

Don't Get Burned by the Hot Housing Market

Balancing your short-term homebuying goals with your long-term financial needs

America's highly competitive housing market offers two primary challenges for the prospective homebuyer. First of all, it's difficult to close on a home at all without going to extraordinary lengths, like making an offer above the asking price or waiving inspection. Secondly, the costs are skyrocketing, with both house prices and interest rates on the rise. According to Realtor.com, the average monthly mortgage payment on a \$400,000 home with a 20% down payment is nearly \$500 more than it was at the start of the pandemic.

So any strategies for homebuying need to address those two aspects. You don't want to sacrifice your long-term retirement plans to meet the short-term challenges of this housing market. If you're looking at buying a house in the near future, here are some things to keep in mind:

PREAPPROVAL MATTERS

The first step is to get preapproved for a mortgage. In this hot market, preapproval is sometimes required not just to make an offer but to even see a desirable property. This also gives you an upper target for the amount you can offer on any particular home, although be warned that the size of the loan you're preapproved for can sometimes be astronomically high. Just because a lender offers it to you, that doesn't mean it will fit into your budget.

Once you have that preapproval, it makes sense to quiet down your finances for a while before you close on the house – don't open any new credit cards or take out other loans, and stay current on your existing debt payments. Lenders have been known to recheck your credit rating and income status to make sure you're still suited for the loan they've offered you. ►

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A LITTLE HELP FROM THE FAM

First-time homeowners may look to family members for help with a hefty down payment. If you are planning to use such a gift to help finance your home, make sure you get it into your own accounts 60 days before you plan to buy, so it can become part of your loan preapproval.

Parents or grandparents may be willing to draw from their own savings, with a long-term plan of replenishing these accounts when they eventually downsize their own home. This can prove to be short-sighted, though; as veterans of the subprime mortgage crisis from 15 years ago remember, home prices aren't going to rise on the same trajectory forever. A Baird Financial Advisor can help you strategize the best way to offer or make use of a gift.

THE BUDDY SYSTEM

Don't be afraid to offer accommodations to the seller. If you're in a position to offer all cash for the house, that will usually move you to the head of the line. If the seller is trying to take advantage of the hot market without a clear plan of where to go next, you might offer a "rent back," giving them the option to stay in the house until they find their next home. Ask your real estate agent to explore what other types of accommodations you might be able to offer.

PATIENCE IS A VIRTUE

There's also the option of renting for another 12 months or so and waiting for the market to cool off. Renting a house is generally cheaper than paying a mortgage, not to mention all the expenses for insurance, taxes and upkeep you'll save, so this gives you an opportunity to continue saving for your dream house. While it's far from a sure bet, there's always the chance that interest rates may be lower. And a year from now, houses could start to look much more affordable again.

In a market like this, one of your strongest assets is patience. Take the time to find the right house at the right price that doesn't interfere with your long-term goals. For more advice on how to keep all your dreams on track, talk to your Baird Financial Advisor team.

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