Being a buyer

It's your market. What should you do with it?

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No big secret here: The local real estate market, at the moment, favors the buyer. Sellers are gritting their teeth and trying to avoid price reductions. Inventory is up—*way* up. And houses are hanging around on the market for ages. So are buyers rubbing their hands with glee?

Not exactly. Don't forget, there's a *leetle* problem with the mortgage industry right now. And all that inventory? It's an embarrassment of riches—embarrassing, that is, when you've toured so many houses in one day that you find yourself slurring your speech.

Wondering what buyers are facing these days, and how they can make their lives easier, we turned to local Realtor—and noted real estate blogger—Jim Duncan. (Check out his blog at http://realcentralva.com.) With his help, we put together a guide to being a buyer—a house-hunter's to-do list.

Narrow down the inventory

So just how many houses are out there for sale? According to the third-quarter market report from the Charlottesville Area Association of Realtors (CAAR), nearly 3,500—three times as many as three years ago. To market watchers, that's meaningful but a bit of an abstraction. How does it translate when real buyers sit down to look at listings?

Jim Duncan knows his way around a computer, so we're happy to have him behind the cursor as we conduct a mock search of local listings on the MLS database. Our beginning criteria: attached or detached homes (but no condos) under $250,000, with at least three bedrooms and two bathrooms, in Charlottesville or Albemarle—in other words, a typical search for your average not-so-flush family. This yields 89 listings—which, according to Duncan, is 50-75 percent higher than the same search would have yielded three or four years ago—"maybe even double." Now our job is to narrow these results.

Duncan starts by eliminating according to **elementary school district**, which he says is the most effective way to focus geographically. "If they're going to be close to town, Scottsville's out," he says, eliminating the Yancey and Red Hill districts. Now we have 76 choices.

Next, we get picky about **square footage**—no less than 1,200—and get 66 results. Then we specify **age**—only homes built after 1940—and **acreage**—under two. These criteria, which might be appropriate for young families who don't want to be slaves to house maintenance and whose kids need nearby playmates, yield 58 choices–still a hefty list.

Now Duncan eliminates **attached** homes, and the pickings suddenly get slimmer—only 18, "which is easier," he says, to actually drive around and look at.

There's one more step, but it can't be done through the database. We quickly slash our 18 remaining listings by scrolling through and considering the things we know just because we're locals. "Just on the face of it, I can go through and say, 'That's a double-wide; that's been on the market forever,'" says Duncan. He eliminates others because of commute time, proximity to noisy Route 250, and something unexpected—broadband Internet availability. "Most people want that," he explains, "but they don't think to ask."

Soon, we've got only four listings to visit. "When you actually start looking, the pickings are fairly slim, realistically," Duncan says. The lesson? Smart use of search criteria—plus a generous helping of local expertise—helps to make inventory manageable.

Do your homework

Given that buyers hold the reins, there's no excuse for getting pushed into an uninformed decision. "It used to be, 'I need a house,'" says Duncan, thinking of buyers in years past who essentially got stuck buying whatever they could snatch up. As the market has slowed, and the Internet has begun to offer more and more types of information, Duncan says his clients have come to him armed with an array of knowledge about houses they like. "They tend to know the days on market and the last transaction involving the house," he says. Favorite info sources include Google maps, Zillow.com, and public tax records.

He pulls up one e-mail from a buyer, inquiring about a particular house; in the message, it's clear that the man knows when the house last sold, the amount it fetched, and the slope of the land where it sits. He's driven past the property, talked to a mortgage lender, and, while looking at tax maps, identified a potential problem with the location of the driveway.

"This is the perfect buyer," says Duncan. "He's aware of what he knows and what he doesn't know; that's powerful." With so much data at their disposal, Duncan and the client can now concentrate on the intangibles: "Now it's a matter of going out and feeling out what the reactions are," Duncan says.

Point taken: **Though data is valuable, no computer can tell you how to feel about a place you might call home.** Nor is it always easy to find out online which builder built a house or what that company's reputation is. For those kinds of questions, local savvy—your own or your agent's—is needed.

Widen your scope

Yeah, inventory's up, and prices are no longer doing their best impression of a space shuttle at takeoff. But they are still climbing, and "affordable housing" is still an official local problem. More buyers with jobs in Charlottesville are including outlying areas in their house searches. "Waynesboro and Augusta are getting much more activity; the schools over there have great reputations," says Duncan. "Louisa's growing because of its proximity to Charlottesville and Richmond."

It does make a difference to leave Albemarle's coveted boundaries. Duncan's example: If a new-construction home in Waynesboro costs $225,000, the same structure in Crozet would cost $275,000. "It's a different real estate market," says Duncan. And "It's a different lifestyle, but not that much different than Crozet."

But hold on. **When we say, "Consider a larger market area," we mean just that—consider it.** Duncan does an off-the-top estimate of what it would cost to commute between Waynesboro and Charlotteville for a year: $4,000. "Gas prices are making people give more consideration to their commute," Duncan says. Buyers coming from Northern Virginia may not balk at the 30-minute trek over Rockfish Gap, but small-towners—not to mention those concerned about living greener—very well might.

