

# Robert Reffkin

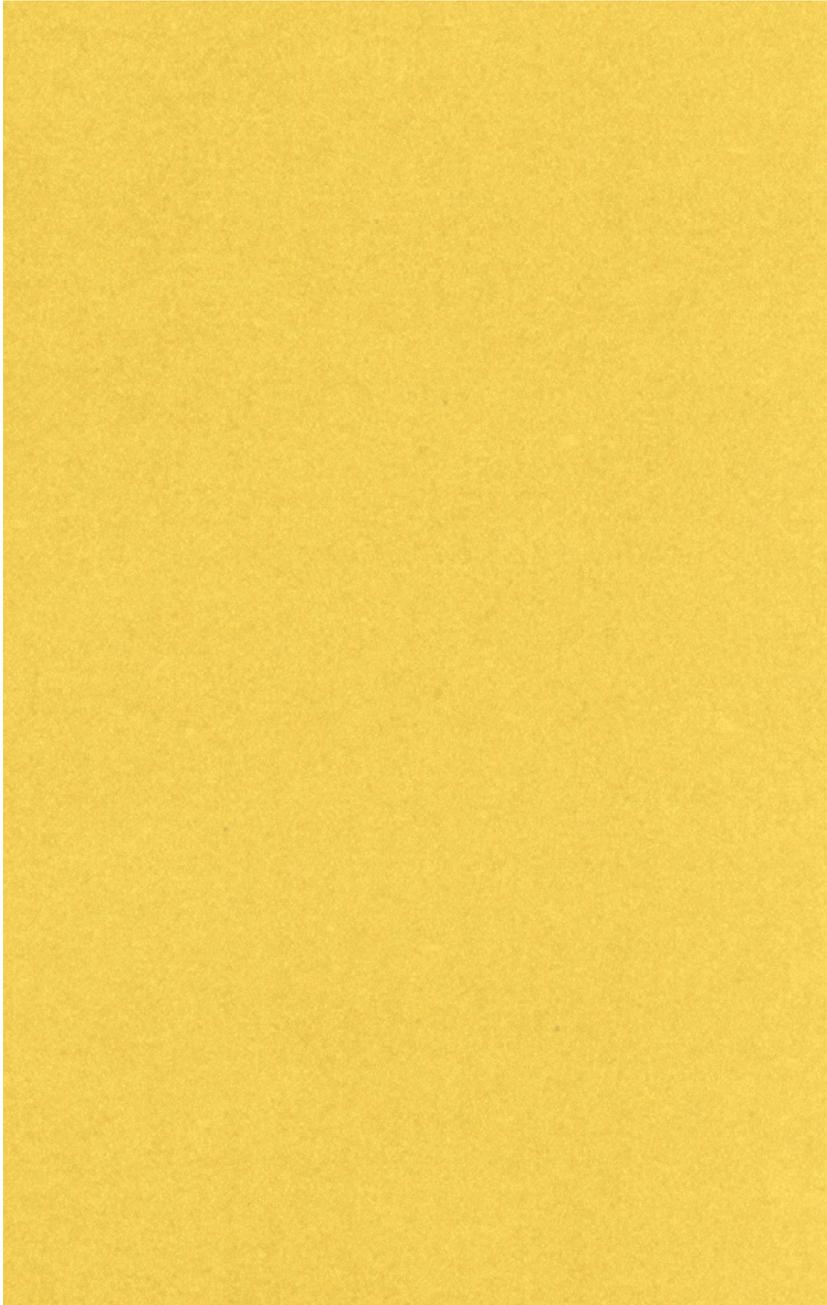
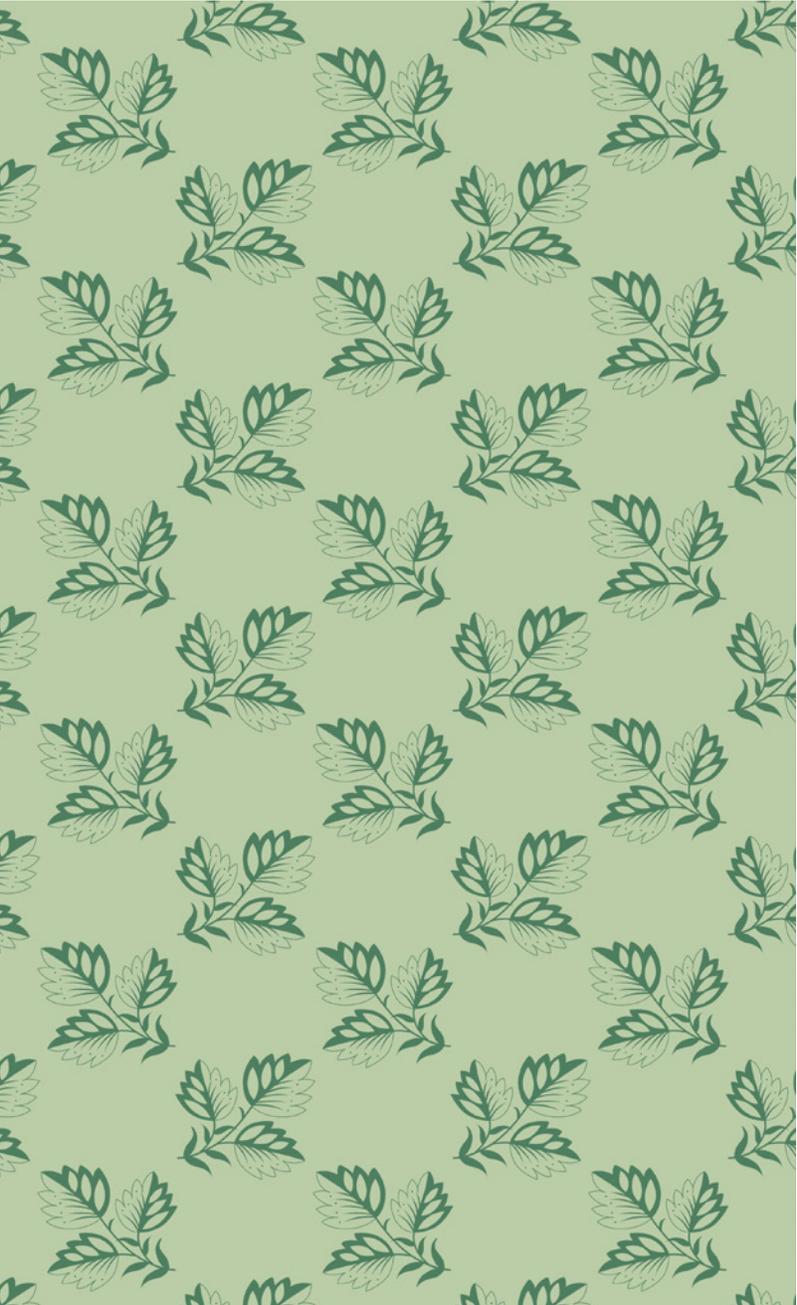
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Teaches Buying and  
Selling Real Estate



MasterClass

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# THE REAL DEAL

MEET ROBERT REFFKIN, THE CEO WHOSE ENTREPRENEURIAL VISION  
(AND PERSONAL MISSION) CHANGED REAL ESTATE FOREVER

Robert Reffkin's story is all about dreaming big, making an impact, and finding a place to call home. Today he's the CEO of Compass, the multibillion-dollar real estate firm that he cofounded, as well as a celebrated entrepreneur. But growing up in Berkeley, California, in the 1980s and '90s, he never felt like he belonged. Robert's maternal grandparents disowned his mother, an Israeli immigrant, when they learned he was biracial; his father, a jazz musician, died when Robert was 11. Robert was Black and Jewish but didn't feel completely comfortable in either world. At times he was the only non-white student in his classes at school.

While Robert and his mom didn't have much money, love and support were bountiful in their home. Instead of wishing him "sweet dreams" when she tucked him into bed, his mom told him to "have big dreams" that would impact the world. She set an entrepreneurial example for him, too: She started running a day care when Robert was an infant and, eventually, became a real estate agent.

Together, Robert and his mother sought out youth programs that nurtured his intelligence and ambition; through A Better Chance, a nonprofit that connects talented students of color with top boarding, private, and public schools, he earned a scholarship to the prestigious San Francisco

University High School, which he began attending in 1993. While a student there, he started sharpening his business skills at the Network for Teaching Entrepreneurship; using money from his bar mitzvah and babysitting, he started a successful DJ company, Rude Boy Productions, at age 15. During summers, he took trips with outdoor adventure nonprofits, which taught him leadership while broadening his worldview.

Although these programs introduced Robert to a diverse group of underserved young people, he was still seeking a sense of belonging. In 1997, he moved cross-country to attend Columbia University in New York. The school and the city invigo-

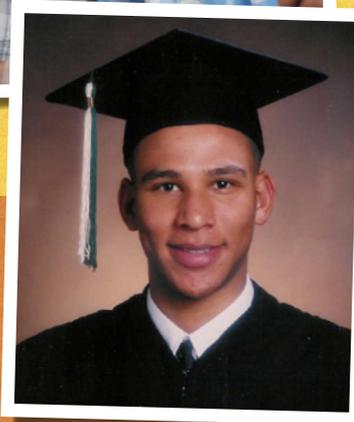
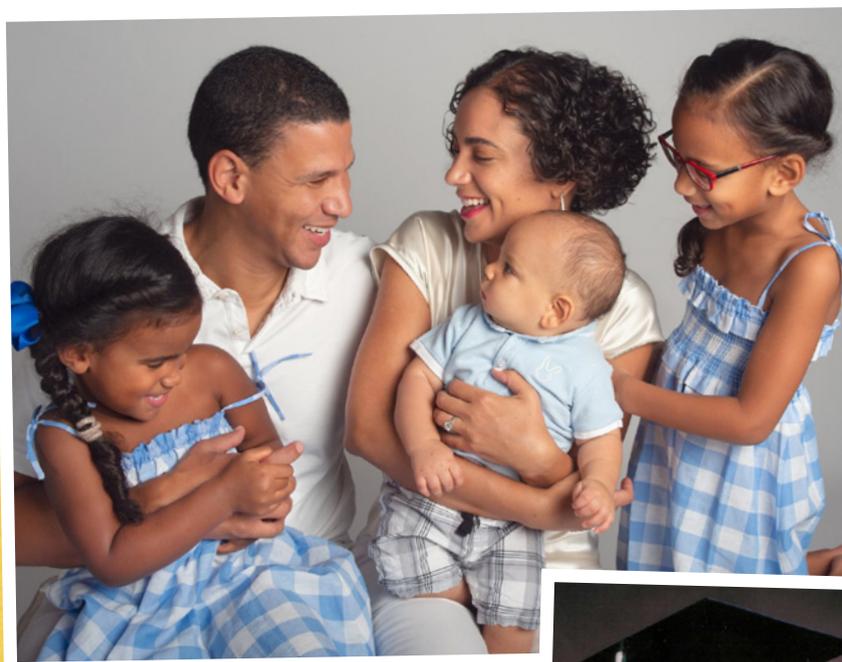


**By his teenage years, Robert was already an entrepreneur: He used money from his bar mitzvah to launch his first business venture.**

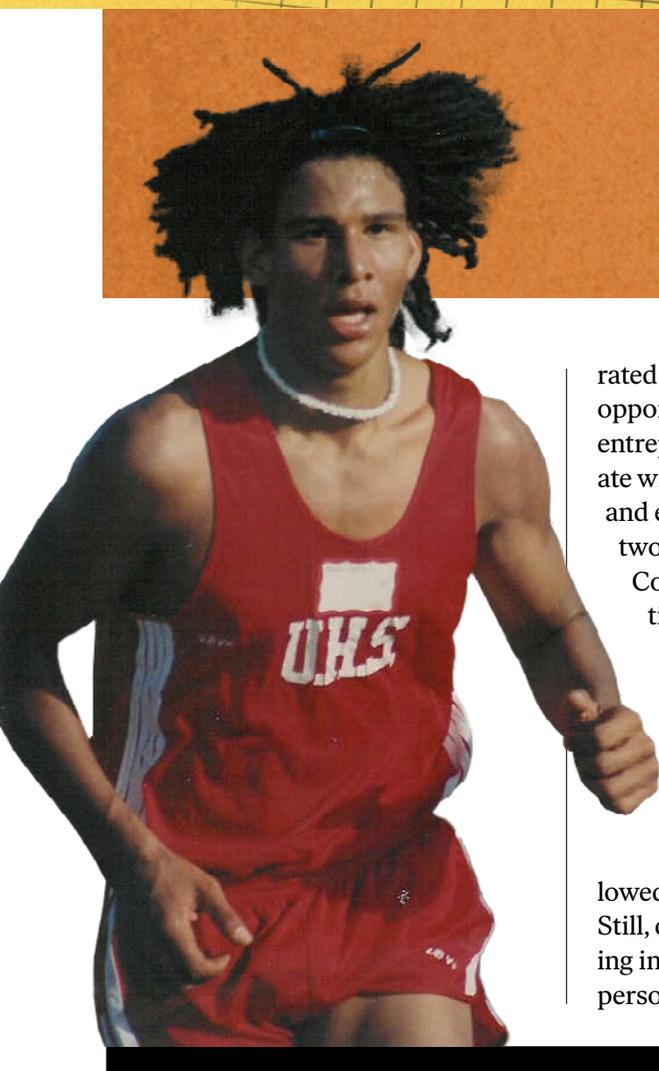


**Real estate  
defines the  
environments  
in which we live  
and work.**

**” — ROBERT**



Robert through the years:  
student, athlete, marathoner,  
proud husband and father.



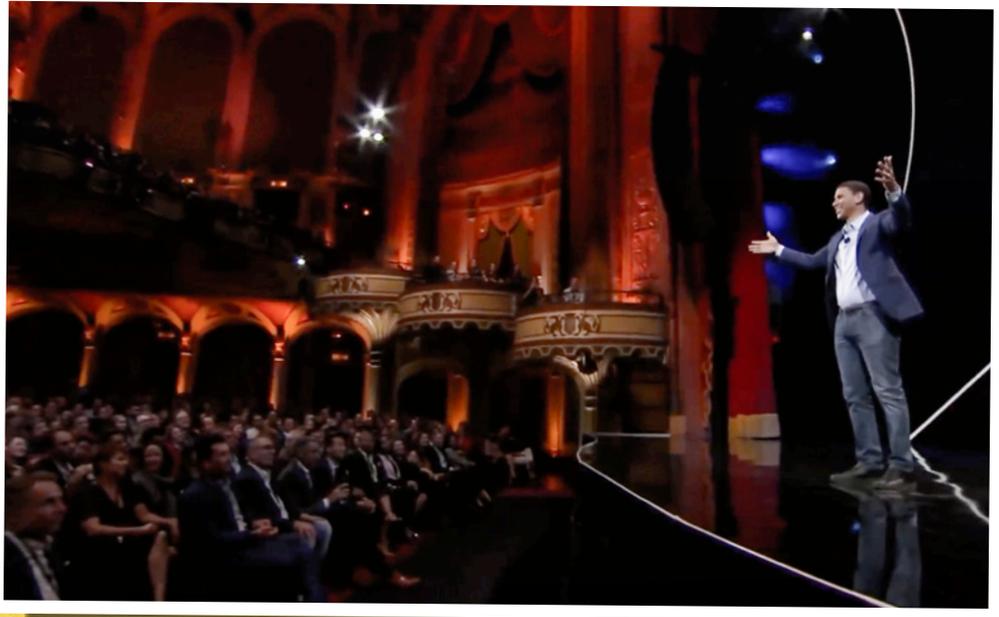
rated his studies and afforded him opportunities to meet accomplished entrepreneurs. He went on to graduate with dual degrees—in history and economics-philosophy—in just two years, then get his MBA from Columbia Business School. Prestige jobs at the management consulting firm McKinsey & Company, the financial services titan Lazard, the investment banking stalwart Goldman Sachs, and even the U.S. Department of Treasury in the White House followed over the course of a decade. Still, despite this early success, working in finance didn't give Robert the personal satisfaction or sense of

community he desired.

