Seaport
REAL ESTATE SERVICES

BUYER'S GUIDE

SEAPORT REAL ESTATE SERVICES

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Welcome To Our Buyer's Guide

Whether you're an experienced or first-time home buyer, real estate can be overwhelming. We have compiled over 50+ years of combined experience to give you a comprehensive and invaluable tool that will help guide you through this process. Many Buyer's Guides consist of a standard outline and time frame of the buying process. We wanted our Buyer's Guide to consist of expert knowledge, instruction, and resources you won't find anywhere else. We also shed light on advice that real estate agents may not want you to know about. This information may indicate that it is in fact NOT the right time to buy or sell real estate. This guide is designed to educate and help make the best buying decisions. For the best viewing experience, please read this Buyer's Guide on a computer as links contained throughout need computer access.

Buying Real Estate should be a fun and educational process. We are here to help guide you through the process. Determining WHY you want to purchase real estate is a crucial part of the process. Which of the choices below pertain to you?

> Shelter, Lifestyle, Cash Flow, Appreciation, Tax Implications, Portfolio Diversification, Inflation Hedge.

Is Your Agent Adding Value

Interview Multiple Agents

Buying a home is a personal experience and can have a major impact on the remainder of your life. Working with an agent that understands your wants, needs, and requirements is of utmost importance and can mean the difference between a pleasurable experience and one that you wish had never taken place. It is critical to select the agent best suited to assist you in this process. Interview as many agents as you can. If they all say the same thing, you most likely haven't found the agent looking out for your best interests. Keep looking until you find a true fiduciary or call Seaport Real Estate Group. Our Buyer's Questionnaire can help us take a look into your wants and needs, locate your ideal property and determine if we are a fit for you.

SalesPerson vs Fiduciary

Salespeople are typically focused on being transactional i.e. closing more deals. Fiduciaries use a consultative approach, putting a client's best interest in mind even if it means disclosing property info that will kill a deal. Fiduciaries won't place their commissions before their buyer's best interests. Unfortunately, many local sales agents are experienced at selling "themselves". The real estate industry over the years has become less about the client and more about the number of transactions an agent closes. Some of the blame can be directly correlated to real estate coaching which has become a big business focusing on "Closing the Deal" as opposed to solving a client's problem. Big real estate coaching companies train agents to become adept at answering common questions asked by home buyers, telling them what they want to hear. In defense of these agents and scripts, 82% of agents fail in a very short period of time. These scripts increase an agent's chances of success. Remember, you are purchasing rather than being sold.

***Homework Assignment #1:**

Find out how an agent is trained to answer your questions by Googling the following phrase "Tom Ferry Buyer Scripts". Then, call an agent with Seaport Real Estate Group and see how we differ. Tom Ferry Buyer Scripts.

What to Look For in an Agent

You want to align yourself with an honest agent that has the following characteristics…

- Self-motivated.
- Track record of success.
- Understands basic principles of real estate and how to apply them in the real world.
- Works with a team of diverse agents that think outside the box.
- Works with a diverse network of professionals who can help you to make the right decision.
- Has access to proprietary databases that will give you insight into the marketplace that can not be found through traditional means such as realtor.com, Zillow, or Trulia. As fiduciaries, Seaport agents place your interests above their own.

We Disclose Facts

Not all homes are worthy of looking at. Before you sign any paperwork, try the following homework below to determine if an agent will truly add value, or will simply unlock doors eager for a deal. If an agent can't simplify your list and is ok with showing you every property, they are most likely not doing their doing due diligence beforehand.

***Homework Assignment #2:**

Locate a home for sale with any of the following attributes and ask that agent for more information on the property.

Attributes:

a. Located on a very busy road or highway

b. Surrounded by high tension wires

c. Located next to a dump

d. In a flood zone

e. Next to railroad tracks

If the agent responds with "see you there!" you are most likely working with an agent as opposed to a consultant. If that agent discloses ANY of the attributes above and adds value, you may have found someone who is looking out for your best interest as opposed to their own.

"An agent's willingness to show you any and all properties is typically motivated by their interests rather than yours..."

It's not Just about Zillow Reviews.

