase your stress level and prolong your searching process, try using third-party marketing-based websites.



Many of these national websites make their money by selling advertising space to real estate agents and loan officers. They have no obligation to keep their inventory accurate, up to date, or to show all available listings. Some real estate agents and companies choose not to advertise their listings on these sites. A fair percentage of the homes on these sites do not have accurate status updates and often have accepted offers on them. This is yet another example of how you could be looking at the wrong homes while the right ones are selling.

Focus instead on Multiple Listing Service (MLS) direct sites that have broker reciprocity. This means that you will be seeing all possible listings that are active and available within the MLS. The MLS is the main database that all agents and brokers are required to use to list their properties. These sites are also obligated to be accurate and up-to-date with the listing status.

There are many MLS direct real estate sites available to consumers these days. Some are great for map searches. Some sites offer more options to zero in on the features that you want. Other sites offer searches that draw boundaries based on commute times at different times of the day. Some have great assigned school ratings built right in. Others have maps that show crime levels. Therefore, it is advisable to ask your agent which tools suit your situation the best.

Research the Home

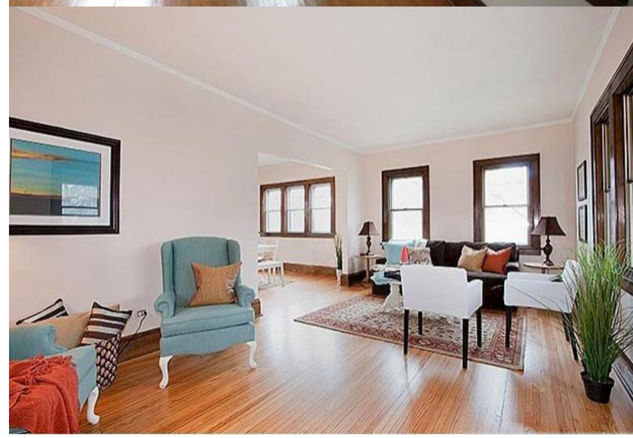
The first thing to realize when researching homes is that pictures can tell a thousand lies. Photo quality can make a good home look bad or a bad home look good. Therefore, your primary focus should not be on the pictures when finding homes that meet your criteria. The first thing to verify is that the property meets your basic goals of bedrooms, bathrooms, location, and price range. Pull up the satellite view from within the map function. This is where you can look for resale objections you may want to avoid. For example, is the home next to a freeway or near train tracks? Then you will want to check the room locations and sizes in written specs from within the individual listing information. If everything looks good, you should consider taking a closer look unless something is found to be a deal breaker from within the photos.

Some of the best information from the photos is actually hidden. Look beyond the room itself. Pay attention to markers like hallways, doors, and windows. This may give away the floorplan. For example, do you see the street from the bedroom window? Is there a back entry door in the kitchen? Do you see the same small window from the photo of the front of the house, as you see in the bathroom?

If you are interested in learning the home's value versus the listing price, the best way is to go view the home in person. Then you and your realtor will do a comparison analysis. It can be tempting to use automated evaluators such as Zestimate when looking at an area. However, even according to Zillow, with off-market properties their values are only accurate 66% of the time with 10% of property values and 44% of the time with 5% of property values. For on-market properties, a service like Zestimate takes into account the listing agent's list price. Then its accuracy jumps to within 5% of 85% of property values. However, this is roughly the same margin of error an average listing agent will have.

If you are interested in doing additional research on the location at this point, there are a few other great resources. Communitycrimemap.com has a fabulous crime mapping tool. Mncompass.org has all sorts of data about each area such as number of families, age ranges, and number of rentals vs owner occupied properties in the area. If you are interested in how each city's real estate market is trending, the Minneapolis Area Association of Realtors website is a great resource. They track all the real estate data for each city around the 13 county metro areas and beyond. You can find average days on market for each city, if the average sale price is tracking up or down, and many other stats.

The photo on the top of each example is of a home that sat on the market with zero offers. The bottom photo is of the same home that sold very quickly. No updates were made to either home. All that's different was the adding or changing of the staging, and using a higher quality of photography.