Instead, he found fulfillment during his free time, fundraising with a focus on real-world impact and promoting diversity. In 2008, he raised \$1.3 million to help open the first Success Charter Network school, in the Bronx. In an even more audacious move, he completed 50 marathons, one in each state, to raise \$1 million (he donated a portion to the nonprofits that had helped him in his youth and used the rest to launch his own nonprofit, America Needs You, which provides mentorship and career development for first-generation college students).

Eventually, Robert managed to find the professional community he





Opportunity is everywhere around you if you're willing to dream, ask, and listen.

— ROBERT

longed for by way of Ori Allon, an Israeli-born programmer and tech entrepreneur who had worked with Google and Twitter. (The two met during a dinner at the American Academy of Achievement conference.) In 2012, they teamed up to found Compass, an online platform to support property buying, selling, and workflow. Four years later, they launched mobile apps for both agents and clients, which complemented each other as well as Compass's desktop platform. In the monolithic landscape of real estate, this type of integration was a paradigm shifter.

By centralizing and streamlining agents' duties, as well as enabling clients to find homes more quickly and

easily, the company offered a new model of doing business. Compass effectively brought real estate up to speed with the rest of the world's industries. Along the way, Robert was able to build a diverse, nationwide network of nearly 20,000 real estate agents (including his mom) and more than 2,000 full-time employees. Unsurprisingly, the venture proved a massive success, and the company was listed on the New York Stock Exchange in April 2021.

Having found his niche in the entrepreneurial world—transforming the real estate industry using tech-savvy solutions—Robert hopes this class will help you achieve both your housing and business dreams. He demystifies real estate and the

processes of buying and selling, explains how the market works, why real estate is an important investment, the many roles of agents (and how to find a good one), tips for becoming a successful entrepreneur, and much more. Like an escrow agent at closing, he's giving you the keys to the castle. What will you do with them?

*For more about Robert's business philosophy, as well as lessons learned from his exceptional life, check out his memoir, *No One Succeeds Alone: Learn Everything You Can From Everyone You Can* (HMH Books).*

# Techno-Logic

How Compass brought home buying into the modern age



Human beings are only as effective as the tools we use. Prior to the launch of Compass (originally known as Urban Compass) in 2012, Robert and co-founder Ori Allon spoke to real estate buyers, sellers, developers, and agents, all of whom felt dissatisfied with the existing platforms and apps that dictated workflow and organized crucial information, from property valuations to client management. The tools available were complicated and disjointed. In an industry that generates trillions of dollars each year, the technology didn't reflect that value—or the urgency with which buyers needed to act in a fast-moving real estate market. Robert recognized a major opportunity in the market: Real estate was one of the few major industries still in need of technological transformation. So, in 2016, he and Allon launched the industry's first agent-facing mobile app by a residential brokerage. Streamlined and comprehensive, the app completely changed how agents did business. Left to juggle an array of incongruous programs in the past, they could now perform quick-hit property valuations, produce marketing materials, create custom PDF reports for clients, contact clients, and more, all in one place. The time saved on administrative tedium—in some cases, several hours per day—could now be spent better advising and serving clients. And those clients could use a version of the app, too, customized to their role in the process. In addition to all the standard search abilities (nar-



rowing verified listings by neighborhood, price range, number of bedrooms, etc.), the app allowed users to see more dynamic information and advanced metrics: year-over-year analysis of median price per square foot, negotiability, and days on the market. Using Compass Collections, the company's impressive Pinterest-like collaborative visual workspace, clients could organize images of properties with listing info on an interactive board; share them with family, friends, and their agent; and stay abreast of the market via real-time status and price updates. Crucially, Compass made sure to wrap all these next-level features into an intuitive, buyer-friendly interface. Swipe around either version of the app, and Robert's keen eye for entrepreneurship—building not a

**Robert and his mother, Ruth, a real estate agent who inspired him to launch Compass.**

better mousetrap but imagining a new world where mice don't exist—shines through. With the tools that Compass has provided, agents and clients are more prepared to do business (and build futures) than ever before.



## PART 1: LOOKING



# Let's Talk Lingo

During the course of your home-buying experience—especially as you're securing homeowner's insurance and pre-approval from a mortgage lender—you'll encounter some unfamiliar terminology. Intimidated? Don't sweat it. Use this guide to common real estate phrases and acronyms as a reference while moving forward, and remember that if you come across a term that's foreign to you, never hesitate to ask your real estate agent, mortgage broker, or insurance agent to clarify. That's their job, after all, and any decent professional should be happy to help.

## **ADJUSTABLE RATE MORTGAGE (ARMs)**

A mortgage that usually has a lower initial rate for a set number of years, then goes up or down based on market conditions. Since the repayment period for ARMs is often 5, 7, or 10 years, this type of mortgage is preferred for short-term ownership.

## **AMORTIZATION**

The repayment schedule of a loan, including payments of principal (the original amount borrowed) and interest. Amortization schedules show the amount of each payment that's going to principal and interest, respectively, along with the remaining loan balance, in a table format. (Note: Mortgage loans are front-loaded; at the beginning of the loan term, the majority of each payment is applied

to interest with only a small percentage actually paid to the principal. However, you can write a check directly to the principal anytime you want. This decreases the amount paid for interest in each subsequent installment, so you pay off the loan quickly and efficiently.)

## **ANNUAL PERCENTAGE RATE (APR)**

The cost of a loan or other financing as an annual rate. The APR includes the interest rate, points, broker fees, and certain other credit charges a borrower is required to pay.



## **APPRAISAL**

An unbiased analysis used to estimate the value of the property.

When a mortgage is involved (buying or refinancing), a professional appraiser will do a comprehensive evaluation, which includes a visual inspection of the home and consideration of market trends, as well as factors like the floor plans, square footage, and sales of similar properties. The appraisal fee, a few hundred dollars, is typically paid by the borrower. If the appraisal value is less than expected, the transaction can be delayed or, in some cases, canceled entirely.



## **APPRECIATION**

An increase in the market value of a home due to changing market conditions and/or home improvements.



### BACKUP OFFER

An offer made by an interested buyer when a property is already under contract, in case that transaction falls through. A seller can accept only one backup offer; the buyer must show proof of funds.



### ASSESSED VALUE

The value placed on property for the purpose of taxation.

### ASSUMABLE MORTGAGE

A mortgage loan that can be taken over, or “assumed,” by the buyer when a home is sold. The buyer takes over the seller’s existing mortgage, but the seller remains liable (unless the lender releases them from the obligation).

### BALLOON MORTGAGE

A mortgage where the borrower makes little or no monthly payments, instead paying off the entire balance in a lump sum at the end of a specified period of time (usually five or seven years). There is sometimes an option to “reset” the interest rate to the current market rate and to extend the due date if certain conditions are met. Balloon structures are generally considered risky, though they can be useful for short-term ownership or for properties that will increase in value but require a large up-front cash injection.

### BRIDGE LOAN

A short-term loan to cover the time interval between two transactions,

generally the buying of one house and the selling of another. It allows a seller to buy a new home without waiting for the proceeds of their home sale to come through.

### CHAIN OF TITLE

The complete history of documents showing how the title of a property has been transferred to each owner.



### CLOSING

The completion process for a financial transaction. When it comes to home loans, this includes signing mortgage documents, disbursing funds, and transferring ownership of the property. Closing is sometimes referred to as escrow, a process by which a buyer and seller deliver legal documents to a third party who completes the transaction in accordance with their instructions. (See “escrow” on page 13.)

### CLOSING COSTS

The expenses and fees associated with the purchase and sale of a home, such as taxes, title insurance, appraisal, lender fees, and other services carried out during closing. Closing costs vary depending on the buyer’s loan but often range from 2

percent to 5 percent of the purchase price.

### CLOSING DISCLOSURE

A final statement of loan terms and closing costs that the lender typically must provide to the borrower at least three business days before closing.



### COMMISSION

The fee charged by agents for services performed, usually based on a percentage of the price of the property (see page 26 for a breakdown of the commission for buyers’ and sellers’ agents).

### COMMITMENT LETTER

A binding offer from a lender that includes the amount of the mortgage and interest rate, as well as the repayment terms.



### COMPARABLES

Properties of a similar size, style, age, and condition that have recently sold in a given neighborhood. Comparables help agents and appraisers determine a home’s fair market value.

### CONCESSION

A part of the closing cost—such as property taxes, inspection fees, and title insurance—that the seller agrees to pay in full or split with the buyer to help close the deal.



### CONDO/CONDOMINIUM

A unit within a large property complex that has been divided into multiple units for sale. In addition to owning their own units, condo owners have access to communal areas, such as lawns, pools, and workout facilities. They pay fees to a condominium association, which owns and maintains all common areas and pays for basic upkeep, improvements, taxes, and insurance.

### CONTINGENCY

A condition that must be met before a contract is legally binding. For instance, a home inspection contingency means a home must be professionally inspected for issues before a sales contract can become legally binding.



### CONTINGENT OFFER

When a purchase and sale agreement (see “purchase and sale agreement” on page 16) has been executed for a listing but certain conditions—such as a buyer’s loan approval, home in-



### CREDIT REPORT

Information that a credit bureau provides to a lender or other business, allowing that entity to examine your credit use. It details money you’ve borrowed from credit institutions and your payment history.

spection, or the sale of the buyer’s current home—must be met before the agreement is legally binding.

### CONVENTIONAL MORTGAGE

A mortgage loan that is not insured or guaranteed by the federal government or one of its agencies.



### CO-OP/HOUSING COOPERATIVE

A multi-unit residential property that is owned and jointly controlled by a group of individuals; these people have equal shares in a nonprofit corporation, which a board of directors oversees. Unlike a condo owner, a co-op owner does not own their unit—they have an interest or share in the entire building and a lease that allows them to occupy a unit. These types of properties are more common in high-priced metropolitan ar-

reas, like New York City, Washington, D.C., and Chicago.

### COUNTEROFFER

An offer made in response to a previous offer as part of the home-buying negotiation process.

### COVENANTS, CONDITIONS & RESTRICTIONS (CC&R)

Restrictions and rules placed on a group of homes or a condominium complex by a builder, developer, neighborhood association, or homeowners’ association, such as a prohibition against smoking or large pets.

### CREDIT SCORE

A numerical value assigned to a borrower, representing their risk level to a lender. This is based on a statistical evaluation of information in the borrower’s credit history.



### DAYS ON MARKET (DOM)

The number of days that a property is on the market, starting from when a property is listed for sale on the local real estate brokers’ multiple listing service (MLS) and ending when the seller signs a contract with the buyer. The lower the DOM, the better; when a home languishes on the MLS,

## SURREAL ESTATE!

# The fourth wall

In 1997, as part of a contest, Pepsi and FOX hired architects, interior designers, and furniture makers to construct a completely accurate, full-size, habitable replica of the family home from *The Simpsons*. The team broke (real-life) ground in Henderson, Nevada, and watched more than 100 episodes to get the details right.



### **FAIR MARKET VALUE**

The accurate valuation or price at which a buyer and seller—aware of all pertinent facts and under no pressure to buy or sell—would willingly transfer ownership of a property.

buyers and agents tend to draw negative conclusions about the seller and the property.

### **DEBT-TO-INCOME RATIO (DTI)**

A numerical value that mortgage lenders use to estimate how much a borrower can afford to pay for a mortgage each month. To calculate this value, the lender uses a set formula: the total of your debt expenses plus your monthly housing payment divided by your gross monthly income, multiplied by 100.

### **DEED OF TRUST**

A legal document in which the borrower transfers the title to a third party (trustee) to hold as security for the lender. The trustee transfers the title back to the borrower when their loan is fully paid off.

### **DEPRECIATION**

A decline in the value of a home, due to changing market conditions, lack of upkeep, or other variables.



### **DOWN PAYMENT**

A portion of the price of a home, usually 3 percent to 20 percent, that the buyer must pay up front using cash they have on hand.

### **EARNEST MONEY DEPOSIT**

A deposit to show that the buyers are committed to purchasing a home. Unless a sales-contract contingency is not fulfilled, the deposit usually will not be refunded after the seller accepts an offer.



### **EQUITY**

The amount of a home that a homeowner actually owns. Equity is the market value of a home minus any mortgages or liens against the property. (For example, if you owe \$100,000 on a property that is worth \$170,000, you have \$70,000 of equity.)

### **ESCROW**

Money, documents, or an item of value deposited into an account with a third party, to be delivered upon the fulfillment of a condition. In a home purchase, this is usually the buyer's earnest money check, which the third party releases to the seller once the transaction is complete (generally at closing).

### **EXCISE TAX**

A tax on the transfer of ownership from the seller to the buyer. At closing, the seller pays the amount—

which is based on the sale price of the home and varies by state and local government—to the escrow agent or overseeing attorney, who then pays it to the government.

### **FANNIE MAE/FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA)**

A government-sponsored enterprise that buys loans from mortgage lenders, packages them together, and sells them as a mortgage-backed security to investors on the open market. This is done to increase the supply of available money for mortgage lending and new home purchases.

### **FHA LOAN**

A government loan that is insured by the Federal Housing Administration (FHA). If the buyer can't pay the loan, the government pays the lender for any losses—insurance that allows lenders to accept smaller down payments, as low as 3.5 percent.

### **FIXED-RATE MORTGAGE**

A conventional loan with a predetermined ("locked-in") interest rate for the duration of the loan repayment period, which is traditionally 30 years (but can be shorter).

### **FREDDIE MAC/FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC)**

A federally chartered enterprise owned by private stockholders that purchases residential mortgages and converts them into securities for sale to investors. This is a nearly identical structure and function as Fannie Mae. Because Fannie and Freddie are willing to buy loans from

lenders, they allow banks to loan money at rates that are 0.25 percent to 1.5 percent lower than what a buyer would otherwise pay.



### **GIFT LETTER**

A letter, written by a family member or other donor, verifying that they've given you a certain amount of money and that they don't expect repayment. Depending on the type of mortgage you chose, this money can sometimes be put toward a portion of the down payment.