Again, many agents are deal-based and are trained to rack up as many reviews as possible as a way to differentiate themselves from other agents. Just because an agent has 50+ reviews on Zillow, doesn't necessarily mean they are educated. It could just mean they simply move deals. There is a difference between getting the deal done (this would be in favor of the agent to make his/her commission) and making sure that a buyer purchases a home in the right location, at the right time, with the right financing, and positions themselves correctly for when it comes time to sell the home (this would be in favor of you, the client). Which would you prefer? Reviews are a great yardstick but may not paint the true picture regarding the motives of the agent. Try our test above to determine if the agent truly has your best interest at heart.

Seaport Real Estate Services

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★★★★★ 5.0 • 155 Reviews

47 sales in the last 12 months

Due Diligence

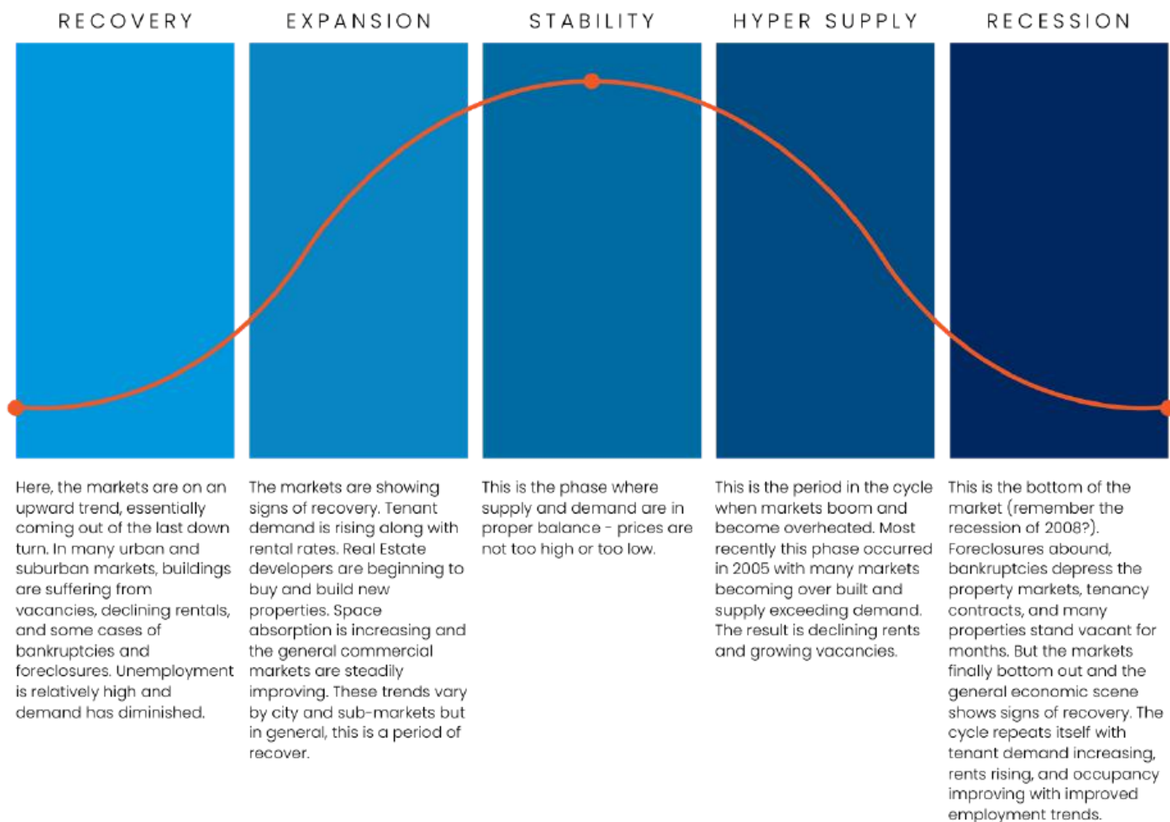
Have you ever heard an agent say “the market is hot, now’s a great time to buy!”? Unfortunately, this is not always the case. Sometimes the market is...a hot mess. We never advise our clients to buy at the peak. Seaport Real Estate Group takes due diligence seriously, by breaking down our research into three main categories: the market, the town, and the property. Think of them like levels on a funnel.

Understanding our due diligence process plays a major role in the success of your purchase.

- By breaking down the market we can help you determine if you're buying at a peak.
- By breaking down the town we can determine if the cost of living in your preferred town is financially and economically feasible for YOU and how that town has performed over the years.
- By breaking down the property we can help disclose potential risks that property may pose while you live there and how this can negatively affect resale in the future.

