



MODULE 18

Buying Your First Home

Discover the fundamental role of real estate in the economy and explore its significance in the housing market.

This module provides insights in the basics of real estate, its impact on the economy, and the key aspects of residential real estate.

POWERED BY





Key Takeaways From This Module



Guiding Questions

- What is real estate and what does it encompass?
- How does real estate contribute to economic growth?
- Why is real estate considered a crucial component of the economy?
- What are the key steps involved in the residential real estate buying process?
- How do the characteristics of residential real estate differ from commercial real estate?

Enduring Understandings

- The significance of real estate as an essential asset class with unique characteristics in the investment landscape.
- The relationship between supply, demand and market dynamics in determining property prices.
- How real estate investments can provide both financial security and potential for long-term wealth accumulation.

What is Real Estate?



Real Estate - refers to land, properties, and assets, including buildings and natural resources, that have tangible value and can be bought, sold, or leased for various purposes



Residential real estate: any property used for **residential** purposes.

Ex. Single Family-home, condos and townhouses.



Commercial real estate: any property used for **business** purposes.

Ex. Gas stations, grocery stores, offices and hotels.

Why is Real Estate a Crucial Part of the Economy?



Real estate plays a crucial role in the economy,

because everyone - businesses, families, even schools, need real estate!

The real estate industry contributes to economic **stability, growth**, and the **overall financial health** of the economy because we're always building new properties.

This significantly contributes to a country's GDP through property transactions, construction activities, and related services.

Think about it: How does the continuous construction of new properties contribute to economic stability?
-How would fluctuations in the real estate market affect the economy?

KEY IMPACTS OF REAL ESTATE



Housing & Shelter



Job Creation



Wealth Generation



Tax Revenue

Value Split between Residential & Commercial



Residential

Residential Real Estate dominates **80%** of the Real Estate Market's total value.

1. **Accessibility:** To individual investors, many people can afford to buy a residential property, as a primary residence or for rental purposes.
2. **Rental Demand:** Demand for rental properties is relatively stable and reliable, in growing population and urban areas.
3. **Finance Factor:** More resilient to economic downturns and provides active cash flow to investors.

Commercial

Commercial Real Estate make up a smaller margin of the Real Estate Market with only **20%** contribution to its total value.

1. **Higher Income Potential:** They are generally longer, involves sums up to millions which allows investors to generate more cash flow and profits.
2. **Professional Tenants:** Commercial tenants are often times businesses or corporations, properties, location and tenants may vary. Making it difficult to value and complex.
3. **Less competition:** The market for commercial real estate involves a multitude of experts.



The Buying Process

Buying a house can be an exciting and complex process. It involves several steps, each of which is important to ensure a successful purchase. Here's a general outline of the process:

1. Budgeting for Homeownership:

- Assess finances, including income, expenses, and savings.
- Determine a realistic budget.
- Factor in additional expenses like property taxes, insurance, and maintenance.

2. Pre-Approval

- Get pre-approved for a mortgage before starting your home search to confirm how much you can borrow.
- Submit necessary financial documents to the lender for evaluation.

3. Home Search:

- Define your preferences for a home, such as location, size, and amenities.
- Visit potential homes and consider their condition, neighborhood, and resale value.

4. Closing

- Once you find the right home, make an offer on the property.
- Finalize the mortgage loan and complete the necessary paperwork for the closing.

Types of Homes



Single-Family Homes

- A single-family home is a standalone structure designed for one family.
- Features: Offers privacy, a yard, and potential for future expansions.
- Advantages: Ideal for families and individuals seeking more space and autonomy.

Multi-Family Homes

- Multi-family homes contain multiple independent living units within one building.
- Ownership: Investors can buy the entire property and rent out individual units.
- Advantages: Provides rental income and potential for a diverse housing investment.

Condominiums (Condos)

- Condos are individual units within a larger building or complex.
- Ownership: Condo owners own their unit and share ownership of common areas.
- Advantages: Low maintenance and shared amenities, suitable for urban living.

Townhomes

- A townhouse has multiple floors and shares at least one of its walls with other residences.
- Ownership: Townhome owners own both the unit and the land it sits on.
- Advantages: Combines the benefits of single-family homes and condos, often with a smaller footprint.

Understanding Loans



Loans are financial arrangements where **one party borrows a sum of money from another party**, typically a financial institution, with the understanding that it will be repaid over time.