### **GINNIE MAE/GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA)**

A government-owned corporation that guarantees securities backed by mortgages that are insured or guaranteed by other government agencies. This corporation is part of the U.S. Department of Housing and Urban Development (HUD).

### **GOVERNMENT MORTGAGE**

A mortgage loan that is insured or guaranteed by a federal government entity, such as the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs (VA), or the Rural Housing Service (RHS).

### **HOME EQUITY LINE OF CREDIT (HELOC)**

A loan in which the lender agrees to lend a maximum amount within an agreed-upon period of time (term), where the collateral is the borrower's equity in their home. The borrower is risking what is likely their biggest as-



### **GROSS MONTHLY INCOME**

The money an individual earns each month, before taxes and other deductions. Along with income from employment, this can come from alimony, child support, rental income, and benefits.

set, so most homeowners use HELOCs for major expenditures, such as education, home improvements, and medical bills.



### **HOME INSPECTION**

When a professional inspector closely examines all aspects of a property to determine its condition.

### **HOMEOWNER'S INSURANCE**

A policy that protects a homeowner and their lender from structural damage in fires and floods, liability in an injury to someone on the premises, and damage to personal property such as clothes and electronics.

### **HOMEOWNER'S WARRANTY (HOW)**

Insurance offered by a seller that covers certain home repairs and fixtures for a specified period of time.



### **HOMEOWNERS' ASSOCIATION (HOA)**

An organization of homeowners, residing within a particular community, whose purpose is to ensure the provision and maintenance of community facilities and services to benefit all of the residents.

### **HYBRID LOAN**

An adjustable-rate mortgage (ARM) that offers a fixed rate for an initial period, generally 3 to 10 years, and then adjusts every six months, annually, or at another specified interval, for the remainder of the term.

### **INQUIRY**

A request for credit reports, made by a lender or other business, when a borrower fills out a credit application and/or requests more credit.

### **SURREAL ESTATE!**

## **Industrious strength**

Before he was a high-paid movie star, Arnold Schwarzenegger made his first million dollars by reinvesting his winnings from bodybuilding competitions into small multifamily properties.





### MUTUAL ACCEPTANCE

The point at which a buyer and the seller enter into a legally binding contract, having agreed on the price and terms of a deal. The Purchase and Sale Agreement may be signed at mutual acceptance.



### INVESTMENT PROPERTY

A property purchased to generate income—through rent, tax benefits, or profitable resale—and not as a primary residence for the buyer.

### JUMBO LOAN

A “nonconforming loan” that exceeds the mortgage amount eligible for purchase by Fannie Mae or Freddie Mac.

### LEASE-BACK/RENT-BACK

A transaction in which the buyer agrees to lease or rent the property back to the seller for a specified period of time beyond the close of escrow. The agreement often involves a deposit, a daily rental rate, and a length of time allowable.

### LIEN

A right to keep possession of a property belonging to another person until a debt owed by that person is dissolved.



### LISTING

The detailed digital or printed description of a property for sale, in-

cluding the price, photos, and contact information.

### LOCK-IN RATE/RATE LOCK

A written agreement guaranteeing a specific mortgage interest rate for a certain amount of time.

### MARKET VALUE

The current value of a home based on what a buyer would pay. An appraisal usually determines market value.



### MORTGAGE

A loan using your home as collateral. The amount is often the purchase price of the home minus the buyer’s down payment.

### MORTGAGE BROKER

A person or company that originates and processes loans for a number of different lenders.

### MORTGAGE INSURANCE (MI)

Insurance that protects lenders against losses caused by a borrower’s default on a mortgage loan. If the borrower’s down payment is less than 20 percent of the purchase price, an MI is typically required.

### MORTGAGE LENDER

The person or institution providing funds for a mortgage.



### MULTIFAMILY PROPERTIES

Buildings with two or more dwelling units.

### MULTIPLE LISTING SERVICE (MLS)

A regional database that allows real estate agents and brokers (see page 26) who are members to access and add information about properties for sale. When homes go on the market, they’re entered into the MLS by the listing agent; a buyer’s agent can then use the MLS to compare similar listings in an area, along with past sales prices and other statistics.

### NET WORTH

The value of a company’s or individual’s assets, including cash, minus all their liabilities (i.e., debts).



### OFFER

A formal bid from a home buyer to a home seller to purchase a home.

### OFFER REVIEW DATE

A predetermined date and time at which a seller reviews all of their purchase offers.

### OFFERS REVIEWED UPON RECEIPT

A seller reviews and considers offers as they are submitted, without any deadline.



### OPEN HOUSE

When the seller's real estate agent opens the seller's home to the public in the hope of attracting potential buyers and getting offers.

### ORIGINAL PRINCIPAL BALANCE

The amount of principal owed on a mortgage (prior to any payments being made).

### ORIGINATION FEE

A fee paid to a mortgage lender or broker for processing the mortgage application. This fee is almost always represented in the form of points, with one point equaling 1 percent of the mortgage amount.

### PENDING

The status on a listed home when it's set to close and all contingencies have been satisfied or waived. This happens when the lender and the escrow agent or attorney process the loan and title documents to make sure the deal closes on time. Sometimes the sellers may still accept backup offers on pending listings.

### PITI

An acronym for the four primary components of a monthly mortgage



### PURCHASE AND SALE AGREEMENT

A document with details about the property being sold, the price, and the conditions of the transaction, including the down payment, earnest money deposit, financing, closing date, occupancy date, length of time the offer is valid, and any contingencies.

payment: principal, interest, taxes, and insurance.

### POINT

1 percent of the amount of the mortgage loan. (If a loan is made for \$75,000, one point equals \$750.)



### POSSESSION

When a home buyer takes physical possession of a property. Unless there is a lease-back/rent-back agreement between the buyer and the seller, possession will happen at closing.



### PRE-APPROVAL LETTER

A letter from a mortgage lender in-

dicating that a buyer qualifies for a mortgage of a specific amount. Before issuing the letter, the lender reviews the applicant's credit history and verifies their income and assets.

### PRE-QUALIFICATION LETTER

A letter from a mortgage lender stating that a buyer is pre-qualified to buy a home but does not commit the lender to a particular mortgage amount. This is a preliminary assessment by a lender of the amount it will lend to a potential home buyer.

### PREDATORY LENDING

When a lender makes mortgage loans to people who do not have the income to repay them, ensuring default, or repeatedly refinances loans, charging high points and fees each time and "packing" credit insurance onto a loan.

### PRINCIPAL

The dollar amount of an outstanding loan, not including any interest the borrower will pay.

### PROOF OF FUNDS

Evidence, such as a bank statement or a certified financial statement, that a buyer has the money to complete a home purchase, either with cash or a mortgage loan.

## SURREAL ESTATE!

# Soul searching

Known as the Ghostbusters Ruling, a 1991 New York State Supreme Court decision in the case of *Stambovsky v. Ackley* compels sellers in the state to disclose if they believe their property is haunted.

**REFINANCE**

Acquisition of a new mortgage with all or some portion of the proceeds used to pay off the prior mortgage.

**REMAINING TERM**

The original number of payments due on the loan, minus the number of payments that have been made.

**RESALE CERTIFICATE**

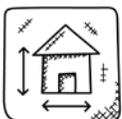
A set of documents that a condominium seller provides to a prospective buyer, usually after mutual acceptance. The certificate includes the HOA budget and the CC&Rs for the building.

**SERVICER**

A company that performs day-to-day servicing functions for a mortgage, including sending mortgage statements, collecting mortgage payments, paying the borrower's taxes and insurance, and generally managing the borrower's escrow accounts.

**SEWER CAPACITY CHARGE**

A charge that some states and counties bill to property owners who build new sanitary sewer connections for existing structures or home additions.

**SURVEY**

A precise measurement of a property by a licensed surveyor, showing

**REHABILITATION MORTGAGE**

A mortgage loan made to cover the costs of repairing and improving (and, in some cases, acquiring) an existing property.

legal boundaries of a property and the dimensions and location of improvements.

**TITLE**

The right to, and the ownership of, property. A title or deed is used as proof of land ownership.

**TITLE INSURANCE**

Insurance that protects a lender against claims that arise about ownership of the property. Public records must prove that the current owner has legal rights to the title, as well as the legal ability to sell the home, and that no liens are being held against the property.

**UNDERWRITING**

The process used to determine loan approval. It involves evaluating the property, as well as the borrower's credit history and ability to pay the mortgage.

**VA LOAN/VETERANS AFFAIRS LOAN**

A special type of loan available to eligible veterans, their spouses, and beneficiaries that the U.S. Department of Veterans Affairs guarantees.

**WALK-THROUGH**

A buyer's examination of the property at a specified time shortly before the closing, allowed by a common clause in sales contracts.

There's a lot  
of context  
that's not in  
the listing.

— ROBERT





# HOW TO START USING Real Estate Apps



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Home shopping is tremendously time-consuming—it’s the commitment before the commitment. Scoping out every aspect of different neighborhoods, from schools to public transportation and recreation (not to mention touring the actual properties) can feel like a second job that nobody’s paying you to do. And if you’re in an ultra-competitive market, you may spend months or even years looking or submitting offers unsuccessfully before closing on your new home.

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If that sounds exhausting, don’t worry. Real estate apps can help you learn the market and pare down the number of homes you tour, reducing stress and the irritation of wasting your time. Download a few and experiment to see which has the layout, functionality, and—most important—the listings that suit you best. (Not all companies operate in every region, and some listings may be exclusive to brokerages.) Follow these steps to get started with apps:

- Enter an area that interests you in the search bar.
- Set filters according to preferences like home type (house, townhouse, condo, etc.), square footage,

price range, number of bedrooms and bathrooms, schools and school ratings, and so on.

- Each time you fully refine a search, save it and set an alert in the app so it notifies you whenever a new property fitting that criteria becomes available.
- While you continue combing through your collection of listings (or as you visit homes and get a better sense of them), mark your favorite homes and eliminate others, separating the wheat from the chaff.
- Repeat for as many areas—or for as many iterations of your criteria (maybe you can live without a water view?)—as you’d like.



COMPASS

## Compass

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The perfect marriage of real estate and tech, the Compass app provides cutting-edge connectivity and interactivity between you and your agent, who is freed up to advise you by their own streamlined agent-facing app. Compass doesn't service every state or city, but its high-end product is expanding nationally and globally, so see if it's an option for you.



REDFIN

## Redfin

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The company's reduced listing costs offer big value (Redfin says the average buyer receives a \$1,500 refund on agent fees) without skimping on technology. This app includes the ability to draw your search radius on a map as well as a "Hot Homes" feature, which focuses on properties that have an 80 percent chance of accepting an offer within two weeks of going on the market.



realtor.com

## Realtor.com

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The official search tool of the National Association of Realtors® (NAR), this app benefits from ties to the multiple listing service (MLS). Thanks to agent-driven data from the latter organization, listings often update faster than the competition—refreshing every 15 minutes—and display when they last updated. (Every advantage counts, especially in hot markets.)



Zillow

## Zillow

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In terms of outright scale, Zillow® is hard to beat. Users can access more than 110 million homes, and in participating markets, the app allows you to unlock and tour some unoccupied homes without an agent escort or making an appointment. The app also provides foreclosure data, as well as pre-approval assistance.



trulia

## Trulia

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The Trulia® app goes deep on local data, letting you use 34 neighborhood map overlays to see crime rates, shopping and dining options, schools, commute times, and demographic stats. You can also customize your geographic search by drawing borders on a map with your finger.



homesnap

## Homesnap

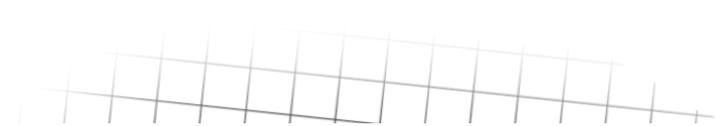
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Forget taking selfies. With this app, you can grab a curbside photo of a home to access its sales history, market information, interior features, and investment potential. You can even save and share your photos with your agent. Plus, you can message your agent (or anyone else) through the app—even if the recipient doesn't have Homesnap downloaded to their phone.



## **Better Know a Neighborhood**

Want to get a preliminary feel for the housing market in your area? Download three real estate apps, and search each for listings in a neighborhood that interests you. Which homes are the most expensive? The least expensive? How are they similar and different? Write down your observations. Set alerts so you'll be notified whenever a new listing is posted in that area. Keep tabs on the neighborhood for six weeks.



# Everyone You'll Meet

## ON THE ROAD TO HOME OWNERSHIP

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Buying a home takes a village. At different stages during the process, you'll work with a number of professionals with various specialties, all of whom play a role in getting your deal done. While you should always do independent research, your real estate agent is a major asset here; they can help recommend qualified professionals, so be sure to take advantage of their connections and experience. But first, you should familiarize yourself with the parties involved, each of their roles in the process, and, crucially, what you're actually paying them to do.

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The inspector's findings might lead to a price reduction for the buyer.

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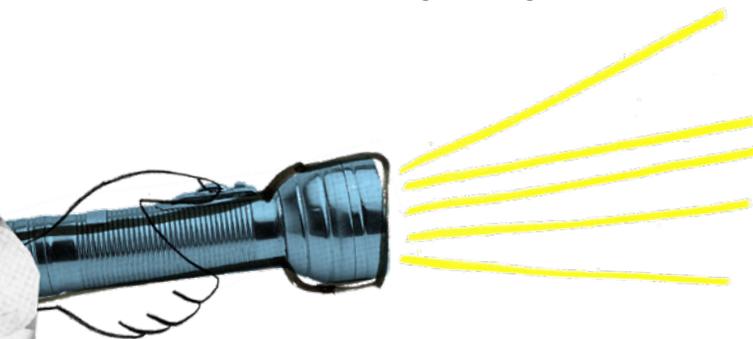


### **Buyer's Agent:**

The real estate agent, broker, or Realtor (see page 26 for the differences between them) who helps you find properties that fit your criteria and, eventually, negotiates a fair purchase price on your behalf. You can find this person before or after you start home shopping and decide how involved they'll be in your search—you might delegate the work of finding listings entirely to them or share in the searching duties. Or you can simply tell them which properties you want to see, and, later, have them work on making offers and closing. In most cases, it's smart to choose an agent early and lean on them heavily for support; their knowledge of on- and off-market listings, market factors and trends, property values, and neighborhoods, as well as their relationships with other real estate professionals, can be an enormous advantage.