Let’s dive into the first tier of the funnel - **the Market.**

Due Diligence - The Market



The Real Estate Cycle

Til' Debt Do You Part?

Buyers like you should know which phase of the Real Estate Cycle we are currently in so you can gauge if it's in your best interest to buy, rent, or stay right where you are. Many agents don't disclose this information because they want their commission. If your agent tells you "it's a great time to buy" but the price of homes are at a peak, you are being misled and will overpay. Seaport Real Estate Group won't tell you "now is a great time to buy" if it's not.

The Real Estate Cycle is Not Just for Investors.

Investors look at the real estate cycle to determine the best time to buy or sell. So, why aren't home buyers utilizing the same tools investors use to determine this?

Every smart investor (and home buyer!) should be mindful of the real estate cycle, their position within it, and how to interpret it.

The More You Know.

The real estate cycle usually performs in a bell curve with many highs and lows. The different phases that make up the cycle are 1. recovery, 2. expansion, 3. stability, 4. oversupply, and 5. recession. A complete cycle may take 10-20 years. Within the 5 phases, a lot happens from recovering after a crash to growth back to recession and so on. Lucky for you, Seaport Real Estate Group can interpret the cycle and help you understand this and the best time to buy.

Buying at a Low.

Buying real estate when it's selling at a discount allows individuals more disposable income left after every paycheck to afford vacations, go out to eat, etc. Buying low means reaping the rich rewards of an upward swing (phase two) in the real estate market.

Buying at a High.

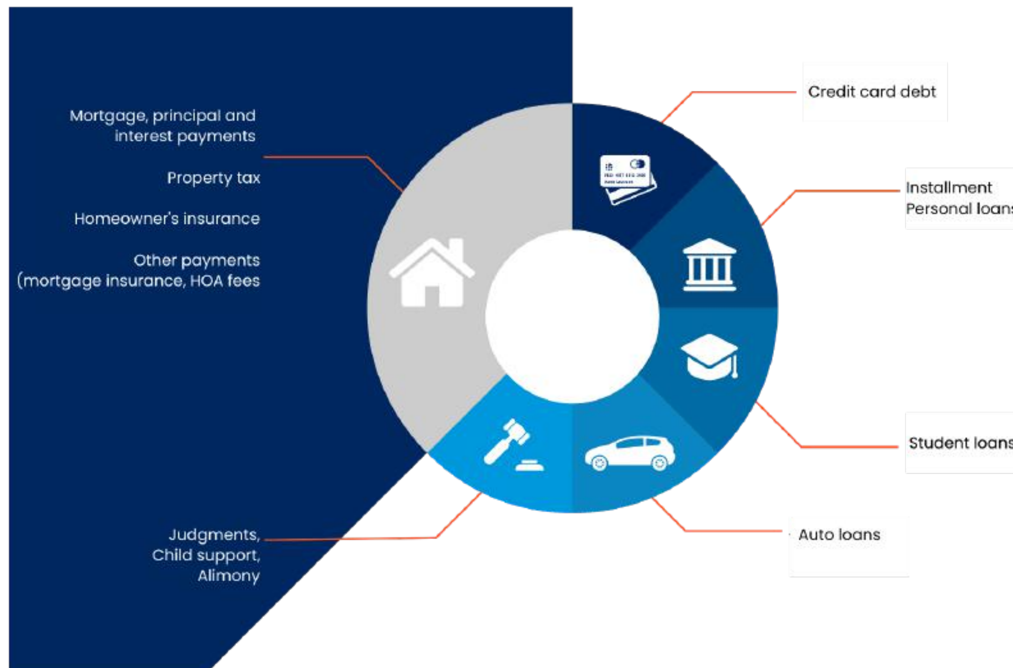
Buying real estate when it is selling at a premium means you pay a higher price. This typically occurs when people buy at the top of the real estate cycle and do not put down a sizable down payment to offset any potential upcoming decline in the market. This will leave homeowners wondering why they made the purchase, little disposable income, no funds to plan for retirement, etc. Seaport will help you to recognize when the market is in unrest and help you to make decisions that can have an impact on the rest of your life. Click here to check out Jon Nelson's blog on the real estate cycle.

Pro Tip: A lender's willingness to lend money is oftentimes directly influenced by the current phase of the real estate cycle.

> *Homework:
>
> Take a look at the diagram above. Can you determine where in the cycle we are? Do YOU think it is a good time to be buying? If you are still unsure, we can help you figure this out.

