

EPISODE 1351

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FT: So Money is brought to you by CNET, the site that shows how to navigate change all around us. So Money episode 1351, how to buy a home in 2022.

*“**JD:** You'll often find infrastructure improvements or residential and commercial building work being scheduled in areas outside of the hot market to basically expand that market and capitalize on it. So you as an individual homebuyer can capitalize on that as well. If other people are putting the investment in, you can ride the wave.”*

[INTRO]

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FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. Our Power Money Moves series continues on CNET Money, and one of my favorite stories that's up right now is all about how to compete in this very, very strange real estate market. Prices continue to go up, interest rates continue to go up, and there just doesn't seem to be any slowdown in demand.

My guest is friend and colleague at CNET Money, Jaclyn DeJohn, who has a story out now called Yes, You Can Buy a Home in 2022: Tips From a Real Estate Agent, and that real estate agent is Jaclyn. She wears many hats. She is an editor. She is a real estate investor. She is a licensed real estate agent. She writes, “The real estate market has been anything but ordinary in the past few years,” but she's got advice on how to cut through the noise and actually land your first home.

You just heard a little clip of some of her insights on how to do a little digging and find some areas that are right on the outskirts of hot markets to identify the next big market. Maybe being able to ride the wave, get in relatively low, and actually make some money in the long run. Jaclyn shares advice on how to interview agents and lenders, why you may not need to put down 20% in some cases, and what to do if somebody calls you and asks you, “Do you want to sell your house?” She's got some cautionary advice. Here's Jaclyn.

[INTERVIEW]

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FT: Jaclyn DeJohn, my friend, my colleague, welcome to So Money. I lured you on. You are brave. You said yes. So I so appreciate this.

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JD: I appreciate you luring me on, Farnoosh. So happy to be here.

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FT: You and I and our team at CNET Money have been working deeply on a series called Power Money Moves. I've been talking about it on this podcast. You decided to take on the real estate piece, which is a huge juggernaut because right now – How would you characterize the market right now, Jaclyn? This, again, coming from somebody who was a real estate agent, licensed real estate agent, I mean, this is unprecedented times, right?

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JD: Yeah. The price increases that we've been seeing over the last two years have just been insane. You look back at the data for housing prices over the last 70 years. The little blips up and down, local highs and lows are kind of minimized over that time. But the last few years have just been like taking off from that trend dramatically.

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FT: Well, your piece in our Power Money Move series is called optimistically, yes, you can buy a home in 2022. Then you offer tips. Some people are just bowing out right now because they cannot see themselves competing against everybody else. There are bidding wars. Even if you come to the table with all the right ingredients, credit score, a down payment, it's hard to compete because the way that people are designing offers, they don't want – They're waiting

inspections. They're putting all cash. Some are offering, I would imagine, crypto. Who knows? They're sweetening the pot like I don't even know. Why were you optimistic that people could actually buy a home in 2022?

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JD: I'm optimistic because I've seen a lot of inefficiencies on my end as an agent. There's a knowledge barrier, preventing a lot of people from accessing homes when they otherwise might be able to, even when it seems like they might not. So my hopes with the piece is to make people more knowledgeable about strategies that they can use to find a home that will work for them in their budget and to acquire representation that will actually help you navigate the deal and get better value out of the whole process from end to end.

A lot of people also don't understand a lot of the normalities with mortgage financing these days. A lot of ideas basically have made it from generation to generation, and not all the same advice applies today as it did in the past. So again, the idea of the article is just to help people understand some of the areas where I've seen first time homebuyers aren't knowledgeable, and it ends up hurting them in the long run.

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FT: Yeah. Well, we'll go through some of these. You give advice about how to find a good real estate agent, how to find a good lender, how to think about financing. But maybe we could also go back to your own experience. Because before we were recording, you mentioned that what got you into real estate helping others is you yourself going through a disaster of an experience because you did it on your own and probably had these knowledge gaps that you're talking about. Can you walk us through some of those? Not to relive the nightmare but would love to know what happened to you.

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JD: Absolutely. Yeah. So I made pretty much all the wrong moves buying my first home. So I had no knowledge and I didn't have a real estate license yet. This was back in 2018, and I saw a home that I liked on Zillow. Part of like today's market is we can find houses on our own. We

don't necessarily need an agent to find the houses that we're interested anymore. So I, as many first time homebuyers do, got carried away looking at the listings. I knew basically what I wanted from the second that I saw it.