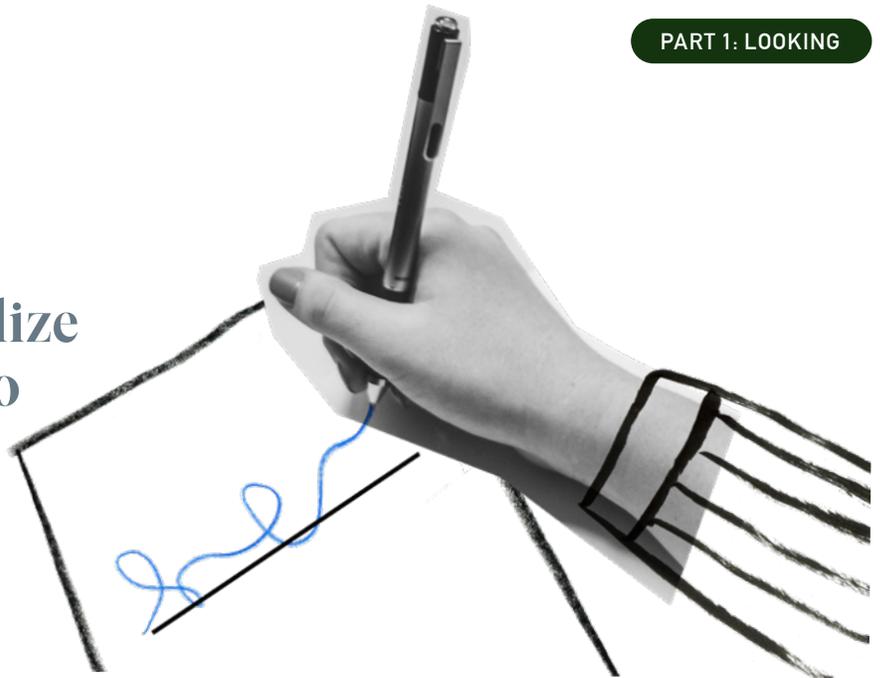
### **Home Inspector:**

The person who examines the property you're buying and writes a detailed report on its condition. The inspector looks closely for large and small issues, including the home's structure, electrical systems, HVAC, plumbing, and roofing, which may not be visible during your walk-through. A home inspection is voluntary, but most mortgage lenders require that the buyer have one performed; your agent or lender should have trusted inspectors to recommend. Based on the inspection, you may request that the seller pays for repairs, ask for a price reduction to reflect repair costs, or even back out of the deal entirely. (If the seller wants you to waive your home inspection contingency, which allows you to walk away if serious issues are discovered, that's a huge red flag.)





**Lenders typically finalize your loan, then sell it to a mortgage servicer.**



### **Seller:**

The current homeowner. In most cases, as the buyer, you'll never actually meet or interact with a seller directly. You each hire skilled professionals (i.e., an agent, broker, or Realtor) to represent your interests and prevent negotiations from getting contentious.

### **Seller's Agent/Listing Agent:**

The real estate agent, broker, or Realtor who represents the current homeowner. The seller's agent relies on expertise and connections to help set a reasonable price to attract interest, stages the home for showings and photography, manages MLS listings, fields offers and negotiates for a higher price, and works through any post-inspection requests for repairs. As a buyer, your agent might be able to access the property for a solo tour, meaning you won't meet the seller's agent. But they'll more than likely be the person running any open houses you attend.

### **Appraiser:**

The person who reviews the condition of the property, then determines fair market value by comparing it with similar homes in the area. Mortgage lenders usually require a home appraisal and choose a certified third-party appraiser, whom you as the buyer will pay, to ensure that your home is worth the mortgage amount you're requesting. (If market data show that a home is worth significantly less than the requested amount, the lender may deny your loan, modify the terms, or ask you for a larger down payment.)

### **Mortgage Lender:**

The institution—such as a bank, independent mortgage lender, or credit union—that loans you money to buy a home. A loan officer employed by the lender will explain the various loan options and let you know what documents are needed. They'll also work with an underwriter (see below) to confirm your ability to repay the loan, with interest, over a set period of time. Lenders often lack the resources to run the day-to-day operations for every loan they originate; typically, they'll finalize your loan, then sell it to a mortgage servicer (see below), informing you of the debt sale well in advance.

### **Underwriter:**

The person who calculates the level of risk you pose to a lender. Before a lender will approve you for a mortgage, the underwriter analyzes your financial documents to determine whether you can afford the home you want to buy. If they determine that extending a loan to you is too risky, the lender may deny your mortgage request, require a larger down payment, or ask you to add a co-signer.

### **Mortgage Servicer:**

The company that manages day-to-day tasks for your loan. Whereas the mortgage lender initially loans you money, the servicer acquires your debt and oversees the account for the life of the loan. They ensure that taxes and insurance are paid from your escrow account, send you statements, process monthly payments, track the principal and interest owed, answer your questions, and, if you fail to pay, can initiate a foreclosure.



## Your adviser will explain the tax implications of drawing money from certain kinds of funds.



### **Notary Signing Agent:**

The impartial third party who acts as a witness to the signing of your closing documents. They will make sure you're completely aware of what you're signing, notarize (legalize) your documents by adding their signature and seal for state recordkeeping, then mail the completed documents for official filing.

### **Real Estate Attorney:**

The lawyer who reviews contracts for you, explains legal paperwork, and may be involved in your title search and closing process. Some states (including Delaware, Massachusetts, New York, Georgia, North Carolina, and South Carolina) require that a real estate attorney be involved in home purchases. In certain cases, they may handle the title search, confirming the sale is legal before handing their results to the title company to issue title insurance. Even when it's not required, you may want to hire a lawyer who specializes in real estate to review paperwork and explain it to you.

### **Title Insurer/Title Company:**

The company that reviews public records (a "title search") for the property to confirm there aren't any issues interfering with the sale. If there are overdue taxes, zoning restrictions, or liens against the property, you won't receive a "clean title." A title attorney will vet everything to make sure it's legal, and if everything checks out, a title agent schedules your closing date and facilitates by providing documents, collecting closing costs, transferring keys, and that your new home's title records are properly filed.



### **Tax Adviser:**

The person who assists with your tax concerns and ensures you're aware of the tax ramifications of purchasing a home. Your adviser will explain the tax implications of drawing money from certain kinds of funds or using gifted money to make your down payment, as well as how your state taxes will change as a result of your home purchase. Your real estate agent can answer some of these questions, but it's best to consult a certified public accountant (CPA) for the most accurate information to avoid any surprises come tax season.

### **Homeowner's Insurance Provider:**

The company that insures your home in the event of disaster. In order to secure a home loan, mortgage lenders require you to obtain homeowner's insurance to protect the property in the future. You are free to choose the provider and policy; it's wise to begin shopping around and requesting detailed quotes as soon as you've submitted your mortgage application. Keep in mind factors like the property's location, age, condition, and the potential for severe weather conditions where you're buying.

# What's the Difference Between a Real Estate Agent, Broker, and Realtor?



## **A REAL ESTATE AGENT IS...**

anyone with a professional license to help people buy, sell, or rent a variety of properties.

They acquire a real estate license by doing a certain number of training hours (as mandated by each state) and completing a written exam.



## **A REALTOR IS...**

a licensed real estate agent who's also a member of the National Association of Realtors® (NAR). Members subscribe to the standards of the association and its code of ethics, which real estate agents may not.



## **A BROKER IS...**

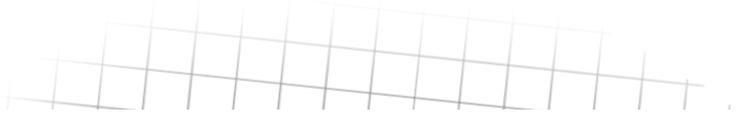
a licensed real estate agent who also has a broker's license, which allows them to operate a brokerage and legally screen and hire other agents to work for them. To become a broker, the real estate agent must have a state-determined amount of experience, pass the state's broker exam, and receive additional education on ethics, contracts, taxes, insurance, real estate investments, construction, property management, and brokerage operation laws.



## Who Pays the Buyer's and Seller's Agents?

### **THE SHORT ANSWER IS:**

You do. You may have heard that the seller pays your agent, but that's misleading; the buyer's agent and the seller's agent split a commission fee, generally 5 percent to 6 percent of the purchase price. The seller technically pays the fee, but the seller and their agent factor that cost in when determining the asking price for the home. So, in the end, you're actually providing the funds that the seller then uses to pay both agents.



# HOW TO FIND THE RIGHT BUYER'S Agent for You

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Robert recommends working with a licensed real estate agent, of which there are more than 2 million in the United States. Their knowledge of neighborhoods (housing stock, demographics, history, trends, development, schools, culture, etc.), housing quality, industry connections, and negotiating skills can make your experience much easier. There may be myriad agents to choose from in your area, and finding the right one might take some work. It's worth it. Employ these tips to make your agent search a little easier.

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## **Before seeking an agent, research areas and homes.**

It's best to enter your agent search with a sense of the neighborhoods and home styles that appeal to you. Is walkability important to you? Access to green spaces? A good school system? Are you into Georgians, Tudors, or contemporary-style homes? Determining some of these things ahead of time will allow you to hire a local agent who can steer you in the right direction. Peruse listings on real estate apps (see page 20) and websites, drive around different areas, talk to locals, and pop into open houses. Narrow down where and what you'd like to buy.

## **Ask for referrals.**

If you have friends or relatives who've purchased homes in an area you're considering, speak to them about the agent they hired; if they had a positive experience, ask for an introduction. Alternatively, you can put out a call to your network on social media. Either way, when it comes time to interview the agent, inquire about how much of their business comes from referrals. (The more, the better.)

## **Contact top agents in your desired area.**

In addition to getting referrals, dig around to find which agents do the most business where you're looking to buy

(and make sure they're experienced buying agents). Clearly, they know the area well and have a good track record. Reach out to a few and set up an informational interview.

### **Value responsiveness and informativeness.**

How an agent responds when you first contact them is a good indication of how they'll treat you moving forward. Here, you're looking for a prompt reply, plus thorough and helpful information. (Both are vital: Deals fall through when one party is slow to the draw, and you'll need an agent who asks questions you don't know or might not think to ask.) If an agent is passive or curt, that may be how they operate, or they may already have too many clients. You should feel valued, prioritized, and respected. When interviewing agents, confirm that your communication styles are a match, too. Do they prefer emails or phone calls? Are regular check-ins important to both of you? Do you want constant updates or just milestones and pertinent? If you aren't on the same page, it won't work.

### **Interview (at least) three or four agents.**

Robert recommends interviewing a few agents through referrals and a few whom you find via previous local sales. Oftentimes, people go with the first agent they meet; that agent may ultimately be the best, but it's preferable to compare and contrast a few. Ask for a list of their recent sales and referrals, and reach out to past clients to hear about some in-the-trenches experiences.

### **Note if the agent is inquisitive.**

If you're interviewing an agent and they're not also interviewing you, that's a warning sign. They should want to know about your lifestyle, future goals, budget, priorities, and much more. The better an agent knows you, the better they can represent you.

### **Make sure they're experienced.**

Real estate is an apprenticeship business; agents start out working under savvy veterans who share knowledge and connections. If an agent doesn't have a wealth of experience, they'd better be part of a team led by experienced

agents who can support and guide them. This doesn't mean you should go with the oldest agent you interview—people become agents at all different ages, and the number of trips they've taken around the sun doesn't indicate their work history. Experience is a matter of how many homes an agent has helped buyers buy or sellers sell in the neighborhood you're targeting, so find out what they've bought or sold.

### **Ask about their relationships with other agents.**

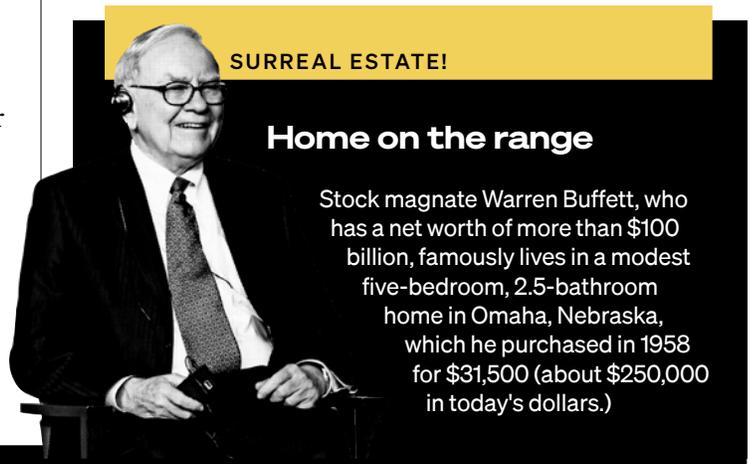
Everyone has access to public listings; you want an agent whose connections can get you early access to homes before the masses ever descend upon them, which could be the difference between landing your dream home and missing out. Ask the agents you interview about tips they've gotten about off-market listings, as well as their network in your preferred neighborhood.

### **Ask about their extended professional network.**

In addition to relationships with other agents, your agent should have connections to home inspectors, mortgage brokers, appraisers, landscapers, structural engineers, designers, painters, electricians, plumbers, and general contractors. Ask agents why their pool of professionals is the best, and ask to see examples of past work they've done.

### **Hire the agent, not their brokerage firm.**

These days, firms exist to support agents with administrative tasks so they can focus more on clients. Ultimately,



**SURREAL ESTATE!**

### Home on the range

Stock magnate Warren Buffett, who has a net worth of more than \$100 billion, famously lives in a modest five-bedroom, 2.5-bathroom home in Omaha, Nebraska, which he purchased in 1958 for \$31,500 (about \$250,000 in today's dollars.)

your agent is the one who matters, and you need to vet (and trust) them completely. Just because someone is an agent with a successful firm doesn't mean they're pulling their weight. Avoid swooning over that affiliation, but do ask prospective agents how they can leverage their firm's resources to your advantage.

## Three Common Questions About Agents, Answered

### **Q: SHOULD I SEEK OUT AN AGENT, A REALTOR, OR A BROKER?**

**A:** It really doesn't matter whether you hire an agent, a Realtor, or a broker. The most important thing, regardless of title, is that they're experienced, know the area well, and have a solid reputation in the industry.

### **Q: WILL AN AGENT WHO'S MORE ACCREDITED CHARGE A HIGHER COMMISSION?**

**A:** No. The commission is determined by the agent and the seller. If the agent works with a brokerage, then the brokerage takes a percentage. But that comes out of the agent's cut, not your pocket.

### **Q: DO AGENTS USUALLY SPECIALIZE IN BUYING OR SELLING?**

**A:** While most agents help with both buying and selling, it's not uncommon for them to specialize in (or focus exclusively on) one aspect of the market. You'll usually see this advertised as their strength. Brokerages may also classify agents as a buying agent or a selling agent. All the more reason for you to interview prospective agents and ask questions about their experience as a buying agent, check their recent sales, and determine their strengths.

### **Hire someone you really, actually, genuinely like.**

This might sound obvious, but if you hate hearing from your agent, you're going to hate shopping for (and buying) a home. The process can take months and even years; you'll interact with your agent a lot. If you don't vibe with someone, it's better not to enter into this type of intense and important long-term relationship. Hunting and closing on a home should feel more like savvy teamwork than a business transaction.

### **Discuss what can go wrong.**

With so many moving parts in a real estate transaction, hiccups are inevitable. A seller may suddenly get cold feet or turn sour in negotiations; an inspection might go sideways, bringing with it unanticipated problems; your financial situation (or life) might change, necessitating a whole new game plan. Ask prospective agents for their horror stories, examples of mistakes they've made and the pitfalls they know about, and how they've helped past clients through rocky waters—and how they would help you if things go sideways.