Finding the Best Deals

It is easy to overlook good homes when viewing them online. A limited number of pictures, poor quality photos, cluttered or empty rooms, outdated flooring, ugly wallpaper, and poor paint colors are all common reasons people decide not to view a particular home. These issues will result in fewer showings, thus creating opportunity for buyers who know how to see past these easily curable objections. Let's examine each of these visual objections one by one.

LIMITED NUMBER OF PICTURES

This is quite often a result of a messy interior. This does not always mean that there are problems with the property. It can often signify that the property is currently rented and not in showing ready condition. This often results in a sale price of 15% less than the same property that has been well prepped for showings.

POOR QUALITY PHOTOS

This is often the fault of a listing agent who does not understand the importance of high-quality real estate photography. Poor photos can easily cause the property to sell for 10% less than the same home using high-quality photos and marketing.

CLUTTERED OR EMPTY ROOMS

This purely is an issue of perception with no real cost associated to fix the issue. Oddly enough, a cluttered room and a vacant room can both seem small in the photos. Clutter will suck up the space and make it feel small. Empty rooms lack size perspective and often look small in photos. These two objections can easily result in a 5% reduction in sale price even if high-quality photography is used.

OBJECTIONABLE FLOORING & PAINT

These are some of the lowest cost updates that offer some of the biggest returns. Furthermore, homes built before the 70's are likely to have hardwood floors that are covered by that ugly carpet. Paint is just paint.

It is about the cheapest and easiest update. Don't be discouraged by pink and purple walls. A well-marketed home with these objections will often sell for 5-10% less.

KEY SEARCHING TERMS

Foreclosures: What most people know as foreclosures are actually bank-owned properties. The foreclosure process is completed and now the bank owns the home. Purchasing one of these may involve a little extra paperwork or a slightly different offer process. It is best to just be flexible as each bank does it a little differently. Contrary to popular belief, this process does not usually take much longer than purchasing a traditional sale home. Many bank-owned homes will not qualify for certain types of financing due to conditional restrictions and may accept only offers buying with cash or rehab financing.

Short Sales: The first thing you will want to know about these is there is nothing short about a short sale. The term "short sale" comes from the fact that the seller is trying to sell it short of what they owe on the mortgage. The seller's lender approval process for this can take a long time. However, the wait can be well worth it for those who have the time. You will want to budget 6 months for this process.

Estate Sales: An estate sale usually happens when someone is moving on to assisted living or family members are trying to sell a passed relative's house. In both situations, there is usually a lot of motivation to sell fast because no one is living at the home and costs are accruing rapidly.

Relocation Sales: This usually occurs when someone has been relocated due to a job transfer. Quite often the employer will work with a relocation company that may sell the home for a discount to get it off their books. Many times the employer will take on some, if not all, of the costs of selling the home.

Setting Up Showings

The buyer's agent that you chose can show you any home from any website regardless of what company has the sign in the front yard. Brokerages cooperate with each other to get homes sold through what is referred to as broker reciprocity.

The first thing that you want to do when setting up showings is to verify the MLS listing status. This is a list of the MLS statuses:

A: Active: these are available homes
Ai: Active with a contingent offer accepted
At: Active with an offer contingent on third party approval
TNAS: Temporarily not available for showings
P: Pending (accepted offer and contingencies removed)

Try to keep your showings in the tightest geographic area possible. This will maximize your time at each property.

Additionally, it will give you a better understanding of value for that particular area. Always try to set up at least 2 homes when exploring a new area for comparison purposes. Try not to set up more than 5 because they will start to blend together after that. Make sure to look at your top picks first if you have a long list of homes that you want to see. This goes back to the key point of not looking at the wrong homes while the right home is selling.

At the Home

Fewer things will be overlooked if you have a systematic way of viewing the home while on the property.

Do an exterior walk-around and pay close attention to potential red-flags. Please refer to the home walk around and walk thru checklist on page 35 for a comprehensive list of things to pay attention to. Do not be afraid to tell your agent that you are not interested in a home if you discover deal breakers at this point. It is better to spend less time in the homes that you do not like thus allowing you to spend more time in the homes that you do.