While there's nothing wrong with that, I was a little antsy to jump on it. So I called. I like to click through on Zillow, looking at the listing, and they ended up hooking you up with an agent. These agents, you don't know who's on the other end, but they offer to basically take you on a tour of the home. So I got sucked into that. I got like very ahead of myself in wanting to just like close the deal. So I went with this agent. I signed a contract to work with her. Then I find out it's her first transaction ever, and we're in a neighborhood she knows nothing about. I didn't know to look for that when looking for an agent.

The whole process of negotiating just like did not work out in my favor. I know looking back, I knew at that time that I could get a better deal than I was getting. But I just couldn't make the communication work between everyone. That wasn't my job as the buyer. That's the real estate agent's job. So I definitely lost out a lot on her lack of experience. But that was part of my lack of experience, part of a first time then. So all in all, I'd make the point in the article that it's very important to be interviewing your real estate agent.

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FT: Yes. Going back, what would you have done? Because a lot of us start on Zillow, and I can imagine a lot of us go through that down that rabbit hole and then get connected to an agent that we assume maybe we have to work with this person because that's where we were led. What's your advice?

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JD: So my advice looking for an agent, whether you have a house in mind or not, you should definitely be interviewing a few agents. Go to your local brokerage or ask local homeowners. It's important that you make this local because you want agents that are recommended to you to have knowledge about your specific neighborhoods, since every market is different. You want to make sure that you can communicate with the agent.

I mean, honestly, you shouldn't be having to do too much once you find potential agents to interview. Agents should really be coming to you with a sales pitch of what they're offering to you. If you don't feel like they're working to get your business in this highly competitive environment for them, then you might want to move on and find someone who's going to represent you well.

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FT: Don't you think, Jaclyn, that right now with – I mean, on the one hand, you could argue that there are so few houses. They have to get the sellers, right? That's what they're trying to really talk up and get those listings. But once they get the listings, it's like their work is done for them at this point because I heard there's like 60 bidders for every potential listing available right now in the market. That's different in different markets. But if I was an agent right now, how hard do I really have to work to get clients other than the listings?

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JD: You have to work really hard right now. This is an industry where the rule applies where 20% of the agents do 80% of the work, in my opinion. The competition is fierce, so you have a lot of people trying to vie for this, and you have a lot of people who already have a name and brand. So agents who are actually serious about their job have to be competitive. There's a lot of money on the line for them, and it's potentially uncapped. So the incentive is there.

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FT: Right. In our experience too, we worked with somebody who was great because she had a good reputation in the community. Not just with buyers and sellers but with other agents. I find that having an agent who has liked, even though everyone's competitive, there are some people where they go, "Well, she's great to work with," on the other side of the deal. Because what ended up happening was our agent was able to get intelligence, intel, from the seller's agent, as we were buying on what was happening behind the scenes, what do her sellers really want in a buyer, just to kind of coach us, to come back and coach us, and here's how we can really cater this application to align with what I've heard these buyers are looking for.

For example, they're looking to move really fast. They're wanting to sell their furniture. So if we can include these points in our offer letter, then I think we're really speaking their language. She was only able to discover this because she had a good rapport with the seller's agent. So not something you can always suss out. But you could ask that in the interview, right? Like what's your relationship with other agents in your town, in your neighborhood?

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JD: Absolutely. Networking is a big deal when it comes to real estate agents, getting your deal done. I definitely recommend asking agents about their past experience and their connections to the network. Like you said, there are so many different intangible wins you can come away with if you have an agent who is like well-connected in the community.

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FT: Awesome. All right, well, it's no secret mortgage rates are going up and, boy, over five percent now. This time last year, people were boasting getting under three percent on a mortgage, 30-year fixed mortgage. I believe I read a headline just recently that said that the same house that you could have bought last year at – It's like 2.9% mortgage. Now, it's like five point something. So your monthly payment is up 50%. Same house carrying costs of the mortgage up 50%. This is just an average. But what do you think this is going to mean for home prices? What's the impact on the market?

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JD: A lot of people that I've talked to recently actually think that this is going to deflate home prices. While there's a lot of factors at play, and anything can happen, I'm in the opposite camp. I don't think increasing mortgage rates at this point in time is going to bring down housing prices. The demand is still there. If you want to live in an area that's hot, that area is not getting less hot anytime soon. Inflation and construction costs are also still through the roof. So while new construction is adding to the supply of houses, the prices are just higher, and they get passed on to the consumer.

