Buyers guide: To current Real Estate Market

In a market environment where there is low inventory, sky high prices and multiple bidding wars, it can be difficult to identify the "right" opportunity. It is easy to get swept into the frenzy which will invariably lead to poor purchasing decisions and buyer's remorse down the line. To help make the smartest investment decisions in today's market the Wright Real Estate has created a list of ten tips to help you make the best deal available.

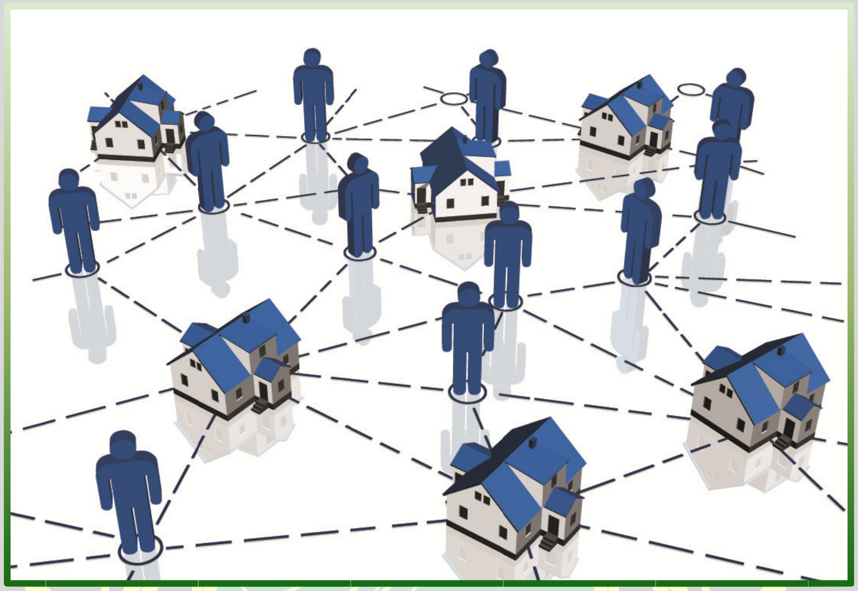
1. **Know your Budget** – The very first thing to do is to understand your budget. Determine what you can realistically afford. This is the case whether you are purchasing for owner-occupancy or as an investor. Most buyers simply look at the down-payment and the mortgage but there are many often "hidden" costs to take into consideration which can significantly alter the effective size of your budget. These hidden costs include but are not limited to the legal and administrative fees involved in closing, mortgage fee add-ons, the cost of maintaining the property on a monthly basis, and the annual property taxes. By being prepared and knowledgeable about this from

the offset, you can plan an accurate budget and avoid the unpleasant situation of making a purchase that is slightly beyond your means.

2. **Know your credit** – It's important to know that the state of your credit plays an important role in how much money you'll be able to borrow when you apply for a mortgage. In Massachusetts, residents can check their credit for free once a year. We suggest using Equifax, Experian or TransUnion to check your score. Remember: The cleaner your report is, the fewer questions your lender will ask. Dispute any misinformation listed on your reports and try to improve your score by paying down your debt and by disputing negative information on your report. Also be sure to shop around for your mortgage. Some institutions will give you considerably better terms than others. A mortgage broker can be a useful resource to tap into to get the best available financing based on your individual situation.

3. **Using sites like Trulia and Zillow versus a Realtor** – The primary difference between the two is speed and consulting expertise. A realtor has direct access to their local multiple-listing service (MLS). Sites like Trulia and Zillow are also powered by the MLS but there is a lag in the updating of the information and also the accuracy. A study conducted early in 2013 showed that 37% of listings were missing from Trulia, and 28% listings missing from Zillow. In addition some of the listings that were mentioned as "for sale" in these sites were in fact already sold or taken off market without being reflected on the site. The advantage, however, of these sites is that they give the average home buyer a great deal more information about what properties are worth in their area, and trends which are occurring. As such they serve as a great information tool. **A Realtor, however, has years of experience and will be able to advise and give powerful insights into where value can be extracted, which pitfalls to**

avoid, and what costly errors can be made, not to mention their <u>strong networks</u> that can facilitate closes and seamless transitions easily.