### **Talk through negotiations and winning strategies.**

A great agent is a skilled negotiator who fights for you but also knows that good deals require mutual compromise. Talk to agents about how they ensure that clients land their dream homes without overpaying. Discuss their toughest negotiations and general approach to driving a bargain. Maybe even throw out some hypothetical scenarios and see how they would handle them.

### **Have an honest conversation about risk.**

Real estate investment always involves some level of risk. You need an agent who's forthright about this and works to mitigate that risk. Discuss investment analysis, neighborhood market performance, and the long-term impact of your decision to buy, and make sure their answers are data-driven. An agent who's uninformed or cagey with you about these things is, well, risky.



## Hi, My Name Is...

Set up preliminary meet-and-greet appointments with two agents, scheduling them on the same day if possible. Be honest about where you are in the home-shopping process and your level of knowledge, and don't be shy about asking questions. Write down your thoughts about each agent immediately after meeting with them. If one (or both!) seems like they could be a good match, save their contact information in your phone. Add a star or some other special marking next to their name to signify a potential front-runner.



# OPEN HOUSE

## CHECKLIST

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An open house allows you, as a prospective buyer, to get up close and personal with a property. It's also an opportunity to meet the seller's agent. You can ask strategic questions to determine if you'd be interested in submitting an offer. Even when the answer isn't revelatory, how evasive the agent seems—and how much spin they apply—can speak volumes. Whenever you go to an open house, bring this checklist along. Just remember: The agent is sniffing around you, too.

Try to avoid revealing financial information or tipping them off to your level of interest. The less the seller and their agent know, the more room you and your agent will have to maneuver during future negotiations.

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- How long has the home been on the market?
  - If it's been on the market a long time, why hasn't it sold?
- Was the home on the market before you got the listing?
  - If yes, how long have you had the listing?
- How did you and the seller arrive at the listing price?
  - Have you done market analysis and found comparables?
  - Have there been any price reductions?
- Why is the owner selling?
- How old is the building?
- Where is the property line?
- How many owners have there been?
  - What changes did each make to the home?
- What renovations have been done?

- When were those renovations done?
- Were they permitted?
- Has any of the renovation been DIY?
- What are the biggest issues the current owner encountered?
  - What are the biggest remaining issues?
- Are there any drainage problems?
- What is the state of the roof?
- Are there, or have there ever been, pests?
  - What has been done about them?
  - What are the most common pests and wild animals in this area?
- Has the home been tested for mold, radon, lead, or asbestos?
- May I see a copy of the seller's property disclosure statement?
- How old are the home's major systems (e.g., electric, plumbing, HVAC)?
- Do the appliances sell with the home?
  - If yes, how old are the appliances?
  - Are they all functional?
  - Are any under warranty?
- Is there a pool?
  - If yes, how old is the equipment?
- What does the average utility bill cost?
- Is there a homeowners' association?
  - If yes, what are the HOA dues?
  - May I see copies of the CC&Rs?
- What's within walking or short driving distance?
  - Supermarkets, farmers' markets, and restaurants?
  - Parks, dog runs, gyms, community center?
  - Cultural institutions, shopping, and nightlife?
  - Public transportation?
- Where is the nearest hospital and firehouse?
- What is rush-hour traffic like?
- What are the local childcare options?
  - What do most local parents do for childcare?
  - How are the local schools?
- How would you describe the neighbors next door, on the block, and in the area?
- Are there block parties or holidays that people go all out for?
- How much of the community sticks around in the summer?
- Has the seller kept pets in the home?
- Are there many dogs in the area?
- Is the seller looking to sell to a specific type of buyer?
- What type of buyer wouldn't be suitable for this home?
- What is the seller's timeline?
- Is there a deadline for offers?
  - How many offers have been made?
  - How many of them are being seriously considered?
- Are there contingencies the seller will or won't accept?
  - Are there contingencies the seller will want to make?
- Is the seller offering any incentives?



# PART 2: BUYING



# Money & Finance 101:

## WHAT EVERY HOME BUYER SHOULD KNOW

When the buying process is handled properly, a home isn't just a place to grow your life and feel a sense of belonging—it's also a great way to build equity and wealth over time and pass it along to future generations. But a cavalier approach to a home purchase can ruin you financially. Make sure you're getting a slice of the dream, not a whole serving of the nightmare.

### Short-Term Home-Buying Costs

Ignorance of costs doesn't mean you won't have to pay them. Be aware so you can be prepared

#### DOWN PAYMENT

When you get a mortgage to buy a home, your lender covers much of the cost. But you're responsible for laying out some money up front in the form of a down payment. The lender and mortgage type affect how much you have to pay. Historically, the standard down payment has been 20 percent or more of the home's price. Even if it's a smaller percentage—some loans tailored to first-time home buyers with excellent credit allow as little

as 3 percent down—it can be a significant amount of money. And if you make a down payment of less than 20 percent, you may have to pay principal mortgage insurance (PMI), which protects your lender. Generally speaking, if you can't afford a down payment, you're probably not ready to buy a home yet.

#### CLOSING COSTS

The fees and expenses you pay to finalize your mortgage at closing usually range from 2 percent to 5 percent of your loan amount and include things like the appraisal fee, home inspection cost, application fee, loan origination fee, mortgage broker fee, property taxes, homeowner's insurance, title insurance, and more. In

some cases, like a problematic inspection or low appraisal value, you can request that the seller pay a portion of your closing costs. Shopping for the best deal on your inspection can save money, too, but don't sacrifice quality to save a few dollars; issues that go undetected can wind up costing you far more in the long run.

#### MOVE-IN EXPENSES

In many cases, buyers don't want to physically pack and move. Consider setting cash aside to cover the cost of movers, which can be significant, especially if you're moving a long distance. (Be sure to factor in a tip, too.) Shop around for a reliable moving company that won't extort you or damage your belongings.



The amount that a responsible lender offers could mean adjusting your home search—or even holding off on buying altogether.



### **REPAIRS**

You might hold off on making major (read: expensive) renovations to your home until later, but chances are there will be some smaller fixes you'll want to make right away. If you're handy and have free time, you can save money and tackle them on your own; otherwise, you'll need a contractor or local repair people.

### **What You Can Afford**

How much you can borrow (and how much you're willing to spend) should determine your price range

### **CALCULATE YOUR DEBT-TO-INCOME (DTI) RATIO.**

Total up all of your monthly debt payments, then divide them by your gross monthly income. This percentage tells you (and lenders) what monthly mortgage payment you can afford to make. There are a number of DTI ratio calculators online that you can use to figure out the percentage.

### **TALK TO LENDERS.**

Even if you think you can afford a home that costs \$350,000, a lender who factors in your other debts, monthly income, work field, and employment history may think you can afford only a \$250,000 home. The amount that a responsible lender offers might force you to adjust your home search or even hold off on buying until you're in a better financial position. If you stress your budget too much, you'll end up "house poor"—a.k.a. a homeowner without money to pay for repairs or do things like travel and maintain a social life.

### **GET FINANCIAL HELP FROM FAMILY.**

If your relatives are willing and able to contribute to the cost of buying a home, consider yourself lucky. That money in your bank account changes how lenders view you. Still, you may need to "age" the money (let it sit in the account long enough that it appears on two consecutive bank

statements) and provide a gift letter from your relative, which verifies that it's not another debt (i.e., they don't expect you to repay them).

### **How to Save Money**

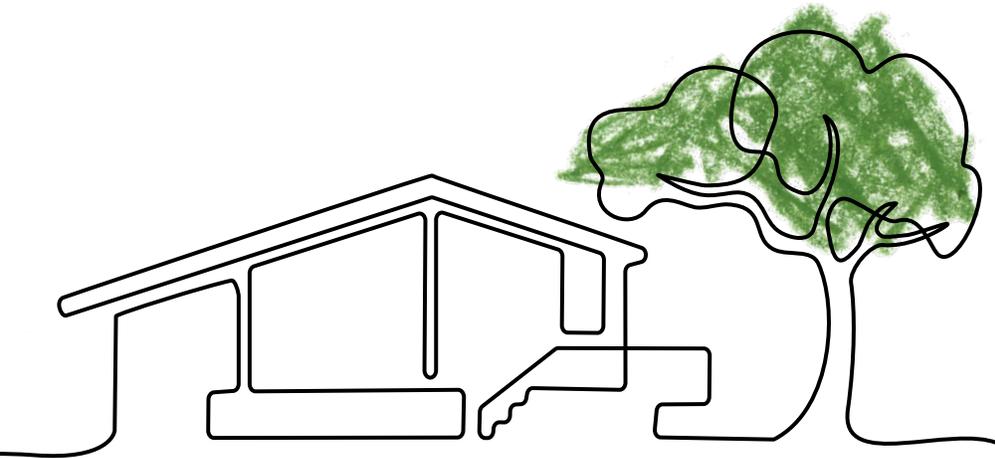
Stacking paper to make a bigger down payment (and to cover other costs) is a wise move—and one that can be crucial to buying a home

### **REVIEW YOUR SPENDING.**

Shelling out for food, utilities, school loans, and car maintenance/payments is usually unavoidable. But take a close look at your recent bank statements and calculate your nonessential spending—you know, eating out, that new pair of shoes, etc.

### **CUT DOWN ON SPENDING.**

Can you eliminate a few streaming services? Cook at home more often? Forgo a larger TV or seasonal fashion? Don't cut all the joy out of your life, but work on being more frugal



### **MAKE SAVINGS AUTOMATIC.**

Set up direct-deposit payments with your employer, then allocate a set amount of each check to a separate savings account. Most banks will happily arrange this as an automatic deposit setting for you.

### **Your Personal Credit Score**

Lenders use your credit score to determine whether you qualify for a home loan and the interest rate they'll offer you

- You'll need an established history of paying bills on time and a DTI ratio no higher than 43 percent (but often closer to 30 percent) to qualify.
- A low credit score means you'll likely pay a higher interest rate, which can significantly increase your total costs over the term of the loan. For example, a \$200,000 mortgage at 4 percent interest paid over 30 years

comes out to around \$345,000 total. The same mortgage at 6 percent interest would be more than \$430,000.

- Requirements vary between lenders and loan types, but a credit score above 620 is required for many conventional mortgages. To secure the best loan terms, a score of 720 (or better) is ideal.
- Contact the three major credit bureaus—Experian, Equifax, and TransUnion—to get copies of your credit reports. Dispute any errors, like credit card fraud or a misattributed debt that actually belongs to somebody else with the same name as you.
- Pay bills on time and keep your credit card balances low.
- Don't close out your credit cards. (Doing so decreases the amount of available credit you use, which can lower your credit score.)
- Track your score using Experian, Equifax, or TransUnion, each of which offers a free service that sends you weekly updates.

### **Your Mortgage Options**

There are a variety of mortgages available to home buyers

#### **CONVENTIONAL MORTGAGES**

Unlike the loans that follow, these are not guaranteed by the government. As a first-time buyer, some conventional loans might require only a small down payment—as little as 3 percent of the home price.

#### **FHA LOANS**

The Federal Housing Administration insures these and allows down payments as low as 3.5 percent.

#### **USDA LOANS**

The U.S. Department of Agriculture guarantees these loans for rural home buyers. They usually require no down payment.

#### **VA LOANS**

The Department of Veterans Affairs guarantees these for current and veteran military service members. They usually require no down payment.

The term (length) of your mortgage options is also important. Most home buyers select a 30-year fixed-rate mortgage, meaning it's paid off in 30 years and the interest rate stays the same throughout. There are, however, shorter-term options, like 20- and 15-year loans, which generally have higher monthly payments but lower interest rates. Speak to lenders to determine the



mortgages for which you qualify; if you have choices, consult with a financial planner about what makes the most sense for you.

Once you start shopping, request loan estimates for the same type of mortgage from multiple lenders. Compare costs like origination fees, interest rates, and possible penalties for paying your mortgage off before term, as well as each lender's receptiveness to your buying discount points (fees borrowers pay up front to lower the interest rate). Analyze the details carefully and talk through them with your financial adviser. Your state, city, and county may have first-time home-buyer assistance programs. These often combine low-interest-rate mortgages with assistance for down payments and

closing costs, as well as tax credits. If you may be eligible, make sure to investigate these programs, too.

### **How Mortgage Pre-Approval Works**

Before you're locked into a mortgage, you need a pre-approval letter from a lender. This shows the lender is willing to loan you a certain amount with specific terms; without this document, most sellers won't seriously consider an offer you make. When you start home shopping in earnest, apply for pre-approval with multiple lenders, each of whom will pull your credit history and review your financial documents. They'll also verify your income, assets, and debt, then determine what amount and under what terms they would pre-approve you. Know

that there's no obligation on your part here—you don't need to pick the lender whose pre-approval you get (and use to show you're a legit buyer). Compare the interest rates and fees, and think about which lender is right for you.

### **The Importance of Sticking to a Budget**

Decide what you're willing to pay, and don't be tempted if a lender offers to loan you more—or if the seller initiates a bidding war with another buyer. (Beating out another party for a home may feel like a victory in the moment, but remember you'll be stuck paying the bills. In the long-term, all things considered, you might actually turn out to be the loser.) When shopping for homes, look below your max price, leaving room to negotiate or outbid competition. Purchasing a discounted fixer-upper is a fine idea in some circumstances, as long as you understand the trade-off for those up-front savings: inconvenience, time commitment, and probably a fair amount of cash down the line to get everything up to snuff.

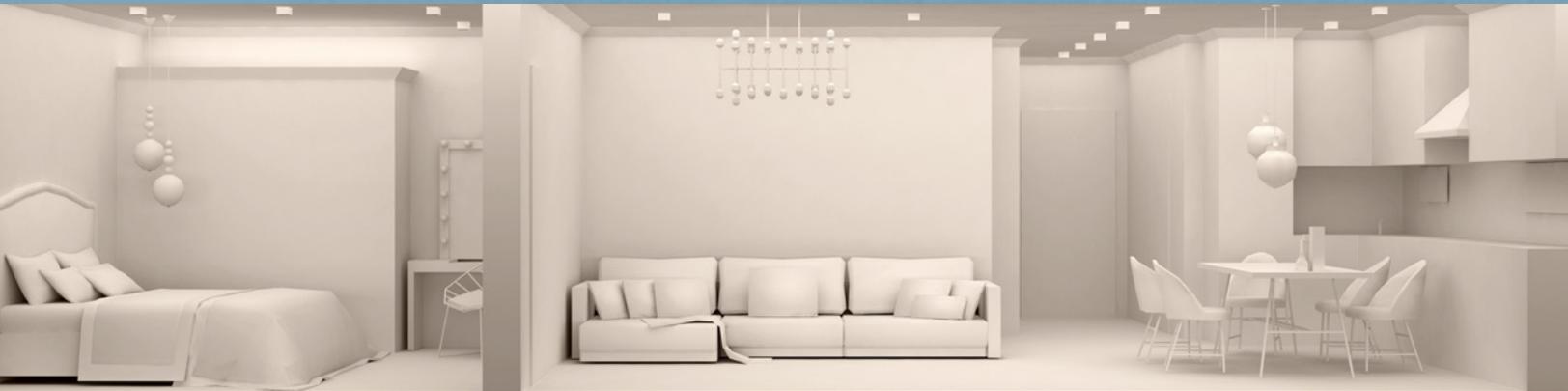
#### **SURREAL ESTATE!**

## **Show on the road**

Although it's now associated with the glitz and glamour of the film industry, the iconic Hollywood sign originally read "Hollywoodland" in 1923 and was intended as a marketing device to sell homes and property in the Hollywood Hills.

