

Buying or Selling a House in a Seller's Market

Six Financial Steps You Can Take To Make the Most of Today's Housing Market

Buying or selling a house in any market can be an important milestone, both personally and financially. That's especially true in a seller's market, where pent-up demand and scant supply can dramatically increase housing prices. Here are six financial tips for anyone looking to take advantage of this opportunity – three if you're buying a house, three if you're selling.

IF YOU'RE BUYING

- Low interest rates and an extremely limited supply of homes (thanks to a shortage of labor, lumber and other materials) have created an extreme seller's market – which is great if you're selling a home, not so great if you're looking to buy. If you're buying in a seller's market, expect a lot of competition for homes, which will drive up bids.

The bottom line: Don't be surprised if a property you're interested in gets multiple offers, even above asking price. Look for ways to make your bid more attractive, such as making an all-cash offer (which can quadruple the likelihood of winning a bidding war) or accessing a bridge loan so your offer isn't contingent on selling your current house. Maximizing your personal liquidity could be key here.

- Lower inventory and greater competition can make it harder to get everything you're looking for in a new property. If a new construction or waiting for housing inventory to pick up is not possible, prioritize what's truly a necessity in properties you're interested in.

The bottom line: When sorting through the characteristics that are must-haves instead of nice-to-haves, think about ►

Buying or Selling a House in a Seller's Market *continued*

the things you can change vs. those you can't. Location (such as close to family or work, or within a certain school district) and lot sizes are relatively fixed. If you decide you want to add a bathroom or build a four-season room, that's something you can budget for or otherwise fund down the road.

- When you're a buyer in a seller's market, it's important to address any potential obstacles beforehand that could limit the attractiveness of your offer. It's not always the highest bid that wins – a lot of the time, a buyer whose finances are in order and are ready to buy will win out over a higher bid with a lot of restrictions and financial limitations.

The bottom line: It's smart to complete as much of the financial legwork as you can before making an offer, including arranging for a mortgage preapproval. Just don't treat the amount you're approved for as an indication of how much you should spend – a potential lender will want you to take as large a mortgage as possible without defaulting. Tools like Baird's 360 Wealth can help you determine how big a mortgage payment you can absorb into your budget without crimping your lifestyle.

IF YOU'RE SELLING

- If you're looking to maximize the value of your home before you put it on the market, it might make sense to consider some upgrades – just know that not all renovations are created equal. According to the *Remodeling 2021 Cost vs. Value Report*, the resale value from replacing a garage door recoups nearly 94% of its cost, compared to adding a bathroom (53%) or master suite (48%).

The bottom line: Getting your home "market ready" might not be needed, or even recommended, in a hot housing market – after all, the labor and materials shortage that contributed to the seller's market might also contribute to major renovation delays. Be sure to consider your personal timeline as well as your budget before considering major upgrades.

- Have more home than you need? A seller's market is a great time to downsize: If you use the proceeds of your current sale to purchase a smaller property, you could ultimately end up in a better financial position – a bigger down payment, better terms on your new mortgage or potentially no mortgage at all.

The bottom line: Downsizing can bring with it a whole host of personal and financial benefits, from less time and money spent on upkeep to even getting equity back. It could also result in capital gains taxes, depending on how long you've lived in your current residence and how much it's appreciated in value. You'll need to act carefully to make the most of this opportunity while avoiding any tax missteps.

- If you do decide to sell, be prepared to act quickly. 2021 survey data from the National Association of Realtors research group found that new listings are remaining on the market for roughly three weeks, compared to more than five weeks a year ago.

The bottom line: As soon as you decide to put your property on the market, start thinking about where you'll live when it sells. Negotiating a seller rent-back, where you rent your property from the new owners, could literally buy you some time. If that's not an option, you might need to quickly arrange for moving trucks, off-site storage and short-term property rentals, in addition to the expenses associated with buying your new property. Make sure you have the resources and flexibility needed to absorb a rapid succession of one-off moving expenses.

Whether you're buying or selling, making the most of a seller's market requires a great deal of financial planning – both in the deal itself and its longer-term effects on your finances, budget and lifestyle. The best piece of advice for buyers and sellers is to not get caught up in the whirlwind of the seller's market. Your Financial Advisor can help keep you grounded, consider all the implications of this opportunity and ensure you're making the best decisions for your financial future.

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