4. **Identifying Value** – The term value is a subjective one. Depending on the situation of the buyer, their perception of what they value will differ. For example, a newlywed couple with a baby on the way has very different concerns than the serial rental real estate investor. The key thing to be aware of is alignment. Understand what it is you value most. Whether it is square footage, high end finishing's, appreciation value, safety, investment income etc. you can then position yourself to get the best value in that particular area. Knowledgeable and experienced Real Estate experts are crucial here, since they can give you so much information that suits your Real estate goals for the long term. Make sure to ask lots of questions so you can come to your own opinions of what tradeoffs you will have to make to get the perfect opportunity for you.

5. **Identifying appreciation value** – In a market like today, where prices are on the rise, it's easy to take for granted that any real estate investment you make will appreciate in value over time. Due to the nature of real estate cycles however, this is simply not the case. I'm sure many investors at the height of the boom in 2007 assumed the prices were going to continue on an upward trend. To hedge yourself against down markets and to extract maximum appreciation potential in up markets it's necessary to match supply and demand. A bluechip area will always command top dollar in rent, and as such is usually a safe investment. The year over year appreciation however, is lower than in rapidly growing areas. South Boston is a great example of this. It has been appreciating in value since 2010 at a rate which is 30% to 50% quicker than Back Bay and Beacon Hill. Getting into a rapidly growing area in the beginning is the best way to make the most gains. The good news is that Boston's population is growing annually and new construction is yet to keep up with the demand, so there are many opportunities to get it right.

6. **Getting smooth closes** – the key to getting smooth closes is to be prepared. Know your contractual obligations and other important dates and timelines. Have the right people working for you that will produce the correct results, and be able to overcome any unforeseen obstacles that may come your way. The nature of Real estate deals is quite complex and there are several areas where one can pitfall. The key areas to ensure you have quality help are your real estate attorney, your escrow company and your title company. Together they will smoothly transition the financial and legal requirements to transfer the property legally in your name. Also make sure there is alignment between the key dates of the closing process and the financial institution you are working with if you are getting a mortgage.

Some examples of issues that arise are: The issue of the mortgage is not timely which results in missed dates. There is a contractual dispute between what the buyer is paying for, and what the seller gets to keep. There are title issues, i.e. there may be leans or other stakeholders in the property that the sellers did not make you aware of. There may be structural or infrastructure issues, for example a leaky roof that needs to be repaired or replaced, an outdated heating system etc. These issues are solved before they become a problem by having the right lender or mortgage broker, attorney, title company and inspector respectively. The importance of the right closing team can never be understated. Also your team is only ever going to be as good as you allow them to be. Understand as well what is expected from you in order to help your team smoothly close the transaction.

7. **Managing a property as an investor after a closing** – it is possible to either manage the property yourself or have someone else manage it for you. The decision will be based on your own convenience. Some people like to be hands on, have a personal relationship with their tenants and fix maintenance issues themselves. Many on the other hand don't want to have

to deal with the stresses of rent collection, dealing with bad tenants or dealing with broken fixtures or infrastructure which you the landlord is responsible for. A property management company is an excellent resource that can pay long terms dividends for managing your property. They offer several packages and usually charge a set percentage of the income the

property makes from tenants for their compensation. Their services range based on price point and the specific company you deal with but often range from rent collection and tenant management, paying operating bills such as electric and water for common areas, maintenance and repair, financial reporting, snow removal etc. If you don't want to get too hands on but still want to yield the financial rewards of investment property, this may be the best route for you. Also take into consideration that the more investment properties you own the more it makes sense to have someone else oversee your properties. You will also qualify for better rates.