So I'm going to defer to the old adage. Time in the market is better than timing in the market. First time homebuyers should really think about a home as a utility, as well as an investment. So if you plan to be there for at least a few years, you should be okay, no matter what happens.

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FT: That is brilliant. Time in the market, not timing the market. I think that's a really good thing to repeat. So bottom line is we just need more houses on the market, right? The demand has to meet the supply that we see prices come down. Unless, of course, maybe rates go to the double digit territory like we saw in the '80s. But I don't know. I think that's – I don't have a crystal ball, but I don't know if that's going to happen.

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JD: I don't know about that either. But we'll see, I guess.

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FT: What if you're priced out of the market? You were talking about this in your piece. This is a reality, as we just mentioned, whether it's interest rates going up or it's the price of the home becoming out of reach because you're now bidding with 15, 20 people. How do you re approach your home search so that you can ultimately still get something that's affordable and that you like?

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JD: If you're priced out of the market, you have a few options, and it might come down to some difficult or less than ideal decisions that you have to make. But some will be better than others. One route that I like to recommend if you're priced out of a hot market is to look at areas on the fringe of that market. Because the hot markets just by necessity of supply and demand, it's going to be expanding. So you'll often find infrastructure improvements or residential and commercial building work being scheduled in areas outside of the hot market to basically expand that market and capitalize on it.

You as an individual homebuyer can capitalize on that as well. If other people are putting the investment in, you can ride the wave. Now, ways that you would identify such a market are public information, which is really cool. So you can actually access these records yourself or with the help of your real estate agent. But basically, you can go to city and county websites, and you can look up plans for infrastructure development. A lot of cities have plans up to like 30 years long, so you can kind of decide on areas and timings that might work for you. You can also find open and closed permits for construction work. So you can find what areas people are building houses in and developing the area.

I did this myself. I bought my house that I'm in now two years ago, and they just built an apartment building across the street from me. They're building 10 houses, and they're working on rehabbing three more houses on my block. So if you look around for the plans, they are available.

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FT: That's a great tip. I didn't know you could do that. Once in a while, we'll get a phone call from an agent asking us if we want to sell our house. To me, that feels really desperate and a sign of the times. Does it work though? Because I have heard anecdotally, where maybe not an agent but a prospective buyer who's got an eye on a house might get a tip that the owners' kids have graduated from high school or college and will knock on the door and say, "Do you want to sell this house because I want to buy it? Maybe you cannot work with an agent, and I cannot work with an agent or whatever, and I can make this really worth your time and your money to not list it." Then it sells. So I'm curious how some of these out of the box procedures work in your experience. Is it worth a shot?

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JD: For sale by owner is that's not advertising. It's typically really hard to close the deal. If someone's not listing their home on the market, it's usually going to take some extra beyond market value cash or incentives to get them out of there. So if you're approaching a home that's not on the market, I say you're going to probably have a kind of difficult time doing that. If you're looking to just do that blindly without a specific house in mind, it's a numbers game, just like it is for real estate agents calling you.

I will caution home owners, however, against people who are calling you up. A lot of them are involved in a practice called wholesaling. What wholesalers try to do and what they make money on is they make money on people who weren't necessarily interested in selling their house, but the cash offer seems interesting and easy to them. So wholesalers will actually lowball you on an offer and then pass the deal along to other agents to complete. It's a predatory practice, so I would just caution anyone who is getting those calls. If you want to sell your home, you should search for representation on your own or at least interview the realtor and make sure they are handling the transaction on their own.

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FT: Good advice. Another unconventional anecdote I'm hearing is sometimes buyers, because it's so competitive, Jaclyn, they're waiving the inspection. It's a short-term play like, "I just want to get in the house. I want to get the deal." But then they end up really shooting themselves in the foot potentially because you don't want to buy a house and then find out there's mold, or the roof is about to collapse. But you didn't do your due diligence. It's happening, though. I mean, what's your take on that?

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JD: If you're in a market where you have the time basically to get a home inspection and elect contingency so that you can negotiate based on the results, do get the home inspection in that case. Home inspection, while not perfect, it'll give you information about the home and flag any potential issues that may come up. However, I don't think that waiving inspections is the end of the world, if you're in a hot market, and that can really help bridge the gap between you getting a contract signed or not.

