

365 Rules about Real Estate

By Keith Marshall

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Introduction

About Me

My name is Keith Marshall. I am a real estate agent serving Kitchener Waterloo and the surrounding area of Waterloo Region in Ontario, Canada. I write about real estate issues affecting first-time homebuyers, first-time home sellers and families relocating from one neighbourhood or city to another at www.keithmarshall.ca.

My goal, both when helping my clients and when writing this book, is to take the stress and mystery out of the home buying and selling process by helping people understand homes, schools, neighbourhoods, and the business of residential real estate.

What This Book Will Do For You

I hope this book give you some valuable insight into the world of residential real estate and give you the knowledge and confidence to make good decisions.

Contact Me

If you are relocating to Waterloo Region or are considering a move within the region, please contact me through my website keithmarshall.ca. All questions are answered quickly and with care. Your comments and questions are welcome.

36 General Rules about Real Estate

Rule #1: Rules are made to be broken. This is the first rule of 365 Rules about Real Estate because there are no hard and fast rules. Nothing is carved in stone. Nothing works all the time. There is always a situation, a contradiction or an exception.

Rule #2: Be rational, not emotional. Buying or selling a house can be a very emotional situation. For buyers, don't fall in love with the house and just have to have it. In some neighborhoods, a similar (or nearly exact) house is just around the corner and might come onto the market next week. If you're selling a home, especially one where you've been for a long time, it's hard to move on. My advice: move on.

Rule #3: The value of a house is set by the homebuyer, seller and the market. The appraised value, the listing price, the average house value in the neighborhood is not the value of the house. The true value is what the house sells for. Price and value are not the same thing. Most of us focus on price, not on value. What really matters when buying a home is searching for value.

Rule #4: The location and neighbourhood affects the value of your home. Depending on needs and wants, a good location can be: close to a major highway, close to work or near schools, amenities, and parks. It's better to buy a bad house in a good neighbourhood than a good house in a bad neighbourhood. Similar houses can be tens of thousands of dollars different in value, depending on their neighbourhoods.

Rule #5: The condition of the house and property affects the value. Curb appeal, renovations and updates, condition of the roof, age of the windows, and the landscaping are important. Buyers often have a lot of houses to choose from. Sometimes, it's a little thing that may knock your home out of the game.

Rule #6: The economy affects the value of your home. Low interest rates lead to higher house prices. But when the market gets overheated or if there is an interest rate increase, the market can stall or prices can drop. The housing market is huge and it doesn't change course over night.

Rule #7: Real estate is local. What's happening to real estate in another part of the country or another part of the world has very little impact on what's happening locally. Even within the same city, house prices rise and fall at different rates in different neighbourhoods.

Rule #8: Statistics lie. Newspapers love to report on statistics. Read between the lines. Make sure the sample size is large enough to have meaning. Make sure the statistic itself has meaning. Statistics rarely tell the whole story. Sales volume may be down. Prices might be up. Last month might be good. Last year might be bad. Comparing this month to last month or this month to this month last year is not useful. If house prices rose by 30% over the previous month, what does this mean? Nothing. Averages are a terrible metric to measure house prices. The type of home that is sold in a given month strongly influences the outcome. For instance, if a lot of luxury homes are sold one month, then the average price of homes will go up, even if the number of homes sold was down. Look to long-term trends.

Rule #9: Appliances cost about the same today as they did in the 1950's. In real terms, that means they cost about a 1/2 of what they did when your parents bought their first home. Appliances typically come with the property. If they are "negotiable" the buyer thinks they are in and the seller thinks they are out. Problems will ensue. Negotiations could break down over appliances valued less than \$2,000.

Rule #10: Unless your home is in a one-industry town (and the industry shuts down) or unless your home gets hit by a nuclear bomb, the price always goes up. In fact, even if you are in a one-industry town and get hit by a nuclear bomb, the price eventually goes up. In the short run though, home prices can decrease.

Rule #11: Maximum exposure for your home is what you are getting when it's listed on MLS. The MLS (Multiple Listing Service) is the most powerful and comprehensive database of properties for sale. It is the Google of the real estate business.

Rule #12: Buyers tell little white lies. We never truly know what buyers are thinking. (They might not know themselves). Buyers only tell us what they think we need to know or what they think we want to hear.

Rule #13: Sellers are storytellers. They have selective (faulty) memories with the facts. The windows that were replaced a couple of years ago were

really done almost a decade ago. There was never a flood in the basement. That was their other house.

Rule #14: The Brokerage owns the listings, not the Realtor. The Realtor works for the Brokerage and the Brokerage works for you.

Rule #15: The houses you see for sale in real estate magazines are often already sold. At least the good ones are. Those magazines are all about marketing the Realtors, not the properties. Real estate is a marketing business. Realtors advertise themselves and their listings. Often when Realtors advertise listings they are really advertising themselves. If Realtors were really trying to sell the listing, wouldn't they give more complete information?

