



Top House- Hunting Mistakes

**Don't underestimate your feelings or
overestimate your finances**



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Providing Financial Solutions



Buying a home is a very emotional process.

If you allow those emotions to get the best of you, you may fall prey to a number of common home buyer mistakes. Since homeownership has far-reaching implications, it's important to keep your emotions in check and make the most rational decision possible.

Your aim is to end up with a home you love at a price you can afford, but unfortunately, many people do things that prevent them from achieving that dream. Let's look at some of the top house-hunting mistakes people make—and how to find a house the right way.

KEY TAKEAWAYS

- Before you start house shopping, be realistic about what you can afford, and tailor your search accordingly.
- Downplaying flaws could be a costly mistake, as could overestimating your ability to play handyman yourself.
- Jumping in too fast or waiting too long to put in an offer are both risky in terms of cost and what kind of property you might end up with.
- Don't overbid for fear of losing out, as it can cause problems with the appraisal, the mortgage, and reselling the house.

Not Knowing What You Can Afford

Once you've fallen in love with a particular place, it's hard to go back. You start dreaming about how great your life would be if you had all the wonderful things it offered, like the lovely tree-lined streets, the jetted bathtub, the spacious kitchen with professional-grade appliances, etc.

However, if you can't or won't be able to afford that house, you're just hurting yourself by imagining yourself in it. So, to avoid temptation, it's best to restrict your house-shopping to properties in your financial neighborhood. If you look at places that are outside your price range, you'll end up lusting after something you can't afford. That can put you in the dangerous position of trying to stretch beyond your means financially or cause you to feel unsatisfied with what you actually can buy.

Start your search at the low end of your price range. If what you find there satisfies you, there's no need to go higher. Remember, when you spend another \$10,000 to buy a home, you're not just paying an extra \$10,000; you're paying an extra \$10,000 plus interest, which might come out to double that amount or more over the life of your loan. You may be better off putting that money toward something else.



Skipping Mortgage Pre-Approval

As we all should have learned from the subprime mortgage crisis, what the bank says you can afford, versus what you know you can afford (or are comfortable with paying), are not necessarily the same. Conversely, what you think you can afford and what the bank is willing to lend you may not match up, especially if you have poor credit or unstable income.

Mortgage lending discrimination is illegal. If you think you've been discriminated against based on race, religion, sex, marital status, use of public assistance, national origin, disability, or age, there are steps you can take. One such step is to file a report to the Consumer Financial Protection Bureau or with the U.S. Department of Housing and Urban Development (HUD).

Make sure to be pre-approved for a loan before placing an offer on a home—or even before you go house-hunting in earnest. If you don't, you'll be wasting the seller's time, the seller's agent's time, and your agent's time if you sign a contract and then discover later that the bank won't lend you what you need—or that it's only willing to give you terms you find unacceptable. The pre-approval process can also help you locate the aforementioned financial neighborhood for your house-hunting expeditions.

Be aware that even if you have been pre-approved for a mortgage, your loan can fall through at the last minute if you do something to alter your credit score, such as finance a car purchase. If your actions cause the deal to die, you may have to forfeit any deposit or earnest money you put up when you entered into the contract.

Not Shopping Around

While you should be realistic in your search, and willing to compromise to some degree, don't cave on important things.

For example, don't get a two-bedroom home when you know you're planning to have kids and will want three bedrooms. By the same token, don't buy a condo just because it's cheaper than a house if one of the main reasons you're over apartment life is that you hate sharing walls with neighbors. It's true that you'll probably have to make some compromises to be able to afford your first home, but don't make a compromise that will be a major strain. Unless you are a high-end buyer looking at custom homes, chances are that for any home you find that you like, there are quite a few others that are close to it. Most neighborhoods have multiple homes that are similar or the same model; they may have all been constructed by the same builder.



Even if you can't find an identical model for sale, you can probably find a house with many of the same features. If you're considering a condo or townhouse, the odds are also in your favor.

Being open to continuing your search will save you from making rash decisions you might regret later. There are plenty of real estate websites and apps that can help you streamline the house-hunting process, making it possible to preview hundreds of homes within a few hours from the comfort of your couch.

Not Using an Agent

Once you're seriously shopping for a home, don't walk into an open house without having a real estate agent or broker. Agents are held to the ethical rule that they must act in both the seller's and the buyer's best interests. But you can see how it might not put you in the best bargaining position if you start dealing with a seller's agent before contacting one of your own.

The majority of buyers—roughly 88%—bought their home through a real estate agent or broker, according to a 2019 survey from the National Association of Realtors.

Lacking Vision

Sometimes a homebuyer can feel like Goldilocks in the three bears' house: This is too big, this is too small.

Distinguishing between what's fixable and what's not is a key part of house-hunting.

Even if you can't afford to replace that hideous wallpaper in the bathroom right now, it might be worth it to live with the ugliness for a while in exchange for getting into a house you can afford. If the home otherwise meets your needs in terms of the big things that are difficult to change, such as location and size, don't let physical imperfections turn you away.

At the same time, don't be snowed by minor upgrades and cosmetic fixes. These are inexpensive tricks that sellers use to play on your emotions and elicit a much higher price tag. Sellers may pay \$2,000 for minimal upgrades or fork over several thousand dollars on staging. Besides, doing home upgrades yourself, even when you have to hire a contractor, is often cheaper than paying the increased home value to a seller who has already done the work for you. And you can do them according to your taste, not someone else's.