There are exceptions. Sometimes it can be valuable to continue looking at a home if the goal is to get a perspective of value for the area or understanding of a particular layout.

Make your way inside after walking around the home. Try not to be influenced by professional staging or the seller's personal belongings. These items can strategically distract buyers from truly important aspects or issues in the home.

Instead, pay attention to the plumbing system. Are the pipes galvanized, copper, or PEX? Is there sufficient water pressure and draining? What is the age of the mechanicals and are they operating as they should? Look at the electrical service. Is the service at least 100 amp? Make sure the branch wiring is not aluminum or knob and tube. Pay close attention to the foundation. Make sure there are no cracks larger than 1/8 inch. Are there signs of water intrusion? Is the water intrusion easily corrected? Sometimes water intrusion in an unfinished basement can be easily corrected. This may present significant opportunity to negotiate.

These are only some of the items to evaluate while on a showing. Please see page 35 for a comprehensive list.

Making an Offer

There is often anxiety around making your first offer.

However, it is helpful to remember that an offer is just an offer and not a commitment to buy. An agent that is truly representing your best interests will build in the appropriate contingencies allowing you to do your due diligence once you know the seller will work with your offer. Think of it like making an offer on a used car with the stipulation that you would like your mechanic to look at it first.

We highly recommend not paying for an inspection or ordering association documents until you have secured that the seller is willing to work with your offer. You could end up wasting a ton of time and money while completely exposing your interest level in the property therefore giving up leverage on price.

The first step in making an offer is to establish the value range of the home. You and your agent should look at comparable sales in the area and make the appropriate price adjustments to the comps for attributes that are different from the subject property. It is also a good idea to use a couple automated evaluations for additional data points. Your agent should have access to these tools.

The next step is to plan your negotiation strategy. It is important to understand the current local market conditions and potential interest in the home. This is where you decide the price range that would be an acceptable result for you, thus drawing your line in the sand. You should not have an issue sharing this with your agent if trust has been established. This will allow your agent to structure the offer in a way that gives you the best opportunity to get the home at or below the acceptable price with the best possible terms. Every situation is unique. There is no single strategy that works in every situation. Open and honest communication with your agent is the only way to achieve the best result.

There is more to keep in mind than just price. Sometimes you can get a better deal by being flexible on other terms. For example, sometimes you can get a vacant property at a cheaper price if you have a quicker close date versus a higher offer that has a longer close date.

Other terms to consider include the amount of earnest money, strength of financing, and length of the inspection contingency. The earnest money is basically a deposit to show your interest and commitment to the property. It is usual and customary for this amount to be roughly 1% of the total purchase price of the property. However, a higher amount can be attractive to sellers in competitive situations. The type of financing and amount of down payment may influence a seller's decision. The biggest hurdle for most sellers to get past after accepting an offer is to make it through the inspection contingency. Therefore, a shorter contingency period will decrease the amount of time for the seller to realize the certainty of the deal reaching the closing table.

If you are using seller-paid closing costs (financed closing costs), this will reduce the seller net as we discussed previously. This must be factored into the offer. Cleaner offers will almost always win in competitive situations. Keep the closing time short, reduce the inspection contingency days, and reduce or eliminate financed closing costs if you truly love the home.

How to Deal with Multiple Offers

Multiple offers happen in two situations:

1. The listing agent underpriced the home considerably, because he or she did not understand the local values.
2. Limited listing inventory can create a seller's market and infalate value in the short term.

If you are in the first situation, you should have your agent establish the true value of the house. Then you need to decide what the home is truly worth to you. Try not to think of multiple offer situations as bidding wars. You will typically have only one opportunity to put forth your highest and best price in a multiple offer situation.

The perfect offer is the one price that makes you happy if you win and feel as though you did your best if your offer is not accepted. Try to visualize your agent giving you the news that your offer was not accepted. If you see yourself saying, "I should have bid $1,000 more," then now is the time to do it. Don't let "We should have…" happen to you.

If you find yourself in the second situation on a particular house, then it may be best to walk away from that one unless it is your dream home and neighborhood market conditions are favorable for the next three to five years.