Some things that I would suggest, for me, I didn't know anything about houses or buildings. But I learned a lot over a short amount of time, and it's actually not as intimidating as it may appear on first glance. You can use YouTube and people you know to just like learn things a lot about systems of the home. If you do end up waiving inspection, I would definitely recommend you take a long look at the basement and mechanical systems. Just like do a little research in YouTube before you go on the showing. If you have an unfinished basement in the mix, that's

great because then you can see the foundation. You can see floor joists. If anything seems cracked or a piece seems missing out of that, that could be a potential red flag. But if not, you're probably pretty good with the house itself.

Then inspection is not infallible. Inspectors are not allowed to move any tenant belongings. They're not allowed to get behind any walls. So they're not really the be-all, end-all. You're not going to hear everything wrong with the house from them anyway, and they have no legal liability. So even if they do miss something, guess who's responsible? The homeowner, you. I do want to know also for markets where people are waiving inspections. Even if you waive the inspection contingency, you can still get one done for informational purposes so that you know the status of the house when you're getting into it.

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FT: What else are you hearing about how people are sweetening the pot? Humor me.

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JD: I haven't heard of anything too crazy lately. Short time to close is a big one. If a seller can get out from under a property quickly, that's great. That's really appealing. If you waive naturally the inspections, like home inspections, but you can also waive a mortgage contingency inspection, I don't recommend that for most buyers, but that's another option. Some people write love letters.

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FT: Is that allowed?

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JD: I think it's being banned somewhere.

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FT: Somewhere. Yeah.

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JD: I think I read somewhere recently that it's being banned. In my experience, they don't have much of an effect anyway. I think that's more like an example of, "Hey, maybe the right person will appreciate this." But for the most part, the seller doesn't care much about a love letter anyway.

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FT: Yeah. They're like, "Show me the money. Show me the money." Speaking of money, you have a tip in your article, which is that you don't have to put down 20%. I always say you got to put down 20% because it's the only way you're going to be competitive, especially in markets on the East Coast and West Coast and those hot markets. But tell us how this can work. What do you mean? Is it like are we talking 10%? Are we talk – What are what did you mean exactly by that?

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JD: You're definitely right that in the hotter markets, if houses are getting taken off the market in a week or two, you're going to want to be putting –

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FT: Or a few days.

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JD: Yeah. Yeah. I guess I was being a little generous there. You're definitely going to want to be competitive in those markets, unfortunately. But if you have a little bit more breathing room in your market, you can put down as little as 10%, 5%, even like 3 and 3.5% in the cases of some mortgages. Zero percent if you want to get really technical.

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FT: Just because you can doesn't mean you should, though. I worry that, especially now with prices being so high and people talking about potential recession or just once more houses come on the market, these prices, I don't know if they're going to – They might plateau at best. I don't think they're going to continue to increase, and we may see some dips in markets where there was a lot of inflation. So doesn't that worry you if someone's putting down less than, say, 10%?

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JD: The one sentence answer to that, the direct answer to that, is you need to be comfortable with your budget no matter what. So you don't want to be putting down less and taking on a higher payment that you can't afford. You want to make sure basically you can afford your monthly payment no matter what. But if your savings rate just isn't there for the down payment's sake, it can be really helpful to put down less than 20% because inflation and house prices, you run the risk basically of inflation and house prices outpacing your savings rate. So there's risk there, as many people have seen over the last two years.

Also, there's an opportunity cost to that extra cash that you put down. Mortgages are traditionally or like recently a very low interest liability to have on the whole, whereas S&P index market returns over the last 20 years or so have been coming in at about nine percent. So there is an opportunity cost when the mortgage rate is at about five percent. You also want to make sure you have some savings kept on the side for inevitable issues that will occur in the home. So you don't want to be spreading yourself too thin cash-wise too. You do you want to have a little liquidity available. But, again, bottom line is you want to make sure you're going to be comfortable with your monthly payments no matter what.

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FT: Is there any way to avoid the private mortgage insurance if you don't put down the 20%? Or is that pretty much something everyone should budget for?

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JD: If you're not doing 20% and you're on a conventional loan, I'm going to put a caveat on this. I'm not a lender, so I can't speak definitively to this. To my knowledge, there's not a way to get rid of it on a conventional loan or an FHA loan. Once you hit 20% of the equity based on your appraisal, which is a part of the home buying process, you can get the PMI charges dropped from your mortgage. So your cost will actually come down over time.