Lender Practices

Once determined where in the cycle we are, let's discuss lender practices. Common terms like debt to income (DTI) ratios, lender loosening, house poor, disposable income are discussed here.



Debt to Income - DTI

DTI consists of front and back end ratios that indicate what portion of an individual's income is allocated to the mortgage payment and will play a huge role in your approved purchase price.

The *front-end* ratio is calculated by adding up PITI (principal, interest, taxes, insurance) then dividing by monthly income. A responsible front-end ratio is around 28%.

The *back-end* ratio is calculated by adding up other loans (student, car, credit card) PLUS the front end then divided by monthly income. A responsible backend ratio is around 36%.

The higher these ratios are the greater your overall debt burden. Lenders often increase these ratios so you can afford more purchasing power and in turn, they can close a higher mortgage (most lenders are commission-based). This is called

loosening, when front and back end ratios are increased to "help" you afford more home.

At first glance, being lent more money seems like a win-win situation. WRONG> The buyer's disposable and discretionary income has been greatly reduced due to a higher mortgage payment.

***Homework Assignment #3:**

Is your lender lending you more than you can afford? Ask them what your front and back end ratios are. If it exceeds those numbers, talk with them about how to reduce this.

What is House Poor?

House Poor is a term used when a person spends a large portion of his or her total income on homeownership, including mortgage payments, property taxes, maintenance, and utilities. How can this negatively impact you? Lenders who allow buyers to spend more than they can afford (by loosening front and back end ratios) can put a burden on their disposable and discretionary income. This not only hurts the homeowner but can directly impact the community in which they live. As a consumer, you no longer have the ability to spend money on local restaurants, shops, vacations etc. Attempting to “Keep up with the Joneses” will likely lead to 67% of Americans who do not have $1,000 in savings and an average of $16,000 of credit card bills. Being house poor with little disposable income will leave you wishing you purchased within your means, and not the max price your lender approved you for.

- Disposable Income - homeownership costs including mortgage payments, property taxes, maintenance, and utilities (the necessities).
- Discretionary Income - what's left of your disposable income. Can be spent on non-essential items like eating out, travel, etc.

Interest Rates

Rising Interest Rates and Home Buyers

It’s important for homebuyers to understand rising mortgage rates, as they impact just about every aspect of home buying. In the real estate business, conventional wisdom says that rising interest rates make buying or selling a home more difficult, and decreasing interest rates make buying and selling easier.

- For example, if Johnny Home Buyer wants a 4% rate on a 30-year fixed mortgage on a home worth $400,000, his monthly mortgage payment would be $1,900.
- But if Johnny only qualified for a 5% rate on a 30-year fixed mortgage, his monthly payment would rise to $2,138.
- A 1% increase in interest raises Johnny's payment by $238, or roughly 13%. So, what does this mean for homebuyers?

From a home buyer's perspective, as mortgage rates increase, affordability decreases. Let’s go back to the previous example. Johnny Home Buyer wants to qualify for a $400,000 mortgage at 4% interest, but at 5% interest, lenders can only offer Johnny a $355,000 loan based on his qualifications. A 1% increase in mortgage interest decreases Johnny's purchasing power by $45,000.

Rising Interest Rates and Sellers

Rising mortgage rates affect sellers as well, though differently. For example, if Jill wants to sell her house for $400,000, she is more than welcome to list her home at that price. Due to rising interest rates, however, potential buyers can only afford Jill's home at $355,000. Indisputably, she can still make a profit on the sale, but only a 1% increase in mortgage rates diminishes the market value of Jill's home by about $45,000. Her profit will depend on how well she plays the market. Essentially, if interest rates were to rise very rapidly, it would slam the brakes on the housing environment.

How will you manage Rising Interest Rates?

Rising interest rates do have a very noticeable effect on buyers and sellers. If the economy grows fast enough, rising mortgage rates will not have as great an effect on property values and housing prices. For example, if mortgage rates increase one point, monthly payments increase by $238. However, a strong economy allows employers to increase salaries enough to help compensate for the rising interest rate. As long as the economy continues to grow, and we continue to see job growth and wage growth, a rise in interest rates should not paralyze the housing market.