If you do decide you want to put your best foot forward in a multiple offer situation, there are a few ways to do this without going straight to your maximum comfortable price.

The first is what is known as **an escalation clause**. The purpose of this is to offer above any other offer a preset dollar amount. Many buyers will place a cap on the max amount their willing to place to as well. The wording may sound something like this. "The Buyer's initial offer is list price with an escalation clause of $1,000 over any other offer up to $5,000 over list price. The seller to provide first and signature page of any offer used to set purchase price." The benefit is that you are not going $5,000 over list price for no reason. Be careful, though. It might sound like you should do this every time you're facing multiple offers, but there are plenty of times you might not want to. For example if you are using a lower down payment and you are possibly going against a cash offer a $1,000 over might not cut it. However the full $5000 over list price might.

The next clause that you might want to use is **an inspection guarantee**. Not only can this help in multiple offers, you may find it helpful when trying to negotiate down in price when you are the only offer. With an inspection guarantee, you convey to the seller that you are not going to nit-pick on small, common issues that may come up in a home buyer's inspection. This can alleviate a lot of the stress a seller may have regarding the inspection—and you'll still be protected if large mechanical or structural issues arise. Many times we've seen this clause tip the scales—even beating out higher offers.

The last option to make your offer stand out is **an appraisal guarantee**. This conveys to a seller that you are a buyer of your word. You are stating, legally, that you are willing to stand by your offer, *even if the appraisal value comes in lower than expected*.

If you decide to do this, we **STRONGLY RECOMMEND** that you and your agent are extremely diligent about verifying local comparable values to limit the risk of a low appraisal.

If the appraisal comes in low, the buyer will need to bring the difference in additional down payment between the offer price and the appraised value. That said, an appraisal guarantee is hands down the most benefitial option in getting our offer accepted in multiple offers. If you can stomach the risk and the potential extra downpayment.

The Home Buyer Inspection

Skipping the home inspection is not the smart way to buy a home when considering a single family house. There is a good reason that the U.S. Department of Housing and Urban Development and The Federal Housing Administration created a form titled, “For Your Protection, Get a Home Inspection.” The inspection contingency gives the buyer an opportunity to back out of the deal should a major issue be uncovered. It also provides opportunity to further negotiate as a result of the findings.

Who is a qualified home inspector? It is not a relative who is an engineer or contractor or a family member who has flipped a home or two. A qualified home inspector is a trained professional whose primary job is home inspections and completes at least 100 inspections a year. A common saying amongst ethical real estate professionals is, “The cheapest inspection can end up costing you the most.” An experienced Realtor will likely have some recommendations of quality home inspectors. Usually, these are the same people they use and trust when they themselves are purchasing a home.

A quality inspector is going to find an extensive list of noteworthy, marginal, and potentially hazardous items even in newer homes. Some of the most common issues that we see are ungrounded outlets, negative grading, unvented fixtures, and furnaces that need to be safety checked. The key is to concentrate on the life safety issues or issues that are not common to homes of this age.

Try to limit your requests to no more than six items to increase your chances of coming to agreeable terms with the sellers. Keep in mind that these requests will reopen the negotiations and give the sellers the potential to walk away if agreeable terms are not met. If you are unable to limit yourself to six requests, then you should ask if this is the right home for you.

Here's a pro tip!

Keep your inspection and use it as a guide for maintenance and repairs after you move in.

Accepted Offer Timeline & Closing Day

After the inspection is completed you will work more with the loan officer and the title company and less with your realtor.

The title company is vitally important to this process. They are the glue that holds the transaction together. They are responsible for gathering all of the paperwork from all of the appropriate parties (buyer and seller's agents, loan officers, county offices, etc.). They are also going to set up any mortgage payoffs, lien payoffs, or lien releases. This helps to ensure that you will be taking a clean title. The closing day was established in the purchase agreement, but the title company will be your point of contact to set up the time and location of the closing. They will also be the ones that tell you what you need to bring to the closing table on that day.