Rule #16: The houses you see advertised on Realtors' websites and in newspapers and in magazines are not necessarily the Realtors' listings. Realtors often allow other Realtors to advertise their listings (see Rule #14).

Rule #17: The best place to start looking for a home is on the Internet. Most people start here. But you can't buy a home on the Internet. You can do a lot of research on the Internet but eventually you have to visit the neighbourhood and the house. The Internet is also great for finding information about mortgages, researching real estate lawyers, schools, crime statistics, home inspectors and Realtors.

Rule #18: It's easier to buy than to sell. Buyers have the power. There are a lot of homes to look at. Buyers can buy this one or that one. It's all good. Sellers have to wait for the right buyer to come along.

Rule #19: The market is fluid. People and houses are always entering and leaving the market. The inventory of available homes is always changing. Be patient. The house you're going to buy probably isn't even on the market yet.

Rule #20: You can't wait until you know everything. You have to trust your intuition. You have to make a decision. When you're buying or selling a house, you'll never know if it is the best time, if interest rates will go up, if the economy will get bad, if you'll live there for five or fifteen years. You'll never know a lot of things, but you will still have to decide.

Rule #21: Doing nothing sends a message. Not responding to an offer or a phone call is action through inaction.

Rule #22: Sometimes a house appears to be new on the market. But it's been on the market before and just re-listed. There is something keeping that house from being sold. It could be the price. It could be something else.

Rule #23: Predictions are often wrong. The housing market, the economy, interest rates, unemployment, immigration and consumer confidence are influenced by many things. Fortunetellers are wrong as often as they are right.

Rule #24: If you want to be trusted, be honest. Honesty is tough. The truth hurts. When people ask for feedback, give honest feedback. If the price is too high, say, "the price is too high". If the decorating choices are poor, give your opinion, but do it kindly.

Rule #25: The best houses, priced right, sell fast. Be ready to make an offer and take it off the street before other homebuyers even see it.

Rule #26: It's expensive to move. Maybe you should consider renovating instead of relocating. If you're not planning on staying for five years then maybe you shouldn't buy.

Rule #27: It's okay to pay too much for a house as long as you know you're paying too much. Sometimes this happens if you want to buy the home next door to your parent's house. Maybe you got into a bidding war. The extra money you're paying is an emotional cost.

Rule #28: Make money when you buy. You generally make your money when you buy your house not when you sell it. This may seem a little strange but it's true. You are in your strongest bargaining position when you buy.

Rule #29: Buying a house is a process of elimination followed by a final compromise. Start broadly and with a map of the many neighbourhoods available and slowly your house hunting will take shape. You don't buy the house you like the most. You buy the house you dislike the least.

Rule #30: Houses that remain on the market for a long time become stigmatized. People think there's something wrong with them. It may only be that the listing price is wrong.

Rule #31: Divorce or family/financial crisis do not always lead to lower priced real estate. People could be angry. One side might want to sell and the other not. If it's a divorce, they are both getting half. Half is smaller than a whole. For a personal financial crisis, the seller may need a certain amount.

Rule #32: You may find the house before your Realtor does. That's because you've told him your specific search criteria, but on your own you are disregarding that criteria. Most people continue to do their own research and don't depend exclusively on their Realtor. That's a good idea, but communication is important.

Rule #33: Plan the work then work the plan. Don't get distracted by magazine and newspaper advertisements, houses that are out of your price range or in another city.

Rule #34: Offers should be based on market value not on what the buyer can afford. House prices should be based on market value, not what the seller needs.

Rule #35: Look for direct and factual answers to your questions.

Rule #36: You should not think about your house as an income generating, wealth creating vehicle. You should think of it as your own home.

27 Rules about Buying Real Estate

Rule #37: Never be in a hurry to buy. Buying is much easier than selling. Do not put yourself (or allow yourself to be put) under pressure. Stay cool. Don't get excited. Make sure you have enough information to make an informed decision.

Rule #38: Choose homes and upgrades that have wide appeal as opposed to those that are bizarre or unusual.

Rule #39: Buying a house is a process of elimination. Your initial "wish list" should have "must have" (needs) and "want to have" (wants). Begin your home search with an open mind. Compromise on the little things (the wants) to get the big things (the needs). As you look at houses you adjust your priorities along the way.

Rule #40: The average person has to see about 16 houses (with a Realtor) before they are confident and knowledgeable enough to put in an offer. Some people see 5 and some people see 50. You don't have to see everything on the market (unless you want to).

Rule #41: Systematically check out the house room by room. Look at the roof, windows, walls, ceilings, electrical outlets, floors, doors, baseboards, cupboards, furnace, water softener, bathtub, faucets...everything.