Rising Interest Rates and Real Estate Investing

As mortgage rates rise, the effect on real estate investing can be positive. The market for rental properties will increase because fewer people can qualify for mortgages. That said, rising interest rates reduce prices, so it can sometimes be better to buy during a rising interest rate environment. Moreover, as interest rates rise, fewer real

estate transactions will take place since lending standards will be tighter. Thus, more people will need rental properties until they can afford a mortgage. A 1% increase in interest for an investor can turn into a windfall of profit in the right housing market.

Black Swan/Shifting Market

Every day provides us with an opportunity to learn and grow. Oftentimes, history repeats itself and we are able to anticipate shifts in the market. Other times, we are thrown a curveball that makes no sense and we are left without a roadmap. The most recent pandemic provided us with a work-from-home scenario backed by low-interest rates, low inventory, and extremely high demand. The perfect storm ripe for sellers of problematic properties who were able to divest and maximize returns.

In Conclusion: Buy or Sell?

Buying a home as mortgage interest rates are rising is nothing to fear. From a historical standpoint, a 5% mortgage rate is still remarkably low. And a mortgage today with a fixed rate for the next 30 years is still considerably cheaper than historical comparisons, as seen in data provided by mortgage lender Freddie Mac. The annual average for 30-year fixed mortgage rates has not reached 5% since

2009. At the start of the Great Recession in 2006, the average mortgage rate was 6.41%. Ten years earlier in 1996, the average mortgage rate was 7.81%, and 10 years earlier than that in 1986, the average mortgage rate was 10.19%.

Interest rates remaining near historic lows bodes well for buyers, and today's market reflects some of the cheapest debt a home buyer will be able to attain in the market. Most importantly, finding the right mortgage depends on receiving the right advice from a seasoned real estate expert who personally owns many properties and has transacted numerous real estate sales for others. Working with an expert enables prospective investors to feel more knowledgeable, confident, and secure with their financial decisions.

Due Diligence - Town

Breaking down and discussing the Market is only one piece of our due diligence funnel. Let’s now take a look at the second tier to our due diligence funnel: the town. Is there a shortage of inventory in any given town? Are incomes rising in conjunction with property values? How is the town's economic development performing? How is the overall town health? Many agents do not have the ability to measure this info. We break down and disclose town due diligence as the impact on you as the buyer is huge.

What are Town Attributes?

Each town has different attributes that may or may not be of importance to you during your home buying process but should be factored into your decision-making. These attributes help determine overall property value and how well a town performs.

A list of common attributes your agent should bring to your attention:

- Mill Rates
- Taxes
- Health of Town Debt
- Public Utilities
- Schools
- Proximity to Services, ie Shopping, Hospitals, Police, Fire Stations, etc.
- Secondary Homes/Destination Zip Codes
- Economic Development

Let's next highlight two examples from above.

Are you looking in a healthy town?

Seaport Real Estate Group has created a proprietary affordability index that discloses to potential buyers how far your dollar goes in certain towns. For example, $300,000 can get you far more home in one town vs another. Factors such as location, school systems, mill rates, etc. determine the price of a home. If property values go up in a town, median household incomes should rise accordingly. If there is an imbalance between property values and incomes, this can cause the potential for an unhealthy town market.

Destination Zip Codes

Ever wonder why some communities thrive while others lag behind? This is commonly seen in affluent zip codes with destination type attributes. Second-home owners with excessive disposable income often skew the real estate values in a given zip code. With access to expanded cash offers, the wealthy need not exercise the same level of fiscal responsibility when purchasing. Being “house poor” is directly correlated with attempting to keep pace with increasing home prices on a fixed level of income. Destination markets are largely unaffected by these concerns. This has the potential to bolster a local economy, spur economic growth and increase local real estate values. WHERE you purchase can be as critical as WHAT you purchase.

Due Diligence - Property

Many properties are subject to issues that should be disclosed by the seller. Property Condition Disclosures filled out by the seller can help identify potential issues for prospective buyers. A fiduciary agent will (in addition to discussing the disclosures with you) show you other potential risks that may pose problems down the road. Our advice may even be to NOT pursue that property. Disclosing as much information before submitting an offer will save you time in the long run. While agents are not licensed home inspectors, we do our best to point out any concerns outside the scope of a home inspector.

What Home Inspectors Won't Tell You

So, you’ve found the home of your dreams. This is great news to most agents as they are eager to get your offer submitted and the deal closed. However, your agent failed to disclose that because the property is located in close proximity to a highway, resale will be difficult in the future. Or maybe you’re purchasing in a flood zone and aren't aware that in order to make improvements, you must raise the property upon stilts ($80,000 - $120,000 to comply with FEMA regulations.) Your home inspector is more than likely not going to point out these problems as they are not part of their general scope of work. Unfortunately, many agents don’t know to look out for this. In order to make sure all your bases are covered, work with an experienced fiduciary who will disclose as much property due diligence as they can.