A **homeowner's insurance policy** will need to be provided to the lender prior to closing. Homeowner's insurance is often overlooked in the home shopping process, but is a vital part of homeownership. Cheaper is usually not better when it comes to homeowner's insurance. You want to make sure you have the right coverage for when you may need it. Many insurance agents prey on people just looking for the lowest price. They do this by selling you a policy with inadequate coverage. If needed, you will want the full roof coverage, storm damage or sump pump failure on policy—just to name a few. If you don't have these coverages, it could cost you thousands, if not tens of thousands, extra out of pocket if you need to file a claim and do not have coverage. Just like it is important to talk about all your loan options with your loan officer, you will want to go over your insurance options with a trusted insurance agent.

Your lender will typically order the appraisal once the inspection is complete. The appraisal is not a verification of value. It is an analysis of risk on the lender's behalf to ensure their investment. This is apparent, because the vast majority of the appraisal values come in at exactly the purchase price. You will only see the value come in under the purchase price if the risk is too high.

Loan underwriting begins during the appraisal. Your mortgage team will make many requests between the time underwriting begins and receiving a clear to close. This is because you are asking to borrow a few hundred thousand dollars.

They will ask for similar documents multiple times during the process. They don't do this by choice. They are required by federal rules and regulations to verify changes in your accounts throughout the process.

Common requests to expect:

- Copy of the earnest money leaving your account
- Verification of employment
- W2's
- Complete copies of tax returns from previous 2 to 3 years
- Tracking of gift funds

DO NOT open any new lines of credit or make changes to any of your current credit accounts without talking to your loan officer first.

You will likely be anxious to learn the exact amount due at closing. Your loan officer should be able to provide a close estimate. However, a precise amount hardly ever gets calculated until the week of closing. This is because closing dates occasionally get changed. Moving the close date by only one day will change many of the costs.

As closing day approaches, you will want to put the utilities in your name starting on the closing date. To find the local utility provider, ask your agent or do an internet search of "city name" + "utilities." A list of available utility providers for the area are often found on the city website.

You will also want to set up a final walkthrough with your agent. It is usually best to do this right before closing. This is because you will be able to verify there are no new issues that may have come up between the inspection and the closing day that you did not already know about. If an issue did arise, or something was not taken care of on your inspection request, you can come up with a solution at closing since all of the parties will usually be there.

Be prepared to sign a lot of documents when you get to closing. This process typically takes about 45 minutes to an hour.

Almost always, you will receive the keys at closing and take immediate possession of the home. Congratulations, you just bought a house.

Your New Home

Just like you would change the oil and do regular maintenance on your car, you will want to maintain your new home.

If you take care of your home, your home value will go up over time. Traditional appreciation of maintained properties tracking back to the late 1800s is at about 4.5% per year. However, heavy wear and tear, deferred maintenance, outdated cosmetics, and broken items will lower your realized appreciation.

Many things in your home are easily maintained or updated. As a new homeowner it will be well worth your time to learn these simple skills. From books to YouTube videos there are many great resources to do this. You will be happy you did these things when it comes time to sell.

Remember, your inspection report is a great starting point for recommended maintenance and repairs.

APPENDIX A: HOME WALK THROUGH CHECK LIST

EXTERIOR

Roof
1. Damaged or missing shingles
2. Separating or loss of granules on shingles
3. Missing or damaged soffit and fascia

Grading
1. Negative grade towards home

Windows and Glazing
1. Single pane versus dual pane
2. Missing storm windows (if required)
3. Fogged window panes
4. Missing or cracked glazing
5. Rotting
6. Peeling paint

Siding
1. Damaged or missing
2. Peeling paint
3. Excessively cracked stucco

Foundation
1. Cracks that are greater than 1/8th of an inch
2. Displacement
3. Bowing
4. Excessive settling

Mechanicals
1. AC over 20 years old

Deck
1. Deteriorated or rotted decking
2. Structural deficiencies

INTERIOR

Ceiling
1. Water Staining
2. Sagging
3. Not level

Flooring
1. Settling

Walls
1. Large settling cracks
2. Water damage

Fireplace
1. Dirty
2. Cracked or rusted burn chamber
3. Chimney debris in bottom of fireplace