# 5 Reasons to KEEP RENTING

Once you can afford to start building equity and wealth in a home, paying a landlord each month (building their equity and their wealth) can be grating. But in some cases, continuing to rent might actually be your smartest option



# 1.

## **YOU'LL BE THERE FOR ONLY A SHORT AMOUNT OF TIME.**

Finding an agent, neighborhood shopping, and buying a home in a short time frame can make you feel rushed, leading to poor choices across the board. Trying to sell that home when you leave (or keeping it to rent out as an investment property) only adds an additional layer of complexity.

# 2.

## **YOU'RE NEW TO A CITY AND DON'T KNOW IT VERY WELL.**

Before you commit to a home, try renting in different neighborhoods to get a better sense of them—and better determine the appeals and drawbacks of each one.

# 3.

## **YOU WANT TO BE NEAR RELATIVES, BUT YOUR FAMILY IS UNSETTLED.**

Maybe your siblings are in school or the military, or your parents are close to retirement and plan to relocate. If living close to your family is going to be a deal-breaker, rent until you know where everyone is going to land.

# 4.

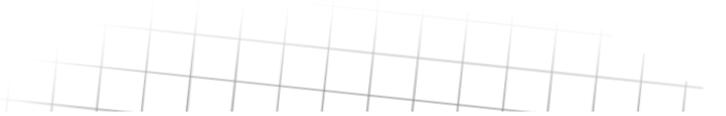
## **YOU SIMPLY CAN'T AFFORD A HOME.**

Don't overextend yourself or fall victim to a predatory lender. You could wind up in massive debt, ensuring that you'd go back to paying a landlord for years to come.

# 5.

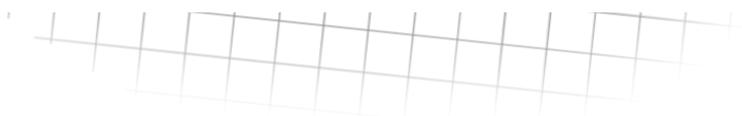
## **YOU'RE A FREEWHEELING, FREE-ROAMING, FREE SPIRIT.**

Everyone's priorities are different. Some folks don't like being tied down anywhere, by anything. Roam on, partner. Keep renting and live your best life.



# The Truth

## ABOUT REAL ESTATE LISTINGS



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Listing agents want to attract potential buyers and sell properties as quickly as possible. In order to drum up interest in a home, they'll sometimes exaggerate or accentuate attractive features. They might also put a positive spin on undesirable elements—or strategically omit them entirely. It's not exactly false advertising, but touring homes that don't live up to their listing is a waste of time. To minimize your chances of touring a dud, familiarize yourself with the words, phrases, and photographic tricks commonly used in real estate listings.

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## WHEN IT COMES TO LOCATION

### WHAT LISTINGS SAY:

#### “Hidden gem”; “hidden potential”

### WHAT THEY PROBABLY MEAN:

The home is a project in a highly desirable location. It may be in an area with great schools or easy access to cultural events, but the home itself is outdated or poorly thought out. If you have the creative vision to reimagine the space (and are willing to put in some work), it could end up being an excellent purchase.

### WHAT LISTINGS SAY:

#### “Hot”; “up-and-coming”; “developing neighborhood”

### WHAT THEY PROBABLY MEAN:

Properties in these neighborhoods could appreciate fast. Sometimes this is a way for listings to spin an undesirable area into a desirable one; other times it’s a chance to get in on the ground floor of a solid long-term investment. Talk to your agent and do some research yourself.

### WHAT LISTINGS SAY:

#### “Quiet”

### WHAT THEY PROBABLY MEAN:

The property may be in an idyllic suburb—or in the middle of nowhere. Alternatively, the home might have increased soundproofing because it’s located in a busy, noisy area and the listing agent is assuaging buyers’ fears. Look closely at the area (noise-level maps can be found on the U.S. Bureau of Transportation Statistics website) to determine why the listing is mentioning noise at all.

### WHAT LISTINGS SAY:

#### “Backs up to a green belt”

### WHAT THEY PROBABLY MEAN:

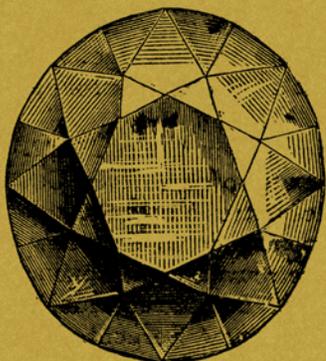
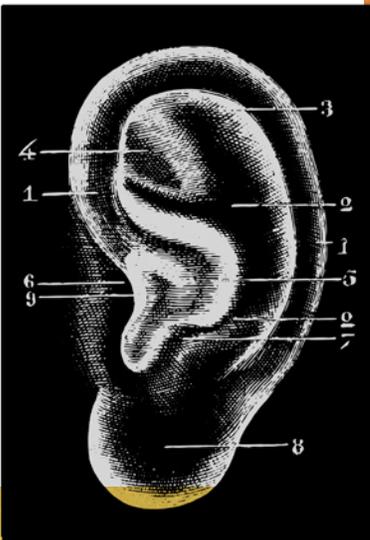
The property sits by an open area of land where construction may be prohibited or limited. On paper, that sounds wonderful. But make sure said green belt doesn’t exist to contain an eyesore or loud power lines.

### WHAT LISTINGS SAY:

#### “Location, location, location!”

### WHAT THEY PROBABLY MEAN:

The home is in a highly desirable area, but there could be a catch. For instance, a property with “easy access to a highway” may be so close that noise and air pollution make you want to race away. “Close proximity to a school” can mean children’s shrieks and bumper-to-bumper traffic every morning. “A short walk to popular restaurants and bars” might mean patrons spilling out at closing time every night. Before you bother touring a property, scout it out on Google Street View for potential problems.



## WHEN IT COMES TO CONDITION

WHAT LISTINGS SAY:

### “Original condition”

WHAT THEY PROBABLY MEAN:

Nobody has updated the property since the first owners. In all likelihood, the home needs some (or a lot of) work.

WHAT LISTINGS SAY:

### “Original details”

WHAT THEY PROBABLY MEAN:

The home features elements from the original build, such as vintage windows, cabinets, sinks, floors, and door-knobs. How desirable those details are depends on the period during which they were installed, their overall condition, and your personal taste. (Yes, some people really do love shag carpet, faux brick wallpaper, and linoleum flooring.) There’s no guarantee that said details are in good enough condition to use or salvage, so don’t get your hopes up too high.

WHAT LISTINGS SAY:

### “Investor special”

WHAT THEY PROBABLY MEAN:

The property is a hot mess that won’t qualify for a traditional mortgage. You may be able to secure a rehab loan for a home in such poor condition, but most likely it’s a tear-down and you’ll have to pay for it in cash.

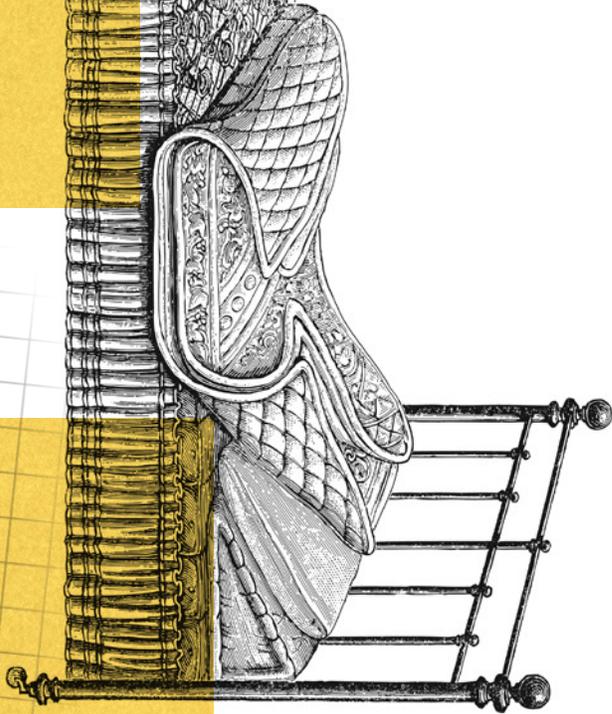
WHAT LISTINGS SAY:

### “Well-maintained”; “lovingly maintained”

WHAT THEY PROBABLY MEAN:

The home is in good shape, but the owners have lived there a long time—and probably haven’t made many updates along the way. Expect the design and appliances to be outdated. If you’re hunting for a bargain and don’t mind doing renovations, this could be a good fit.





WHAT LISTINGS SAY:

**“Model perfect”;**  
**“move-in ready”;** **“turnkey”**

WHAT THEY PROBABLY MEAN:

The home requires no work. Everything is neutral, current, and possibly even furnished. With no renovation needed, the seller will expect to get their asking price or above it; you're not going to be able to haggle much, if at all.

WHAT LISTINGS SAY:

**“Great potential”;** **“great bones”;**  
**“needs TLC”;** **“handyman special”**

WHAT THEY PROBABLY MEAN:

It's a fixer-upper that requires renovation. On the bright side, if you can handle doing repairs yourself and are game for a long-term project, this may be an opportunity to build your ideal space over time (or even flip it later for a profit). Just be sure to have the home thoroughly inspected and be honest about your budget and timeline.

WHAT LISTINGS SAY:

**“Comfy”;** **“old-world charm”**

WHAT THEY PROBABLY MEAN:

The property is aged and possibly worn out. Even if there's no immediate maintenance due, this home could end up costing you a lot in time and money.

**SURREAL ESTATE!**

## Hidden in plain sight

In Los Angeles, there are office towers and industrial buildings that secretly house massive oil rigs. One such property, the 165-foot Tower of Hope, is wedged on the campus of Beverly Hills High School, where drilling operations remained active as recently as 2017.





## WHEN IT COMES TO DESIGN

WHAT LISTINGS SAY:

**“All about the view”;**  
**“spectacular view”**

WHAT THEY PROBABLY MEAN:

The vista is the focal point of the property. The exterior and interior of the dwelling may be underwhelming or even off-putting. Keep in mind that a great view is attractive to many buyers, so resale value could be considerable, especially if you’re willing to renovate the home so it is as impressive as the view.

WHAT LISTINGS SAY:

**“Partial views”;**  
**“peek-a-boo views”**

WHAT THEY PROBABLY MEAN:

The property has views—if you stand on your tippy-toes at just the right spot and crane your neck. The listing likely won’t include pictures of the view because it’s obscured.

WHAT LISTINGS SAY:

**“Cozy”;** **“charming”;** **“quaint”;**  
**“dollhouse”;** **“cottage”**

WHAT THEY PROBABLY MEAN:

The home is small. Like, maybe even really small. Potentially matchbox, uncomfortably small. These adjectives are famously used to put a spin on a space that’s simply cramped. Be sure to note the square footage; even if the listing agent is including a converted garage to make the livable space seem bigger, the numbers don’t lie.

WHAT LISTINGS SAY:

**“Lives large”**

WHAT THEY PROBABLY MEAN:

The property feels larger in person than it does based on square footage and description. This may or may not be true, but a tour of the home will confirm.

WHAT LISTINGS SAY:

**“Low-maintenance yard”**

WHAT THEY PROBABLY MEAN:

Chances are there’s hardly a yard at all. If you have a green thumb and want to garden, you’ll have to invest in transforming the outdoor space—assuming there’s even enough outdoor space on the lot to do so.

WHAT LISTINGS SAY:

**“Flexible floor plan”**

WHAT THEY PROBABLY MEAN:

Because of tacked-on additions or poor initial design, the layout isn't ideal. You may have to move or knock down walls—if it's even possible, taking load-bearing beams into consideration—to make use of the space.

WHAT LISTINGS SAY:

**“Custom”; “unique”; “one-of-a-kind”**

WHAT THEY PROBABLY MEAN:

The home is bespoke, meaning it's been built or renovated to suit the current owner's needs and tastes. There's a fair chance their specific aesthetic won't appeal to you.

WHAT LISTINGS SAY:

**“Lots of character”; “fanciful”**

WHAT THEY PROBABLY MEAN:

The property is possibly straight-up odd. It likely has unconventional details that appeal only to a specific buyer. Although not necessarily “custom,” it's not a neutral home with broad appeal.

WHAT LISTINGS SAY:

**“Vintage”; “rustic”**

WHAT THEY PROBABLY MEAN:

The property will transport you back in time—and probably not in a good way. All or most of the home is outdated, and even the elements that were updated may still not be current and on-trend. Be prepared for a rehab project.

WHAT LISTINGS SAY:

**“Recently updated”**

WHAT THEY PROBABLY MEAN:

The seller has replaced elements of the home or done some work to the place. It doesn't mean they've fully renovated, or that the work was done with skill and care, or that the items installed are high-quality or stylish. Pay close attention to the details when you visit the home.

WHAT LISTINGS SAY:

**“Lush”**

WHAT THEY PROBABLY MEAN:

There is plant life—and it's green! That doesn't mean an extensive gardenscape, though. This adjective is ambiguous and often meaningless; the greenery may be limited or poorly landscaped. It may also be green simply because it's newly laid sod, and will be burned to a brown crisp before long. You'll have to see it for yourself.

WHAT LISTINGS SAY:

**“Dramatic”**

WHAT THEY PROBABLY MEAN:

The property has bold design elements that aren't for everyone. Similar to listings described as “custom” or having “lots of character,” this one is intended to locate buyers who will respond positively to conspicuous details.

SURREAL ESTATE!

**Hoop dreams**

The Supreme Court building, where justices spend much of their lives, features a full-size basketball court nicknamed the Highest Court in the Land.



## WHEN IT COMES TO THE SELLER

### WHAT LISTINGS SAY:

**“Motivated seller”;  
“bring offers”; “offers wanted”**

### WHAT THEY PROBABLY MEAN:

The seller wants to move the property quickly. Although it sounds like an invitation to submit a lowball offer—sometimes a seller is desperate for money—don’t assume that’s the case. Even when sellers have no intention of reducing the price, their agents often use the word *motivated* to whip up offers in the hope of starting a bidding war.

### WHAT LISTINGS SAY:

**“Priced to sell”**

### WHAT THEY PROBABLY MEAN:

The seller has already reduced the price or feels they’re offering the home at a discount compared with the market value. They’re unlikely to budge and will probably scoff at lowball offers or attempts to negotiate.