8. **How to increase value in the property and resale value** – Increasing value on income producing real estate is based on the ability to extract maximum rent prices. It's important first, to understand what your target clientele will be in terms of renters and create alignment. It's one thing to invest in high end finishings and amenities in your property to boost rental rates, but if you do so in an area where the demand cannot support that price, then it would represent a poor investment. Key ways to identify value involve understanding what your clientele is likely to pay an increase in rent for, and choose to rent your properties over the competition. Granite countertops and stainless steel appliances are a nice touch. A new coat of paint as well. But one must also get creative. A nice patio or fountain in the garden, or a jungle gym for families that may have children. All these things add value. Having a keen eye for where improvements can be made is just as important. A little rehab work, can add an extra bathroom, or extra bedroom to your property where possible, which will have significant upside potential

to your rental income. It is important to consult with people with expertise in this area, to ensure that the improvements you wish to make are feasible and cost effective in the long term. But once you get it right, the gains to be had can be truly spectacular.

9. **How to take advantage of laws to maximize returns** – There are several additional benefits to owning real estate outside the income the asset produces itself. The legal system has put in place several ways to further leverage your asset to maximize your gains. For example you can set up your Real estate under an LLC or a trust, which allows you tax benefits. A trust allows you to pass your property onto an heir without being taxed on it. A 1031 exchange on the other hand allows you to sell your property and invest in another without having to pay capital gains tax at the time of sale. When you file your annual return, there are also tax credits and breaks you can take advantage of by simply being an owner occupant or an investor. Make sure to educate yourself on these 'hidden' ways to make an even greater fortune with real estate, and as always seeking experienced professional advice is always recommended.

10. **Pitfalls to avoid** – We may have touched on a few of these areas casually in the preceding points but the ten most common mistakes to avoid while attempting to invest in real estate are as follows:

   a. Failing to accurately calculate your borrowing costs and what you can afford.
   b. Hiring a bad agent. Only hire an agent that is willing to go the extra mile to get what you want. There are several who put themselves before their clients, and will be more interested in

making a commission than making you happy. Having the right experience for the property that you are searching for is also crucial. Always ask piercing questions before deciding to work with an agent.

c. Hiring the wrong attorney. Attorneys can charge by the hour or have a set fee. For a beginning investor these fees can add up quickly. It is often better to get an attorney from a small firm who will give you dedicated attention than go with one of the large corporate firms.
d. Inspector selection. Understand what the inspector is there to do. He is only obligated to check and tell you certain things. He won't by law ever say "don't buy this property" so don't rely on him to. And always shop around for the best deal.
e. Not understanding your own obligations. Purchasing a property is not only a huge financial commitment, it is also a huge time commitment during the purchasing process, and it can take a toll on an emotional level also. Be prepared for this, and understand before you get involved, what you are signing up for, otherwise you can end up being unprepared for the task at hand, and be left without the property you were looking for.
f. Buying a house that is smaller than your requirements. Smaller properties often come with a smaller price tag, and it's something you may want to compromise on in order to get the best in another form, such as location or amenities. Always remember to plan ahead, however. If you are planning to expand your family or will require more space in the future, purchasing a property smaller than your future needs perhaps isn't wise. Also remember that smaller properties are harder to sell in down markets. So you may end up stuck in a home which you aren't happy in as well.
g. On the same token, bigger is not always better. The larger the home the more time and expense is required to manage it. Consider how much more heat, water and maintenance a larger

property requires and calculate how that will figure into your monthly housing expense. Being caught with a property that is more expensive than you can afford is one of the worst case scenarios.

h. Investing in a fixer upper. Many investors look for semi run down properties or ones that can do with improvements, thinking they can make a quick return on the property. In and of itself, this isn't a bad strategy in an up market; however, many investors underestimate the huge time commitment that a fixer upper needs to be its best self again. Having the expertize to do repairs and refurbishments is also key since a shoddy job could end up costing a great deal of time and money to your bottom line.

i. Sacrificing for location. Location is just about the only thing you can't change about a property. Don't compromise too much here. Take things such as noise, weather conditions, if it's on a hill, is it above a busy commercial area, parking etc. and make sure you can live with the situation before you invest.

j. Offer mistakes. In order to get the home you want in an upmarket one often ends up in a bidding war with competitors and in the heat of battle you may start to exceed your budget. This is the largest pitfall out there. Ending up with an amazing property you can't afford.

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