Electrical
1. No GFCI in kitchens and baths “FHA”
2. Grounded outlets
3. Scorching on outlets

Above-ground Plumbing

1. Low water pressure on top level
2. Leaks under sinks

BASEMENT

Foundation Walls

1. Moist or wet walls
2. Water stains
3. Cracks that are greater than 1/8th of an inch
4. Displacement
5. Bowing

Basement Floor & Floor Line

1. Heaving
2. Excessive cracking
3. Water stain lines

Heating System

1. Rusted burn chambers & heat exchanger
2. Dusty or dirty
3. Rust on casing
4. Furnace over 20 years old

Electrical

1. Fuses
2. Under 100 AMP

Plumbing

1. Water heater over 15 years old
2. Galvanized piping
3. Corrosion

GARAGE

1. Large cracks or heaving in slab
2. Damaged garage door or frame
3. Issues with garage door opener

** Items in red are red flags and could be potential walk away issues*

APPENDIX B: TOWNHOUSE AND CONDO BUYING TIPS

1. **Buy in a location that will have long-term value**. Look for easy freeway access, close to shopping and restaurants, or in a walkable area.
2. **Find out if there are rental restrictions**. If too many rentals are allowed it may not qualify for certain types of financing and could be hard to sell. On the flipside, if none are allowed it may limit your options if you need to move in a slower market.
3. **Do the association dues budget for exterior repairs or is each unit assessed every time repairs are required?**
4. **Be aware of associations that have dues lower than similar townhomes in the area.** Associations that have these may not be budgeting appropriately, increasing the risk of high assessments.
5. **Just because it looks like a townhome does not mean it is a townhome.** For a townhome to be truly a townhome (versus a condo), it needs to have a lot and block legal description on title. If it does not, it is more than likely a condo and therefore may have a harder time qualifying for certain types of financing such as FHA or VA.

APPENDIX C: COST OF SAVING

Many buyers, at one point or another in their searching process, may think about delaying their search so they can save more money to buy the home they really want. More often than not, this is due to buyer fatigue from too many showings or multiple offers being rejected. Sometimes, buyer fatigue comes from lease roulette: when a lease is almost up and a buyer feels like they either don't have enough time to make a purchase or that the housing inventory is too low during their search. Don't get us wrong—you should never buy a house until you find the right house for you.

That being said, there is no getting around that there is a cost to delaying your search for significant periods of time.

In the last 100 years, the real estate market has moved in a negative direction only twice over a twelve month period of time. This was during the Great Recession and the Great Depression. So we can pretty confidently say that most likely the market is moving upwards when you are looking. On average, our market trends up about 4.5% per year. This means if you are buying a home in the median sale price range of around 275k, you will need to save right around $12,000 just to buying that same home next year. If you do not think this will happen to you, you can verify that more than likely it will by visiting the Minneapolis Area Association of Realtors website. There, you can look at the market trends for all the suburbs and city neighborhoods. You can even view these stats by property type and price range. You may be unpleasantly surprised to find that the appreciation rate tends to be higher than 4.5% in many areas in price ranges below 400k.

So how do you continue your search without delaying and throwing away 12k or more?

First, make sure you are focusing your search on what you need in a home over the next 5 years; don't get stuck in the forever house myth. The home buyer priority check list (pg. 13) should help with this.

Second, make sure you can go to a short-term lease option if needed while searching for the right home. Finally, be patient—certain times of year have lower inventory, increased competition, or both.

However, if you follow these steps you will find a home you love.

Side note: If you truly want to increase your buying power, talk to your loan officer about what paying off any small debts might do. You can also talk to them about whether or not there are any mortgage insurance reduction options that might help. If you can reduce your monthly debt payments by $100, that will increase your buying power by about $20,000.

APPENDIX D: AGENCY RELATIONSHIPS

When you start meeting with real estate agents they are required by their governing rules to present to you a form called "Agency Relationships in a Real Estate Transaction." We have included a copy of this form on the next page so you are prepared when the time is right.

