



Buying a Home: The Missing Manual

Nancy Conner

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Home ownership is a cornerstone of the American dream, but it's a complex process that, without the right guidance, can seem like a nightmare. This Missing Manual takes you through the process of buying a home, from start to finish. Along the way, you'll use the book's expert advice and fill-in forms to identify the house you want, figure out what kind of neighborhood you want to live in, determine what a target home is really worth, make an offer, and close the deal. Throughout the process, this book helps you:

- Realistically determine how much house you can afford
- Assemble a real estate team that's looking after your interests and not the seller's
- Understand the different ways to finance your house, and which is best for you
- Create an attractive offer with the best chance of acceptance
- Learn what lenders look for so you can get your mortgage approved
- Inspect your new home to uncover potential problems
- Prepare all the right paperwork for a smooth closing

Ten Tips for Buying a Home in a Buyer's Market

By Nancy Conner

Frequently Asked Question

Determining Housing Inventory

My agent told me that it's a good time to buy because there are eight months of inventory on the market. What does that mean, and how did she come up with this number?

Agents gauge market inventory by figuring out how long it would take to sell all the houses listed within a specific price range at the rate homes are selling right now. This number, sometimes called the *absorption rate*, gives you an idea of how quickly or slowly homes are selling over time.

To figure out the absorption rate, pick the price range you're interested in, and then look at the total number of active listings in that range last month. Next, get the number of listings sold (your agent calls these "closed listings") during that month. Then get out your calculator and divide the total inventory by the number of closed listings. The result tells you how many months it would take to sell all listings if sales continued at last month's rate.

Here's an example: The total number of listings in your area last month was 2,459, with 302 closings. When you divide 2,459 by 302, the result is just over 8. So your agent would tell you that there's eight months' worth of inventory currently on the market. (And since you're a buyer, that's good news.)

When taking the market's temperature, agents use these guidelines:

- Six months of inventory is a neutral market, favoring neither buyers nor sellers.
- More than six months of inventory (as in the example above) represents a buyer's market; properties may languish for weeks or months before they sell.
- Less than six months of inventory is a seller's market, and homes are selling quickly.

1. Know what you can afford--and stick to your budget. This is true of any market, of course. But when there are lots of houses on the market, it can be easy to slip into the mindset that any home is yours for the taking: “Another bedroom might be nice, or a family room and a great room....”

Don't treat your local housing market like an all-you-can-eat buffet. Before you shop for a home, know your needs and your budget, and focus on homes that fit those. To track your spending, try the free budget planner spreadsheet from Spreadsheets123.

2. Get preapproved. This is a good idea whenever you shop for a home, buyer's market or not. Preapproval means that a lender has given you the green light to borrow a certain amount of money before you start shopping. It helps you know how much home you can afford, and it also streamlines the mortgage application process. And it signals to sellers that you can follow through on your offer—a big bonus at a time when mortgages are tough to get.

3. Work with a buyer's agent. A buyer's agent represents you and your interests exclusively in a real estate transaction. If you don't have an explicit buyer's agency agreement, your agent may actually be working for the seller. If you're not sure that your agent is a buyer's agent, ask. You need to be sure that your agent works for you, 100 percent.

4. Negotiate your agent's commission. Real estate agents earn their money by commission, and that means they get paid only when they sell a home. In a buyer's market, when sales are sluggish, your agent may be willing to return a portion of her commission to you as a rebate at closing. Why? Agents waste a lot of time working with window-shoppers who never make an offer. A rebate may induce you to follow through and buy a home.

5. Do your research. Before you make an offer, spend some time looking at similar properties that have sold in your area recently (the last six months), called comparables or comps. (Your real estate agent can get you the most recent data.) If selling prices are consistently lower than list prices, you've got a good chance of having a lower-than-list-price offer accepted.

6. Use online resources. Thanks to the Internet, it's easier than ever before to get information about your local housing market—and you can do so in your pajamas and bunny slippers. Use sites like Trulia.com to find homes, check a particular home's price history, and compare it to recent sales in the area. Zillow gives you a computer-generated estimate, called a “Zestimate,” of a home's value.

7. Don't assume all sellers are desperate. Some buyers lose out on homes they want to buy because they think that a buyer's market means the buyer calls all the shots. They make an insultingly low-ball offer and are surprised when the seller turns them down. As a buyer, you're in a good negotiating position, sure. But a seller isn't obliged to sell his home at any price. There are other pressures on the seller, like having to pay off his current mortgage. When you make an offer, be reasonable.

8. Consider short sales and REOs. In a short sale, the current mortgage-holder agrees to a sale price that's less than the seller owes on the home. An REO is a property that's gone through foreclosure and is now owned by the lender.

You can find bargains among short sales and REOs, but you need to look at these properties in context. Are prices still falling, meaning the home will continue to lose value? Is the house in acceptable condition? Many short sales and REOs are sold “as is,” which means the seller won't help pay for repairs. If you're looking at short sales and REOs, be sure to work with a buyer's agent who's familiar with the ins and outs of the distressed housing market.

9. Negotiate for the best price. In a buyer's market, some sellers try to get buyers' attention by throwing a new flat-screen TV or a cruise into the deal as an enticement. Instead of going for a \$1,000 gimmick, ask the seller for \$1,000 off the price. You'll save money in the long run by reducing the size of your mortgage and the interest you pay on it.

10. If you want something, ask for it. If you think the seller's furniture looks better in the living room than yours would, ask the seller to include it in the sale. If you're buying in a new development, ask the developer for free custom touches or appliance upgrades. The seller can always say no, but she might agree for the sake of the deal. In a buyer's market, it never hurts to ask.

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John Reed:

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Donald Lombard:

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Karen Schanz:

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