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FT: Well, speaking of lenders, what's your recommendation? A lot of times, I get this question on the show. Do I get a broker to help me shop around to find a lender? Do I go with my existing bank because maybe they're having a relationship? I will get some sort of incentives. I know that that was true in my case. I found a good lender, and they said, "If you bank with us too, if you have a checking account with us, we will give you a lower mortgage rate." So I move some money over to a checking account there and got their lower rate. This is not something that I would have gotten in my other bank. So I think it's a little bit of both. Maybe you want to shop around, but you also want to ask about customer incentives.

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JD: Most definitely, yeah. There are a lot of banks that pair incentives with it. My own mortgage does the same. Something I will caution about in the midst of shopping for your lenders, you might want to ask about not only the costs but their time to close. Something that hangs a lot of real estate contracts out to dry basically is if a lender can't close, and you're indefinitely just waiting past the scheduled settlement date. I've seen this happen a lot. So sometimes, especially in a hot market where it's important to close in a timely fashion, you might want to just make sure that your lender is going to be able to close on time.

Your real estate agent also works with lenders all the time, so they'll have some good recommendations for lenders that they work with and have experience with and know that can close on time. Plus, they might be able to offer you incentives as well.

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FT: That's a really, really good point. Do you think now with rates going up, there are fewer applications for mortgages that that might not be as big of a problem now as it was, say, this time last year when banks were more overwhelmed?

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JD: Yeah. To my knowledge, banks have really caught up with the processing. The demand was super high for refinancing in particular during the low mortgage rate time period. We're seeing a lot of delays on closings because of that. Now, closings are happening a little more smoothly. Lenders aren't the blocker on a lot of these anymore.

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FT: You brought it up but, again, a great way to leverage your real estate agent. In our experience, because we want it to close quickly, everybody was incentivized to close quickly, and our agent recommended a mortgage broker at a bank. Actually, he was like a mortgage associate. So he wasn't a broker. He actually worked for this financial institution. But what happened was I connected with him and kind of laid all my cards out. I was like, "I own a business. I need to close quickly. We talked through it." Just so that he could be my best advocate when working with the underwriters at his bank because naturally they're going to have a lot of questions. So he just wanted to kind of get ahead of it, and that helped to get this done faster than probably if I hadn't had that early conversation with him. This is such good advice, Jaclyn.

Before we go, what's your take on the whole real estate agent market? We know that technology is changing a lot of the way that homes are being bought and sold. The role of the agent is evolving. How do you see the industry changing? Personally, I've always thought this would be a great career to retire into like in my 60s, get my license. If I'm in this – I've been living in the same suburb. I probably know it really well. I could probably make a decent agent. I love real estate, not a secret there. Is there a future for me?

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JD: That's a great question. My thoughts on this, I will say I think there's a lot of inefficiencies in the way things are currently. I think there's a lot of cost savings that can happen on all sides. I think the market of real estate agents, that industry is just inefficient as a whole. However, I don't think that the solution currently exists like in the form of these big corporations like Zillow and Redfin. The issues with solving this problem and these inefficiencies lies in the same problem that the medical industry and insurance industries are very hard to scale up. There's a lot of regulation state by state. So it's really hard to just apply technology as it exists. I think we're going to need some really big strides and innovations in artificial intelligence before we find the solution that changes how homes are purchased at this point.

But I do think that that technology is going to be coming and start becoming available over the next few years. So I think the prevalence of real estate agents will decline, even if they're still like around because there is a big personal element to all of this. So you can't just like put machines in charge of everything yet. Definitely going to need some leaps and bounds technologically to get there.

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FT: Well, we'll end on that. In the meantime, everybody can check out your great article, Jaclyn DeJohn. The article is called Yes, You Can Buy a Home in 2022: Tips From a Real Estate Agent, i.e. Jaclyn. We're so grateful to have you on the team. We hope you'll come back because this is a topic that is constantly evolving. We're always interested. There's always a buyer or a seller in the audience needing advice. So we thank you again.

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JD: Yeah. Thank you for having me on, Farnoosh. I love talking about this, great conversation.

[END OF INTERVIEW]

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FT: Thanks so much to Jaclyn for joining me. Again, check out her piece, Yes, You Can Buy a Home in 2022. The link is in our show notes. Also, if you'd like check out all of our stories in our

Power Money Moves series, I've got that link as well. Thanks for tuning in everybody, and I hope your day is So Money.

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