AGENCY RELATIONSHIPS IN REAL ESTATE TRANSACTIONS

MINNESOTA LAW REQUIRES that early in any relationship, real estate brokers or salespersons discuss with consumers what type of agency representation or relationship they desire.[1] The available options are listed below. This is **not** a contract. **This is an agency disclosure form only. If you desire representation you must enter into a written contract, according to state law** (a listing contract or a buyer/tenant representation contract). Until such time as you choose to enter into a written contract for representation, you will be treated as a customer and will not receive any representation from the broker or salesperson. The broker or salesperson will be acting as a Facilitator (see paragraph IV on page two (2)), unless the broker or salesperson is representing another party, as described below.

ACKNOWLEDGMENT: I/We acknowledge that I/we have been presented with the below-described options. I/We understand that until I/we have signed a representation contract, I/we am/are not represented by the broker/salesperson. I/We understand that written consent is required for a dual agency relationship.

THIS IS A DISCLOSURE ONLY, NOT A CONTRACT FOR REPRESENTATION.

______________________________ (Signature) (Date) ______________________________ (Signature) (Date)

I. **Seller's/Landlord's Broker:** A broker who lists a property, or a salesperson who is licensed to the listing broker, represents the Seller/Landlord and acts on behalf of the Seller/Landlord. A Seller's/Landlord's broker owes to the Seller/Landlord the fiduciary duties described on page two (2).[2] The broker must also disclose to the Buyer material facts as defined in MN Statute 82.68, Subd. 3, of which the broker is aware that could adversely and significantly affect the Buyer's use or enjoyment of the property. (MN Statute 82.68, Subd. 3 does not apply to rental/lease transactions.) If a broker or salesperson working with a Buyer/Tenant as a customer is representing the Seller/Landlord, he or she must act in the Seller's/Landlord's best interest and must tell the Seller/Landlord any information disclosed to him or her, except confidential information acquired in a facilitator relationship (see paragraph IV on page two (2)). In that case, the Buyer/Tenant will not be represented and will not receive advice and counsel from the broker or salesperson.

II. **Buyer's/Tenant's Broker:** A Buyer/Tenant may enter into an agreement for the broker or salesperson to represent and act on behalf of the Buyer/Tenant. The broker may represent the Buyer/Tenant only, and not the Seller/Landlord, even if he or she is being paid in whole or in part by the Seller/Landlord. A Buyer's/Tenant's broker owes to the Buyer/Tenant the fiduciary duties described on page two (2).[2] The broker must disclose to the Buyer material facts as defined in MN Statute 82.68, Subd. 3, of which the broker is aware that could adversely and significantly affect the Buyer's use or enjoyment of the property. (MN Statute 82.68, Subd. 3 does not apply to rental/lease transactions.) If a broker or salesperson working with a Seller/Landlord as a customer is representing the Buyer/Tenant, he or she must act in the Buyer's/Tenant's best interest and must tell the Buyer/Tenant any information disclosed to him or her, except confidential information acquired in a facilitator relationship (see paragraph IV on page two (2)). In that case, the Seller/Landlord will not be represented and will not receive advice and counsel from the broker or salesperson.

III. **Dual Agency - Broker Representing both Seller/Landlord and Buyer/Tenant:** Dual agency occurs when one broker or salesperson represents both parties to a transaction, or when two salespersons licensed to the same broker each represent a party to the transaction. Dual agency requires the informed consent of all parties, and means that the broker and salesperson owe the same duties to the Seller/Landlord and the Buyer/Tenant. This role limits the level of representation the broker and salesperson can provide, and prohibits them from acting exclusively for either party. In a dual agency, confidential information about price, terms and motivation for pursuing a transaction will be kept confidential unless one party instructs the broker or salesperson in writing to disclose specific information about him or her. Other information will be shared. Dual agents may not advocate for one party to the detriment of the other.[3]

Within the limitations described above, dual agents owe to both Seller/Landlord and Buyer/Tenant the fiduciary duties described below.[2] Dual agents must disclose to Buyers material facts as defined in MN Statute 82.68, Subd. 3, of which the broker is aware that could adversely and significantly affect the Buyer's use or enjoyment of the property. (MN Statute 82.68, Subd. 3 does not apply to rental/lease transactions.)