Overlooking Important Flaws

Look for homes whose full potential has yet to be realized, especially if you're on a strict budget. The bump in equity from your upgrades will help you to move up the property ladder.

That being said, if you're going to buy a house that needs work, don't buy a fixer-upper that's more than you can handle in terms of time, money, or your own ability. For example, if you think you can do the work yourself then realize you can't once you get started, any repairs or upgrades you were planning to make will probably cost twice as much once you factor in the labor—and that may not be in your budget.



Furthermore, you would have to consider the costs involved to fix anything you may have started, including replacing materials you wasted. Honestly evaluate your abilities, your budget, and how soon you need to move before purchasing a property that isn't move-in ready.

Ignoring the Neighborhood

Don't just focus on the residence—look at the surrounding area. It's impossible to perfectly predict the future of your chosen neighborhood, of course, but inquiring about or researching its prospect now can help you avoid unpleasant surprises down the road.

Some questions you should ask include:

- What kind of development plans are in the works for the neighborhood?
- Is the street likely to become a major street or a popular rush-hour shortcut?
- Is there talk of a bridge or a highway to be built very nearby within five years?
- What are the zoning laws in the area?
- Is there a lot of undeveloped land around? What is likely to get built there?
- Have home values in the neighborhood been declining or rising?

If you're happy with the answers to these questions, then your potential house's location can keep its rose-colored luster.

Rushing to Put In an Offer

In a hot market, it may be necessary to make an offer fast if you find a home you like. However, you have to balance the need to make a quick decision with the need to make sure the home will be right for you.

Don't neglect important steps, such as making sure the neighborhood feels safe at night as well as the day (try to visit at different times), and investigating possible noise issues like a nearby train.

Ideally, you'll be able to take at least a night to sleep on the decision. How well you sleep that night and how you feel about the home in the morning will tell you a lot about whether the decision you're about to make is the right one.

Taking the time to consider the decision also gives you a chance to research how much the property is really worth and offer an appropriate price.

Dragging Your Feet

It's a tough balancing act to make sure you make a careful decision, but don't take too long to make it. Losing out on a property that you were almost ready to make an offer on because someone beat you to it can be heartbreaking. It can also have economic consequences.

Let's say you are self-employed. Perhaps for you, more than others, time is money. The more time and energy you have to take out of your normal activities to search for a house, the less time and energy you have available to work. Not dragging out the home-buying process unnecessarily may be the best thing for your business, and the continued success of your business will be essential to paying the mortgage.

If you don't pull the trigger quickly, someone else might, and you'll have to keep looking. Don't underestimate how time-consuming and routine-disrupting house shopping can be.

Nearly two-thirds of families in the U.S. own their primary residence, according to the Federal Reserve's most recent Survey of Consumer Finances.

Offering Too Much

If there's a lot of competition in your market and you find a place you really like, it's all too easy to get sucked into a bidding war—or to try to preempt a bidding war by offering a high price in the first place. But there are a couple of potential problems with this.

First, if the house doesn't appraise at or above the amount of your offer, the bank won't give you the loan unless the seller reduces the price or you pay cash for the difference. If this happens, the shortfall on your bid as opposed to your mortgage will have to be paid out of pocket. Second, when you go to sell the house, if market conditions are similar to or worse than they were when you purchased, you may find yourself upside down on the mortgage and unable to sell.

Make sure the purchase price for the home you buy is reasonable for both the house and the location by examining comparable sales and getting your agent's opinion before making an offer.



Neglecting to Inspect

You found the perfect place, your offer was accepted, and you're in contract. It's tempting to think that you're a homeowner the moment you go into escrow, but hold on. Before you close on the sale, you need to know what kind of shape the house is in. You don't want to get stuck with a money pit or with the headache of performing a lot of unexpected (and potentially expensive) repairs.

That's why you need a thorough inspection of the property—in fact, your mortgage lender might demand it. Keeping your feelings in check until you have a full picture of the house's physical condition and the soundness of your potential investment will help you avoid making a serious financial mistake.

Getting Desperate

When you've been looking for a while, and you do not see anything you like—or worse, you're getting outbid on the houses you do want—it's easy to get desperate to find your new house now.

However, if you move into a residence you'll end up hating, the transaction costs to get rid of it will be costly. You'll have to pay an agent's commission (up to 5% to 6% of the sale price), and you'll have to pay closing costs for the mortgage on your new house.³ You'll also deal with the hassle and expense of moving yet again.

If you have time on your side, it's okay to wait until something that suits you comes along. As long as your demands are realistic for your budget, you are bound to find something you can live with. New houses come on the market every day.

5.64 million

The number of existing homes sold in 2020, according to data from the National Association of Realtors.

The Bottom Line

Buying a house is a big decision, but it does not have to be difficult. However, since it's so natural for emotions to come into play, you need to ensure you are making rational choices, rather than getting wrapped up in the notion of a dream home—or conversely, of yourself as a master builder/renovator. If you're aware of the issues ahead of time, you can protect yourself from costly mistakes and shop with confidence.





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