### WHAT LISTINGS SAY:

**“Serious buyers only”**

### WHAT THEY PROBABLY MEAN:

The owner is tired of giving tours and fielding speculative lowball offers and wants to wrap up a sale now. If the listing leaves you lukewarm on the property, don’t waste your time (or the seller’s time) by scoping it out.

### WHAT LISTINGS SAY:

**“Sold as is”**

### WHAT THEY PROBABLY MEAN:

The seller doesn’t want to do any repairs to the property and isn’t open to renegotiating the price—no matter what an inspection reveals. Typically, this means they’re aware of issues and have reduced the price accordingly. If, however, the listing says “not open to inspection,” don’t even bother: There’s a decent chance the property isn’t up to code and the problems run deeper than handyman fixes.

### WHAT LISTINGS SAY:

**“Tenant occupied”;  
“24-hour notice to show”;  
“excuse the mess”**

### WHAT THEY PROBABLY MEAN:

The seller still lives here. After coordinating a time when you can tour, you’ll still be walking through someone’s living space; it may be cluttered or styled in a way that’s distracting, making it difficult to envision how you’d use the space.

### WHAT LISTINGS SAY:

**“For sale by owner”**

### WHAT THEY PROBABLY MEAN:

The seller chose not to work with an agent. Proceed with caution. This person might have unrealistic ideas about their home or the selling process and give you (or your agent) headaches.

### WHAT LISTINGS SAY:

**“Buyers to verify permits”**

### WHAT THEY PROBABLY MEAN:

There may be unpermitted additions or conversions to the property. The seller is placing the burden (and potentially the high cost) of getting everything up to code on you.

### WHAT LISTINGS SAY:

**“Back on the market”**

### WHAT THEY PROBABLY MEAN:

Something caused a previous sale to fall through, or the property was delisted due to lack of interest and the asking price (or physical space) has since been tweaked to make it more attractive. It’s possible that a previous buyer entered into negotiations and was unreasonable, but you should investigate to make sure the owner didn’t make any quick fixes to cover up problems that could cause you headaches later.

# Be on the Lookout

The visual language of dubious listings



## THERE'S ONLY A SINGLE EXTERIOR PICTURE.

In all likelihood, there's nothing visually appealing about the property. Listings are required to have only one main exterior shot, but the ideal range of photos is 22 to 27, according to Zillow. Read the description closely to determine whether it's worth a look. But be wary.



## THE MAIN EXTERIOR PHOTO IS VERTICAL OR AT AN ODD ANGLE.

There might be an eyesore nearby (an electrical tower, water tower, construction site, glowing fast-food signage) and the listing agent is trying to hide it. Check out the property using Google Street View before you bother visiting.



## ALL THE PHOTOS ARE OF THE EXTERIOR.

The interior of the home is probably ugly. The whole point of photos in listings is to entice buyers to come check out the property. If something has been conspicuously omitted, it's safe to assume the home isn't worth showing.



## MULTIPLE ROOMS DESCRIBED AREN'T SHOWN.

Those rooms—bedrooms, a basement, or something else—aren't selling points. You should still tour the property if it's appealing to you. Just don't expect to be

blown away by the stuff that isn't shown in the listing.



## WINDOWS ARE BLOCKED BY CURTAINS OR OTHERWISE OBSCURED.

There's no view to brag about. If the window looks out onto a brick wall, a trash-strewn lot, or a construction site, no listing agent will show it. It may also signal that the home doesn't get much natural light. If you check out the property, be sure to consider the view and light.



## THE INTERIOR IS STAGED WITH LOTS OF MIRRORS.

The rooms are likely smaller than they seem. Designers often use mirrors to redirect light around a room, a trick that makes spaces appear more spacious.



## THE CURTAIN RODS ARE HUNG JUST BELOW THE CEILING, NOT RIGHT ABOVE THE WINDOW.

The ceilings aren't as tall as they appear. The room might look fit for a NBA player, but in actuality, hanging the curtain rod higher is a trick to give an average-size room the illusion of height.



## THE PICTURES ARE CAPTURED WITH A FISH-EYE LENS.

Whatever you're seeing isn't nearly as big as it appears. A fish-eye lens is a distor-

tive wide-angle lens that creates a wide panoramic or hemispherical image with an unrealistic sense of size. Honest sellers and agents know not to use this gimmick. If the objects in the foreground appear abnormally, the photographer might be using a semi-wide-angle lens—thus, capturing a larger field of vision than the human eye is capable of seeing—to create an illusion of spaciousness.



## THE LISTING BOASTS THE BLUEST SKY OR THE MOST VIBRANT SUNSET YOU'VE EVER SEEN.

A professional real estate photographer edited the pictures in Photoshop. They may have even inserted a blue sky over a gray one! These manipulated images are eye-catching, but remember: They're being used to sell the property and aren't necessarily a reflection of reality.



## The 80/20 Rule

Write out a list of the top 10 features you want in a property (home office, two-car garage, modern appliances, outdoor deck, finished basement, open floor plan, etc.) and bring it with you to showings and open houses. Pickiness can be a positive trait—it gives your agent guardrails and reduces your chances of ending up with buyer’s remorse—but if you hold out for a home that’s completely and utterly perfect in every way, you’ll probably be shopping forever. Be prepared to sacrifice 20 percent of the items on your list. When a property offers 80 percent of your desired features, it’s likely worth serious consideration.



# THE FIRST-TIME HOME BUYER'S CHECKLIST

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To risk stating the obvious: Buying a home isn't something you can approach casually. You need to be prepared, which means researching neighborhoods and homes, getting an agent, ensuring that your finances are sound, carving out time for tours, and, when the time comes, acting decisively to land your dream home. Think you're ready to make the leap? Use this checklist to be sure.

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- Determine your debt-to-income (DTI) ratio.  
This is how much you can afford to pay for a home each month. You can find DTI ratio calculators online where you enter all the bills you have to pay each month, as well as your gross monthly income.
  
- Save for a down payment.  
Unless you've got enough cash to afford the entire cost of a home, you'll be securing a mortgage loan to buy a home. This covers most of the purchase price, and you'll pay it back (with interest) over a set period of time. But you'll need to pay for the down payment using cash on hand. The larger the down

payment, the more you'll save over the life of your loan. Budget to save as much as you can, set up automatic savings with your bank so a portion of your pay goes directly to savings, and, if possible, seek out additional sources of income or help from a family member.

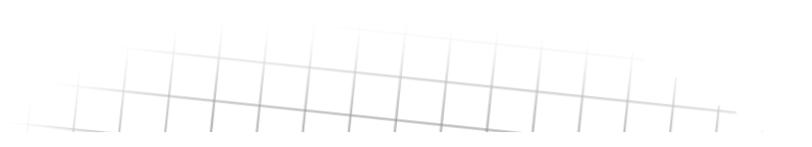
- Find a buyer's agent.  
You want someone experienced, knowledgeable, and trustworthy with whom you can establish a great rapport. (See page 27 for tips on finding a great agent.)
- Get mortgage pre-approval and choose a lender.  
Sellers want to know you're actually able to pay, and you show them by getting a pre-approval letter. Before you start home shopping in earnest, shop for mortgage lenders and provide the necessary financial documents to get pre-approved for an amount you're capable of repaying.
- Find the right home for you.  
Research and visit neighborhoods, and look at current and previous listings in those areas. Work with your agent to narrow your list of possible properties, prioritizing features that matter most to you.
- Make a smart offer.  
Lean on your agent for the amount and contingencies to offer, taking into consideration the current housing market, how long the home has been for sale, and any outstanding offers from other buyers that you might be competing against.
- Negotiate.  
If a seller makes a counteroffer (or tries to initiate a bidding war among potential buyers), rely on your agent's expertise. They'll know when to increase the offer amount (and by how much), if you should remove contingencies, or when to call the seller's bluff and pull your bid.
- Schedule a home inspection.  
The inspector will closely examine the property and write a report detailing the condition, noting any issues. Use these findings to ask the seller to make fixes, reduce the purchase price, or make concessions for closing. (See page 22 for a rundown of all the other professionals who play a part in the home-buying process.)
- Assemble cash to pay closing costs.  
Your finances will need to be liquid at close so you can cover various costs to finalize the deal, such as property taxes, loan origination fees, appraisal fees, attorney's fees, and points.

- Complete a home appraisal.  
If you have a mortgage lender, they'll arrange for a professional appraiser to determine the property value, ensuring that they (and you) aren't paying more than the home is actually worth.
- Get homeowner's insurance.  
Having security in case of a disaster is always smart, but if you have a mortgage lender, they'll require you to provide proof of insurance at closing. Shop around to find the best policy for you.
- Scout a contractor.  
Unless the home is 100 percent turnkey, there's likely to be some work you want (or need) done after closing. Start looking around for a contractor who can complete that work. Search online and ask your agent—or, even better, other homeowners you know—if they can make introductions to a contractor they trust.
- Do a final walk-through.  
In most cases, you get one final inspection of the property 24 hours before closing. At that point, the home should be completely empty (aside from any appliances you agreed to keep) and reflect the condition stated in your contract. Test everything—faucets, light fixtures, appliances, toilets, doors, windows, the HVAC system, and anything else. If there are issues, report them to your agent immediately.
- Bring everything necessary to closing.  
On closing day, you'll need to provide ID, proof of insurance, checks or cashier's checks to cover closing costs, and other documentation that your agent will bring to your attention.
- Close on your home.  
After signing and signing (and signing and signing...) the paperwork, the home will transfer to you. You'll shake hands with the agent and get the keys to your new home. Congratulations!



## PART 3: OWNING & SELLING





# MAXIMIZING YOUR RETURN ON Investment

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Once you've purchased your home, you'll need to decide which upgrades and renovations you'll make. Some will be for your own enjoyment, while others will be to entice potential buyers (especially as you're preparing to sell your home). In both cases, doing strategic work can increase your home's value, boosting your return on investment (ROI). Conversely, some upgrades simply aren't worth the money, while others can actually hurt your ability to sell for top dollar. Here, you'll find some general guidelines for increasing your home's value, both during your ownership period and when you're preparing to sell. Just remember that real estate varies greatly depending on the area; consult with your local real estate agent to determine what's most effective in your particular market.

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## During ownership...

### Do try to plan on how long you'll stay.

Plans change, of course, but knowing if you'll sell in a few years or in a few decades (or pass this property on to the next generation) makes it easier to set ROI guardrails. For example, if you're settling in for the long haul, you can use bolder paints and tiles at your discretion; if you're selling in a couple of years, find a happy medium between what you love and what will appeal to the broadest range of people.

### Don't do expensive or irreversible custom work.

It's your home, so, of course, make it your own. But if you do esoteric alterations, know that you'll end up paying to undo them down the line (or dramatically decrease the odds of a quick sale for the maximum price). Stick to renovations that the majority of people love; opening up the floor plan is better than installing a koi pond in the foyer, for example.

### Do keep receipts and permits for structural renovations.

Agents and their buyers will know if you've altered walls, systems, and plumbing, or added rooms. They'll want to see permits to confirm that everything is up to code, and receipts help justify an increased listing price from the last time the home sold. Meanwhile, unpermitted home additions won't count as added square footage in a home appraisal (yielding no return on investment), and a future buyer's agents will negotiate a lower sale price to cover the cost of retroactive permits anyway. Plus, if illegal construction leads to serious damage like an electrical fire, it voids your homeowner's insurance. (Read: You'll be paying out of pocket to make your home livable again.)

### Do prep for area-specific natural disasters.

Precautionary work like wind-resistant roof structures, earthquake retrofitting, basement waterproofing, or raising electrical outlets above predicted flood levels make you and future owners more secure. It can also be a major selling point, as climate change is an increasing concern for home shoppers.

### Don't let maintenance slip.

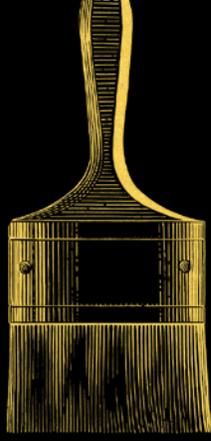
Having your furnace, water heater, HVAC, and other systems checked and serviced at recommended intervals can prolong the life of your home. It can also reduce the risk of an unwelcome surprise during a presale inspection. Be sure to keep maintenance records, too, so you can back up your claim that the home hasn't been neglected.

### Do spring on energy efficiency.

Old windows can let temperature-controlled interior air escape, making your HVAC system do more work and, in turn, decreasing its life span. Consider installing low-e windows designed to cut heating and cooling costs. It benefits you now and helps sell your home to a future buyer, who, no doubt, is also keen on saving money.

### Don't go wild converting the garage.

For most buyers, parking space and room to store yard equipment or tools are major pluses. If you're outfitting the garage for use as a gym, home office, playroom, or additional bedroom, do so in a way that can easily convert back when it's time to sell.



### Do research before adding a fireplace.

Heating capability and ambience made fireplaces a popular home feature for years. While some data show that demand is cooling, 55 percent of home buyers surveyed by the National Association of Home Builders in 2019 still described a gas-burning fireplace as a desirable or essential feature. Given the variance in regional climates and the housing market, chat with your agent about the possible return on this investment.

### Don't build a swimming pool.

Not only is adding a pool expensive (prices average around \$30,000), but you're unlikely to recoup those costs when selling the property. The maintenance, both in time and cost, can turn buyers off; some families with young children will steer clear due to safety concerns. And if it falls into disuse for whatever reason—well, a derelict pool in the backyard just drains your home's value. That said, if an in-ground pool is your dream—and you're planning to be at the property for the foreseeable future—go forth.

## When you're preparing to sell...

### Do focus on curb appeal.

First impressions matter. You can increase your home's wow factor with relatively inexpensive improvements, like a fresh coat of exterior paint (in a neutral color), a new garage door, and tidying up the lawn, trees, and shrubbery. You might also consider painting your front door a stronger color to draw focus away from less appealing aspects, like an ugly driveway.

### Don't plant an elaborate garden.

Of course, there's nothing wrong with cultivating beautiful greenery during ownership. But if you're just landscaping for an upcoming sale, practical is better than lavish. Purchase plants that are native to your region or that are drought-tolerant, so they look good while requiring less water. Keep it simple, approachable, and—especially if you've already moved out—easy to maintain.

### Do paint the interior.

If you only do one thing for your home's interior, agents recommend painting—among the simplest, cheapest, and most impactful improvements you can make. Even if you've enjoyed bold colors while living in the home, go for a neutral color, which is best for photos and in-person showings. Maintain it throughout the home to avoid it feeling disjointed.

### Don't bother with high-end finishes in a midrange price bracket.

Unless your home is in a price range where buyers will expect high-end finishes, save your money. Buyers in lower price brackets may like high-end finishes, but they won't be willing to pay more for them.

### Do get your home inspected before listing it.

Fixing small issues before they become big ones can ensure that you get the most money for your home. You can always opt to not fix things that buyers don't focus on when touring. But the fewer problems a buyer and home inspector discover, the fewer fixes or price reductions they'll request later.