________ (initial) ________ (initial) *I have had the opportunity to review the "Notice Regarding Predatory Offender Information" on page two. (2)*

IV. **Facilitator:** A broker or salesperson who performs services for a Buyer/Tenant, a Seller/Landlord or both but does not represent either in a fiduciary capacity as a Buyer's/Tenant's Broker, Seller's/Landlord's Broker or Dual Agent. **THE FACILITATOR BROKER OR SALESPERSON DOES NOT OWE ANY PARTY ANY OF THE FIDUCIARY DUTIES LISTED BELOW, EXCEPT CONFIDENTIALITY, UNLESS THOSE DUTIES ARE INCLUDED IN A WRITTEN FACILITATOR SERVICES AGREEMENT.** The facilitator broker or salesperson owes the duty of confidentiality to the party but owes no other duty to the party except those duties required by law or contained in a written facilitator services agreement, if any. In the event a facilitator broker or salesperson working with a Buyer/Tenant shows a property listed by the facilitator broker or salesperson, then the facilitator broker or salesperson must act as a Seller's/Landlord's Broker (see paragraph I on page one (1)). In the event a facilitator broker or salesperson, working with a Seller/Landlord, accepts a showing of the property by a Buyer/Tenant being represented by the facilitator broker or salesperson, then the facilitator broker or salesperson must act as a Buyer's/Tenant's Broker (see paragraph III on page one (1)).

---

(1) This disclosure is required by law in any transaction involving property occupied or intended to be occupied by one to four families as their residence.

(2) The fiduciary duties mentioned above are listed below and have the following meanings:
<u>Loyalty</u> - broker/salesperson will act only in client(s)' best interest.
<u>Obedience</u> - broker/salesperson will carry out all client(s)' lawful instructions.
<u>Disclosure</u> - broker/salesperson will disclose to client(s) all material facts of which broker/salesperson has knowledge which might reasonably affect the client(s)' use and enjoyment of the property.
<u>Confidentiality</u> - broker/salesperson will keep client(s)' confidences unless required by law to disclose specific information (such as disclosure of material facts to Buyers).
<u>Reasonable Care</u> - broker/salesperson will use reasonable care in performing duties as an agent.
<u>Accounting</u> - broker/salesperson will account to client(s) for all client(s)' money and property received as agent.

(3) If Seller(s)/Landlord(s) elect(s) not to agree to a dual agency relationship, Seller(s)/Landlord(s) may give up the opportunity to sell/lease the property to Buyer(s)/Tenant(s) represented by the broker/salesperson. If Buyer(s)/Tenant(s) elect(s) not to agree to a dual agency relationship, Buyer(s)/Tenant(s) may give up the opportunity to purchase/lease properties listed by the broker.

NOTICE REGARDING PREDATORY OFFENDER INFORMATION: Information regarding the predatory offender registry and persons registered with the predatory offender registry under MN Statute 243.166 may be obtained by contacting the local law enforcement offices in the community where the property is located, or the Minnesota Department of Corrections at (651) 361-7200, or from the Department of Corrections Web site at www.corr.state.mn.us.

BRIX Real Estate is a boutique brokerage operating in the Twin Cities that puts clients first in every respect. By celebrating and refining the craft of real estate, participating in the betterment of our local community and taking great pride in the relationships we build, we work tirelessly to provide exceptional service and an elegant, streamlined approach to every aspect of our service.

BRIX St. Paul
1390 7th Street West
St. Paul, MN 55102

BRIX Minneapolis
748 N 3rd Street, #100
Minneapolis, MN 55401

BRIX Burnsville
201 W Burnsville Parkway, Suite 150
Burnsville, MN 55337

BRIX Maple Grove
6885 Sycamore Ln N, Suite 105
Maple Grove, MN 55369

(612) 927-2749 · brixtwincities.com

The Right Tools & Techniques

Buying a home is likely one of the largest financial transactions you will make. This is a concise, yet comprehensive guide to the home buying process, from searching for homes online to closing day and beyond. As a smart home buyer, you will have the right tools and techniques to give you an edge in today's real estate market.