- To obtain a loan, the borrower must apply through a formal process, providing information about their financial situation.
- During this process, the lender is able to evaluate the creditworthiness of the borrower and determine how risky the loan will be.
- The lender then assesses the applicant's profile and decides whether to approve the loan and under what terms.
- These terms can vary, adjusting the **interest rate** of the loan, the **duration** of the loan, and the **amount** that the lender is willing to lend.



The Key Components Of A Loan

Principle

The initial amount of money borrowed by the borrower from the lender. It represents the total amount that needs to be repaid over time.

Interest

The cost of borrowing money and is typically expressed as a percentage of the principal. It is added to the total repayment amount.

Amortization

The repayment of the borrowed amount, along with interest, through regular fixed payments over a predetermined period until the loan is fully paid off.

Mortgages



A mortgage is a **loan agreement between you and a lender** that gives the borrower money to purchase a property, but the lender keeps the borrower's property if they fail to repay the money they've borrowed plus interest.

Five Types of Mortgages (House Loans)

Conventional

Best for borrowers with a good credit score.

Jumbo

Best for borrowers with excellent credit looking to buy an expensive home.

Adjustable - Rate

Best for borrowers who aren't planning to stay in the home for an extended period.

Fixed - Rate

Best for borrowers who'd prefer a predictable, set monthly payment for the duration of the loan.

Government Insured

Best for borrowers who have lower credit scores and minimal cash for a down payment.

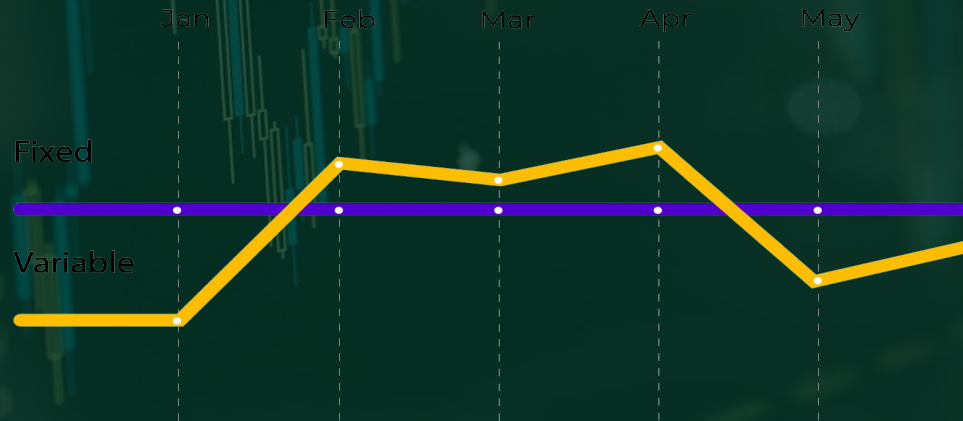
Interest Rates



Interest rate is the **percentage you pay to borrow money** from a lender for a specific period of time.

Fixed Interest: the interest rate doesn't fluctuate during the fixed rate period of the loan.

Variable Interest Rate: the interest rate changes over time, typically in relation to an underlying benchmark, such as the prime rate.





So How Do We Apply For Mortgages?

Application Process



The mortgage process can be broken into an number of well-defined steps. Most people go through **six distinct stages** when they are looking at a new mortgage:

1. **Pre-approval:** this stage involves understanding the different types of mortgages and finding the one that is right for you.



2. **House Shopping:** properties can be found through online real estate portals like Zillow or Trulia, buy a house at auction or look at off-market homes.



3. **Mortgage Application:** approaching a mortgage lender [bank] and providing information including employment, credit history and income.

Application Process



4. **Loan Processing:** the lender will process all the provided information into a loan estimate-showing projected closing cost and monthly payment.



5. **Underwriting:** verifying the information provided, and assessing the property's value, once everything checks out, the lender will approve the mortgage.



6. **Closing:** you'll begin signing the finalized paperwork, pay any closing costs and officially become the homeowner.

Homeownership Costs



Down Payment

Varies depending on mortgage-type, you can expect to spend around 3%-20% of the home price.

Closing Cost

Varies depending on mortgage-type, you can expect to spend around 2%-5% of the home price.

Insurance

Nearly all banks & mortgage companies require home insurance. There are 2 main types: Dwelling and Personal Property.

Maintenance

Maintenance fees vary, but you can expect to spend 1% of your home price, annually, to keep your home in shape.



Types of Homeowner Insurance

Homeowner's insurance protects your investment (your home) from unforeseen issues, like weather damage, fire damage, and much more. While there are dozens of types of homeowners insurance, some are more common than others.