While many of Duncan's clients are looking outside Albemarle, others are focusing more narrowly on a small area in which they want to work, live and buy groceries and lattés. The takeaway? Be realistic about your priorities, whether selling price or carbon footprints.

Put together your team

"It starts with the agent relationship," Duncan says. He advocates interviewing and hiring a buyer's agent as early in the process as you can. "Go to someone you know and trust and say, 'Who did you use?'" he says. "I wouldn't pick [a Realtor] just because I know them." Ideally, **a buyer should interview several Realtors,** asking things like:

Do you have another job?
What hours are you available?
What percentage of your business is repeat/referral business?
Will you show me everything or just properties offering higher commissions?

You need to click with your Realtor personally, too. "The best analogy is dating," Duncan says. "You don't know if there's an end in sight, so it is like marriage." And just as with potential mates, more Realtors these days are bloggers—giving you another way

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to get to know them and their level of professionalism. "If they misspell on their site, how careful are they going to be in wording an offer?" Duncan asks.

Also on your "team" are a home inspector and a mortgage lender. "If the Realtor is good and trusted, they'll work with a good and trusted team," Duncan says. Your agent can recommend home inspectors, and you should interview those folks too. "Ask if they're certified through [national associations] ASHI or NAHI," says Duncan. "Just because somebody's a builder doesn't mean they're a good inspector. Ask for references," and find out how experienced the inspector is with houses the age of the one you're considering.

As for the lender, Duncan says, "Communication matters. Do you get along?" Also crucial is how quickly the lender responds to your calls and e-mails. [For more about mortgage shopping, see the sidebar, "But what about the money?"]

Brace yourself!

Just because it's easy to find a house for sale doesn't mean it's easy to actually buy it. Duncan's hardly the only observer to note that while buyers are looking for deals, sellers are still trying to reap top dollar. "You have a stalemate. Sellers are unrealistic; they're not ready to face the reality of negotiation," says Duncan. **Thus, it's even more important to have your facts straight before making an offer.** "Do a detailed analysis," he says, so that you can bring a well-reasoned offer that a seller won't dismiss. "'You're asking $200,000, but the stats say $175,000 is fair,'" says Duncan as an example.

Sellers might also be less understanding than you'd expect if you have to make an offer contingent on the sale of your current house. One couple Duncan currently represents has looked at 30 to 40 Charlottesville houses, made four offers, and come up short—in part because they are selling their Fluvanna home to a buyer who, in turn, must sell a house in New Jersey. With many markets having slowed, it's a common dilemma. "This market takes some stresses away," Duncan says—bidding wars, for example—"and adds others."

In short? Be prepared for some setbacks. But if your first offer doesn't pan out, don't forgot there are plenty of fish in the sea.

Jim Duncan, local Realtor and blogger, told us that the rising tide of houses doesn't have to drown buyers. "When you actually start looking, the pickings are fairly slim, realistically."

JACK LOONEY

But what about the money?

The house is one thing; the mortgage is another. Perhaps the most daunting aspect of the market right now is the fact that the lending industry itself seems to need a serious renovation. How can you get the financing you need without risking collapse? We turned to Matt Hodges, a partner and loan officer at Compass Home Loans, with a bundle of questions.

How have loan qualifications changed in recent months?

"The general prequalification has not changed much," says Hodges. However, "within the prime rate loans, they're stratifying so that the highest credit scores have the best interest rates." For example, if your credit score is 640, you may expect to pay half a percentage point at closing in order to secure the same interest rate that someone with a 680 credit score would get automatically.

What kind of debt-to-income ratio should borrowers take on?

"Debt to income is a personal decision," says Hodges. The old standard, 36 percent of gross income applied to all debts, is "antiquated," he says; these days the rules are more fluid. "Freddie Mac and Fannie Mae will allow for up to a 65 percent ratio on 100 percent loans," he says. That's a very high ratio which won't make sense for most borrowers—unless, like one client of Hodges', they have a fiancé whose income isn't considered on the application. An honest conversation with your lender is in order.

Does it make sense to consider an adjustable-rate loan right now?

At the moment, says Hodges, ARMs are in general actually carrying higher interest rates than fixed-rate mortgages, making them less attractive. "Lenders realize the disparity, so they offer 'teaser' rates," says Hodges—though still most ARMS "only make sense if you buy down interest rate by paying points" and for "those who plan to stay in the house for approximately the time of the fixed portion on the ARM"—selling before the higher rate kicks in. In short, for most borrowers right now, ARMs will not be the smartest choice.

What questions should you ask to avoid undue risk?

"The questions haven't changed a single bit," says Hodges. First, determine how long you plan to own the property. "If their window is three years because they're in a stepping stone career, I'll recommend a different product than a 30-year fixed," says Hodges. Most importantly, ask yourself how truly comfortable you are with a proposed down payment and any possible payments that could come due if your interest rate adjusts. "I always look at the worst case scenario; they have to feel comfortable with a worst case scenario," says Hodges.—*E.H.*