Below is a list of potential risks to look out for:

- Train Tracks
- High Tension Wires

- Dump
- Waste Facility
- Curb appeal
- Physical
- Financial
- Locational
- Functional Obsolescence
- Economic Obsolescence
- Flood Zones - 50% rule

Want to know your due diligence responsibilities as a buyer? Contact us for a Buyer Checklist.

Helpful Tips

Private Mortgage Insurance (PMI)

What is PMI?

MPMI is a fee charged to the consumer that helps offset the risk to the bank if you can't provide 20% down. Everyone should be granted the opportunity to become a homeowner. However, a large portion of the population is ill-equipped to do so. Through the loosening of lending standards, almost anyone has the potential to buy a home. A rapidly shrinking segment of the population actually has the advised 20% down payment to execute a responsible home purchase. Most first-time homebuyers seldom put down more than 3% and many exercises the option to finance 100% of their home purchase price with no down payment at all. PMI is the banks' insurance policy that safeguards against the chances of the borrower defaulting on the mortgage. This additional fee is built into a monthly payment.

How do you get rid of PMI?

- Get Equity Above 22% - Once you (the borrower) pay the equivalent of that 22% down payment in PMI, you can contact your lender and ask that the PMI payment be removed. Never assume that a lender will automatically remove the PMI once the stated 22% equity level has been reached. Borrowers should proactively inquire with the lender to this effect. A down payment is essentially equity in your home.

- Pay a Little More - Make extra principal payments to reduce your loan balance as this can build equity faster this saving on interest payments. Slow and steady wins the race; even an extra $40-60 a month can reduce your loan balance over time. You can also apply a lump sum toward the principal.
- Seller Paid PMI - Certain lenders or programs may allow this option. A motivated seller will often entertain this offer as a means of facilitating a successful closing.
- Refinance Your Mortgage - When mortgage rates are low, try refinancing. If your home has improved or gained value since your purchase, this may be a good option to explore. In this case, refinancing into a new loan usually means no more PMI. Keep in mind, seasoning requirements may call for at least two years before you can refinance to get rid of PMI. Refinancing will help reduce your monthly interest payments giving you additional savings.
- Reappraise Your Home - If your home value has increased in the last couple of years, you may be able to rid yourself of PMI by reappraising your home. A typical appraisal for a residential property costs between $350 and $600, depending on your area. Discuss with your lender.
- Remodel / Renovate - Common upgrades such as adding an extra room, updating a kitchen, or reconfiguring the functionality of your home can potentially increase your home's market value. If you exceed 22% equity in the process, say goodbye to PMI. Lenders can help you recalculate your loan-to-value ratio.

Is it best to close at the beginning or end of the month?

It is very important to be strategic when writing an offer so that your goals and objectives are defined and met. Work closely with a reputable local lender to determine your strengths and weaknesses as a buyer. Closing at the beginning or end of the month can have financial advantages and disadvantages.

First, you must understand that mortgage interest on your mortgage begins accruing on the date that you close on your property. The majority of mortgages are due on the first day of the month. At the closing table, you will pay (PITA) Principal, Interest, Taxes, and Insurance from the date of closing to the last day of the month. Please note that the majority of this payment goes towards the mortgage interest. This can be a detriment to the buyer who is strapped for cash. If you close on February 28th then you will have to pay for one day of PITI to cover the remainder of February. In this example, April 1st would be your due date for your first mortgage payment.

For the buyer who is low on cash, I would highly recommend closing at the end of the month.

Closing at the beginning of the month can have some positive attributes as well. Let's say that you closed on March 2nd. In this case, your first payment would not be due until May 1st or 60 days later. In this case, you would be responsible for paying 29 days of PITI. Yes, closing costs will be a bit more but you will be in your home sooner giving you more time to clean, decorate, and enjoy your new home.

Reach out to us for more information
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Group Qualifications to be your Guide: B.S. Real Estate & Urban Economics (UConn) MBA, Former Appraiser, Graphic Designer, Social Media Expert, Top 1% of Agents, Commercial & Investment Certified, Auctions, Licensed in CT and RI.