HO-1 Insurances

Known as one of the **more basic, limited types** of homeowner's insurance, the home and personal belongings offers limited coverage for a select number of **perils**, such as fires, lightning, explosions, theft, etc.

HO-3 Insurances

The **most common type** of homeowner's insurance policy, the house itself is given complete risk coverage **except** specifically stated as not covered, which are clarified in the **given policy**. For example, governmental action, neglect, etc.

Why Home Prices Increase?



1. Supply and Demand

- Limited housing supply in a high-demand market can drive prices up.
- Population growth, job opportunities, and attractive amenities can increase demand.

2. Economic Factors

- Strong economic growth in an area can lead to increased home prices.
- Low unemployment, rising wages, and a thriving local economy contribute to higher demand.

3. Housing Shortage

- A shortage of available homes relative to buyer demand results in increased competition.
- With more buyers vying for fewer homes, prices are driven up.

NOTE: Various factors contribute to home price increases, and their impact can vary by location and market conditions. Understanding these drivers can help buyers and sellers make informed decisions in the real estate market.

Traditional Financing Methods



Mortgage Loans

- Mortgage loans are the most common financing method for residential real estate.
- Borrowers obtain funds from a lender to purchase a property and repay the loan over time, typically with interest.
- The property serves as collateral for the loan, providing security for the lender.

Down Payment

- Buyers are required to make an upfront payment towards the purchase price.
- Down payment percentages vary but are usually a percentage of the property's total value.
- A higher down payment can result in lower monthly mortgage payments and potentially better loan terms.

Fixed-Rate Mortgages

- In a fixed-rate mortgage, the interest rate remains constant throughout the loan term.
- Borrowers benefit from predictable monthly payments, providing stability over the life of the loan.
- Popular for buyers seeking long-term financial predictability.

Adjustable-Rate Mortgages (ARMs)

- ARMs offer an initial fixed interest rate for a specific period, followed by rate adjustments.
- After the initial period, the interest rate can fluctuate based on market conditions.
- Borrowers should carefully consider their financial situation before choosing an ARM.

Non-Traditional Financing Methods



Non-traditional financing methods offer **alternative ways** for homebuyers to secure funding. These methods are useful when conventional mortgage loans may not be suitable. Some non-traditional financing options include:

Crowdfunding

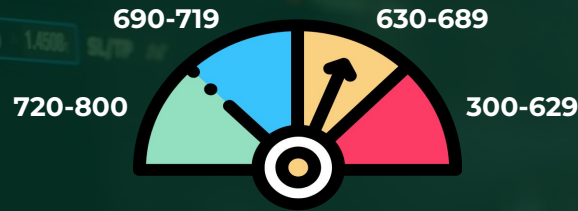
Crowdfunding platforms enable individuals to raise funds from a large number of people. In real estate, crowdfunding allows investors to pool their resources for property purchases.

Peer-to-Peer Lending

Connect individuals who need loans with investors willing to lend money. P2P lending allows borrowers to access funds from multiple investors to finance a property or investment.

Government Programs

Government programs offer non-traditional financing options to support homebuyers. These grants can make homeownership more affordable for eligible individuals.



The **Impact of Credit Scores** on Financing

Mortgage Approval

Lenders use credit scores to evaluate the borrower's creditworthiness. A higher credit score indicates a history of responsible financial behavior and a greater likelihood of repaying the loan on time.

Interest Rates

Higher credit scores can lead to lower interest rates, resulting in reduced monthly mortgage payments and lower overall borrowing costs over the life of the loan.

Down Payments

A higher credit score may reduce the required down payment, making homeownership more attainable. A higher credit score may enable borrowers to qualify for lower down payment requirements.

Loan Options

Good credit scores provide access to a wider range of loan options. Lenders often reserve their best loan products with favorable terms for borrowers with excellent credit.

Key Takeaways From This Module



CORE & FUNDAMENTALS

- Homeownership is a valuable asset that can lead to long-term financial stability and equity growth.
- The buying process involves house hunting, making an offer, and closing the deal.
- Mortgages are loans used to finance a home purchase with varying interest rates.

APPLIED KNOWLEDGE

- Understanding loan terms, interest rates, and repayment schedules is crucial for responsible borrowing.
- Credit scores significantly impact loan eligibility.
- Evaluate various mortgage lenders to find competitive rates..

RELEVANCE FOR YOU

- Owning a home can build equity and provide long-term stability for your financial future.
- Maintaining a good credit score is essential for securing favorable mortgage terms.
- Stay informed about economic trends and interest rate changes to time your home purchase strategically.