### Don't convert to a smart home.

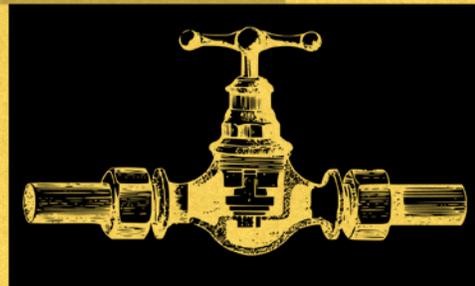
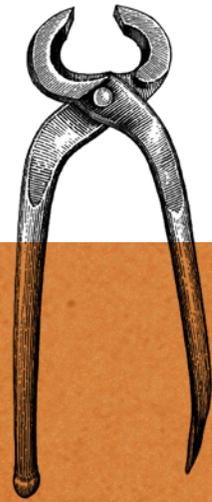
Smart homes don't currently boost home value significantly, so they're not worth the cost of upgrading if you're heading out the door. And some people are averse to the idea of their home being "hackable." Leave that decision up to the next owner.

### Do upgrade your kitchen.

Kitchens persuade people to buy homes. You don't have to do a full-on renovation—everyone has particular tastes, so a project like that is best left to the next owner—but according to *Consumer Reports*, spending \$5,000 in upgrades can potentially increase your home's sale price 3 percent to 7 percent. Adding a water-filtration system, drop-in sink and faucet, and new appliances; brightening up the space with fresh light fixtures and daylight bulbs; and adding some color with a tile backsplash are usually worthwhile investments. Don't bother with countertops, though; the good ones are expensive and best left for a large-scale kitchen demo. Unless yours are falling apart, leave them alone.

### Don't sink money into kitchen cabinets.

Installing all-new cabinetry can cost tens of thousands of dollars—and still might not fit the next owner's tastes. Like countertops, this upgrade is best left for a larger kitchen renovation. Instead, try refreshing existing cabinets by sanding, painting, and installing new hardware, getting a good amount of the appeal for a fraction of the cost.



### Do upgrade bathrooms.

Modern buyers want spa vibes, not a utilitarian "water closet" with a soulless toilet, sink, and bathtub or shower. At the very least, they need it to feel clean. Painting, adding a new tile floor, refreshing light fixtures and daylight bulbs, replacing old plumbing, and making sure all the hardware is contemporary (and matching) are all relatively inexpensive ways to give your bathroom a polished and appealing look.

### Don't add an unnecessary bathroom.

Yes, if your home has a problematic shortage of bathrooms or no master bathroom, adding a new one can be a worthwhile investment. But unless it's addressing an obvious need, shoving another toilet into your home's layout won't move the resale needle.

### Do remove ratty old carpeting.

Some carpeting is so tattered and stained that no amount of cleaning will make it look attractive. Find out if there's hardwood underneath, which can have big potential as a selling point after some sanding, staining, and refinishing. If not, at least consider refreshing the dingiest carpeting in the most conspicuous areas.

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### Don't spend a fortune on new wood flooring.

Bringing old wood floors back to life is one thing, but replacing them outright is serious work—and, more often than not, seriously expensive. If your wood flooring is warped or sanded down to the last millimeter, consider replacing it with scratch-resistant and waterproof laminate, which is tremendously sturdy, looks like engineered hardwood, and costs one-quarter of the price.

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### Do remove popcorn ceilings.

Wish you could peel back a layer of your home to reveal more money? Here's your chance: Scrape off those popcorn ceilings. It's a simple process that you or a handyman can easily tackle. All it takes is a visit to the hardware store for softening solution and a \$20 speciality tool. (Just be sure to check the ceiling for asbestos first; you can find mail-in lab test kits online for around \$40.)

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### Don't block light with window treatments.

The more light you let in, the bigger and more open a space feels. Consider replacing heavy, closed draperies with vertical blinds or shutters. Or you can just leave the windows naked.

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### Do deep-clean your entire house.

Before your home is photographed, hire a cleaning team to do a thorough scouring, especially in the bathrooms and kitchen. If you have carpeting, spring for the shampoo treatment. Good lighting goes a long way in selling a home, so make sure all your lighting fixtures and windows are spotless (no spots visible through the glass).

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### Don't cram your storage areas.

If closets or a garage are packed full of excess items, buyers can't view or appreciate the storage space. Here, less really is more. Put items in temporary storage off-site, if need be.

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### Do stage your home.

Many buyers aren't able to envision how they'd use a blank space. If your home is empty, pay a professional stager to bring it to life with furniture and objects. You may not need to outfit every room, but tricky spaces without clear purpose can benefit from the power of suggestion. If you're still living at the property, consult a designer (or at least your agent) about how to curate furniture, as well as which personal items you might want to remove temporarily.

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### Don't create an untenable to-do list.

It's possible to take on so many projects that you get bogged down; try to make every little thing perfect, and you'll overspend on improvements—or never actually get to market. Set a preliminary schedule and budget, then work with your listing agent to prioritize changes that maximize the return on your time and money.

#### SURREAL ESTATE!

## Get off my lawn

In 2013, Facebook founder Mark Zuckerberg spent \$30 million purchasing four homes near his residence in Palo Alto, California, to thwart a developer who'd planned to buy one of them, renovate it, and market it to buyers as an opportunity to "live next to Mark Zuckerberg."



# THE STEP-BY-STEP CHECKLIST FOR SELLING A HOME

Like buying a home, selling one is a process that shouldn't be taken lightly. To maximize your return (and minimize your property's time on the market), use this checklist to ensure that you're properly prepared

- FIND A GOOD SELLER'S AGENT.  
 Ask friends and family for referrals, research which agents sell the most properties in your area, and interview a few of them. In addition to reviewing their listing presentations, use the following interview questions to determine who has the right experience, knowledge, and personality to suit you and help sell your home.
  - Are you a full-time agent?
  - How many clients have you served in the last year?
  - May I get references for your last five deals?
  - How many sales have you handled in my area?
  - What different kinds of sales have you handled?
  - What sets you apart from other agents?
  - How have your experiences made you a better, more expert agent?
  - What kind of relationships do you have with other agents?
    - How many deals have you done with them?
    - If you were to sell my home, who are the top five agents you would call to bring buyers?
    - Why would you call them?
  - How do you handle difficult agents?
  - When clients have been unhappy with your service, what went wrong?
    - Has a client ever filed a complaint against you?
    - What happens if I'm unhappy with your service?
  - How would you market my home?
    - How would you pre-market to create buzz?
    - How would you get me maximum value?
  - How have you gotten maximum value for other sellers?
    - What has worked?
    - What didn't work?

- What is your general pricing strategy?
    - How would you price my home?
  - How do you approach staging?
    - How would you stage my home?
    - May I see before-and-after photos of homes staged and sold?
  - Do you represent buyers and sellers on the same property?
  - What services do you offer beyond negotiations and escrow?
  - What's your commission?
  - When am I committed to working with you?
  - Who else will be working with me?
    - How big is your team or support staff?
    - What are their roles and responsibilities during the sale process?
  - Will you help me find my new home?
    - Will you personally show me all the properties?
  - How quickly can you get me into a new home?
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- DETERMINE IF IT'S A GOOD TIME TO SELL.  
Generally speaking, spring is a hot time to sell (see page 59), but local and national trends fluctuate and affect your return. Your agent should explain the current market and find comparable, recently sold homes nearby to illustrate what you can expect. When the market is cold, you might lose money or even fail to sell, so if you can afford to wait for better conditions, do it.
  - DEVELOP A TIMELINE FOR SELLING.  
Figure out how soon you need to sell your property. Your agent will need to know your level of urgency, too, so they can accommodate you. Establish a window with enough time to prepare and list your home. If you get impatient, you may undermine your agent and shoot yourself in the foot.
  - MAKE UPDATES AND REPAIRS TO IMPROVE YOUR HOME'S VALUE.  
There are numerous ways to spruce up your home and command a higher price (see page 52). Address problems like leaking pipes, cracked windows, and broken appliances; pay a team of professionals to do a deep-clean; declutter and stage your home; and beautify the interior and exterior with new paint—curb appeal is real! Make your property attractive and move-in ready, if possible, so that buyers are enticed and don't have to endure months of renovations after closing.
  - DEVELOP A MARKETING STRATEGY.  
Work with your agent to develop a plan that works for both of you; trust their expertise, but voice your opinions and concerns. If you would rather avoid listing everywhere and having the public traipse through at open houses, discuss marketing privately to the agent community first.
  - SCHEDULE A PROFESSIONAL REAL ESTATE PHOTO SHOOT.  
Your agent should run point on this, too. But you may need to be involved, storing some items or furniture or removing personal items like family photos. First impressions are important, so listen to your agent and photographer, both of whom are experts in real estate presentation.

❑ DECIDE ON AN ASKING PRICE.

Your agent will do a comparative market analysis, showing data for similar homes in the area that sold in the last 3, 6, 9, and 12 months. Then you'll need to determine a pricing strategy. It might involve underpricing your home to attract multiple buyers and create a bidding war, or overpricing with the intention of allowing a buyer to negotiate down. This will depend on whether it's a buyer's market or a seller's market (who has leverage in supply and demand) and your personal preference.

❑ DISCUSS HOME TOURS AND OPEN HOUSES.

You'll collaborate with your agent on showing the home. If you haven't moved out yet, provide times when you will leave, so prospective buyers can tour the home; if your agent recommends an open house, set a date that works for you to be gone. You may also need to be flexible and make yourself scarce if a serious buyer wants to see the property on short notice. Make sure your home is presentable at all times.

## Now you're ready to list—but when should you do it?

According to the data, spring is the optimal time for going to market. Homes listed during that time have historically sold faster—and for higher prices—in most major U.S. cities. Often, families are looking to buy before summer, allowing them to close and get settled in time for the beginning of the next school year. Listing earlier in the season (between March 31 and April 6) has proved even more advantageous, beating the rush of sellers looking to capitalize.

❑ LET YOUR AGENT DO THEIR JOB.

Once your plan is firmed up, your agent will put your home on the local multiple listing service (MLS), which places it on a number of real estate sites for other agents to see. When applicable, they'll place a For Sale sign in your yard, design flyers, advertise online, post to social media, and do whatever else is needed to get the word out. Your agent will also oversee showings, field offers, and negotiate the final sale price on your behalf.

❑ BEGIN LOOKING FOR YOUR NEXT HOME.

If your home sells quickly, you'll need to have somewhere to go, or negotiate a rent-back with the buyer. It can be complicated selling a home while buying another, so discuss the process with your agent and make sure to include vital contingencies in any deal. And if you'll need the funds from the sale to purchase a new home, look into a bridge loan so you don't have to wait.

❑ CLOSE THE DEAL.

Once your agent has found a serious buyer and negotiated a price and terms that everyone is satisfied with, sign the necessary paperwork, hand over the keys, and celebrate maximizing your return.

# MAKING REAL ESTATE A Profession

THINKING ABOUT JOINING THE INDUSTRY WITH ROBERT?  
YOU'VE COME TO THE RIGHT PLACE

While buying and selling a home is exciting, most people are happy to leave the details (and the legwork) to professionals. But other people walk away from the experience—or even just learning about how it all works—feeling inspired. As Robert shows us, a career in real estate can bring a sense of satisfaction and belonging, and it can yield some incredibly lucrative results.

Think you've found your calling? Good news: Real estate is a diverse industry with a wide variety of career paths. Along with the many professionals who help buyers secure their dream home (see page 22), there are jobs to fit most strengths and interests. They range from property and community development management to structural engineering, hands-on work like painting and general contracting, and commercial arts and design work like home staging and photography. As the industry continues to grow and modernize, programmers and software developers are increasingly in demand, too.

You might also consider becoming an agent. The job often attracts professionals established in other industries who are looking to make a career change. The barrier to entry is relatively low—depending on state and local mandates, you can complete the classes and examinations and become an agent in as little as six months. Since real estate is an apprentice industry, you'll probably start at a company with a mentor, then work as part



of a team, and build your personal network and online presence. As long as you're organized, technologically competent, and personable—and have knowledge of neighborhoods and their features (or the willingness to educate yourself)—there should be a place for you here.

Even though agents work with brokers and agencies, it's important to remember that—as Robert emphasizes—everybody is an entrepreneur and the CEO of their own business. During your career, as an agent

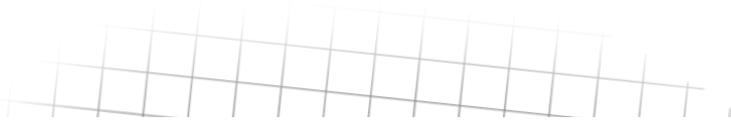
or as any other real estate professional, you may move between different clients and companies. But you'll always be running your personal brand, with its reputation earned and staked on your hard work.

## SURREAL ESTATE!

### Extra toppings

As an homage to the most memorable freakout depicted in *Breaking Bad*, in which Bryan Cranston's character throws a pizza onto the roof of his suburban New Mexico house, fans regularly visit the filming location and re-create the scene. In 2015, the home's actual—and understandably annoyed—owners reported that they'd removed almost 200 pies.





# ROBERT'S 8 PRINCIPLES OF Entrepreneurship

SOME WISDOM FOR THE SELF-STARTERS WHO WANT  
TO MAKE A DIFFERENCE

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## **Dream big.**

The only limit to your potential is ambition; don't build a low ceiling for yourself. Dreams give your life and work meaning and generate the energy and creativity to actually achieve them.

## **Move fast.**

Time, as the old adage goes, is of the essence. Entrepreneurs can't afford to operate lethargically. Deals fall apart, opportunities slip away. Above all else, though, you need to be a fast learner. It's about growing as you go.

## **Learn from reality.**

Study what's worked before, observe what's working now, and get a beat on the future by listening to customers. Ask what they want, then test new ideas to get honest feedback. Innovate selectively without making every aspect of your entrepreneurial endeavor an unnecessary struggle.

## **Be solutions-driven.**

Treat every challenge as an opportunity. Be thoughtful and clear-eyed, but use your imagination to envision how something will succeed rather than reflexively finding reasons why something won't work. Surround yourself with people whose instinct is to look for solutions.

## **Collaborate without ego.**

No one succeeds alone. High-functioning teams deliver the best results, which means you need to be a quality col-

laborator, not a ruthless tyrant. Regardless of your accomplishments, be humble, reliable, responsive, and curious. Recognize others. Seek blunt feedback and listen attentively when you get it.

## **Obsess about opportunity.**

It's hard to earn a customer's trust and easy to lose it. It takes continuous effort to understand people and satisfy them. Anytime you see something that might matter to your customer, it should be incredibly important to you. Caring is a competitive advantage. If you're not preoccupied with the possibilities, you're not doing your job.

## **Maximize your strengths.**

You aren't great at everything. Focus on what you do well and become even better at it. Hedge your shortcomings by surrounding yourself with people whose strengths complement your own (and actually delegate to them). When everyone is set up to succeed, they're less likely to feel discouraged. The entire team will accomplish more.

## **Bounce back with passion.**

Character is revealed in tough times. Resilience and grit aren't changeable qualities. If one dream falls apart, the solution is to come up with another, then use everything you've learned from defeat and failure to make it come true.

# Credits

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MasterClass