Rule #42: Don't buy a problem house. If the house is proving difficult for the present owners to sell, it will be difficult for you to sell too. Some people don't like living on a busy street. Some people don't like corner lots. These things might not bother you, but one day you will have to sell.

Rule #43: It's important to find a Realtor early in the process. You don't really want to be dealing with the Realtor who is selling the place you want to buy. Multiple representation should be avoided whenever possible. The sooner you find a Realtor you want to work with, the easier and more enjoyable the home buying process will become.

Rule #44: The roof, the windows and the furnace are the BIG-ticket items. These three make up the most expensive single items to replace. Make sure they are not too old or that the house is priced accordingly.

Rule #45: You're not going to get rich quick. You're likely not going to be able to flip your house in nine months for a big profit. I love watching the house flipping shows on TV. They are drama. They are fiction. They are over in half an hour.

Rule #46: Do not post on your Facebook page how much you love a house. The sellers might find out and you can end up paying a higher price.

Rule #47: If you're waiting for prices to go lower, don't wait. Real estate isn't like the stock market. It's more predictable. Although prices do fluctuate, if you're waiting for house prices to drop by 10%, in most markets that just isn't going to happen.

Rule #48: The home you buy does not have to be decorated to your taste (or fit your furniture). You're better off buying a house that needs a little decorating. Buy a house to fit your lifestyle and your family's needs. You can always decorate to your taste and buy new furniture.

Rule #49: The social and psychological power of a house is huge. Don't be taken in by houses that have been staged or have all the modern things that you just have to have. If the house is perfect and move in ready, you're going to be paying extra for that convenience.

Rule #50: Allow yourself at least two months to find a house. It may take longer. It may take less time. Depending on how much time you dedicate to your search and what's on the market, it can take two to four months of solid effort to find the right house. A 60-90 day closing date is common. If you want to move in July, starting in February will all but guarantee success.

Rule #51: Don't see too many houses in one day. If you are going out with your Realtor for your first time, you might want to see six or seven homes. After that, seeing two or three is enough for one day.

Rule #52: Search within your price range. There's no sense looking for homes in the \$400,000 range if you know you can only afford homes in the \$300,000 range.

Rule #53: If you would like to have your parent's advice and approval, get them involved early in the sale, not after the contracts are signed, sealed and delivered.

Rule #54: Be prepared to take advantage of a great deal when it appears. Some homeowners, for various reasons, are in a hurry to sell or perhaps have priced their home too low by mistake or some other reason. Sometimes banks sell properties. Houses sell for less than their value all the time.

Rule #55: Understand value. Look at the purchase price, look for sales of similar properties, find comparables and gather information. If you know what the true value is, you can easily spot the good houses when they appear.

Rule #56: Look for clues to the seller's motivation in order to judge his bargaining strength.

Rule #57: Think about the future. You should think about what your personal and family situation will be like (5 years) in the future and buy a home that suits those needs.

Rule #58: Think about your exit strategy. Most people will not live in their first house for their entire lives. In fact many first-time homebuyers will move within five to seven years. Consider that when you buy a house and when you make improvements. Also think about how difficult the house will be to resell.

Rule #59: Work with a Realtor. Your Realtor does not sell you real estate. Your Realtor doesn't sign you up and set you loose either. Your Realtor educates you about the market, analyzes your wants and needs, guides you to homes that fit your criteria, coordinates the work of other needed professionals, negotiates on your behalf, checks and double checks the paperwork and deadlines and solves any problems that arise.

Rule #60: Make sure your Realtor isn't just showing you houses from his own brokerage. Avoid dual agency situations wherever possible. The brokerage owns the listings not the agent. This means that if you are dealing with two agents at the same brokerage your Realtors are on the same team.

Rule #61: Listen for vague language. What you want to hear is specifics. If the seller says it's a "newer" furnace, find out what "newer" means. You might think it means two or three years old. The seller may think "newer" means seven or eight years old. This goes for real estate advertising as well.

Rule #62: Find out what's really happening in the market. Ask your Realtor about the your local real estate market. Find out the "average days on market" and the "absorption rate". Find out about what price ranges, neighbourhoods and styles of houses are moving well and which, if any, are not. Real estate boards and associations love statistics and most agents are always watching the stats trying to figure out the trends and where the market is going.

Rule #63: Choose upgrades that are functional and useful as opposed to ones that are only decorative. Functional upgrades would include a gas fireplace, better cabinets in the kitchen, a gas stove, and hardwood flooring.

37 Rules about Neighbourhoods

Rule #64: Neighbourhoods are more important than houses. It's better to have an okay house in a great neighbourhood than a great house in an okay neighbourhood.

Rule #65: Choose a good neighbourhood. Neighbourhoods appreciate at different rates. Good neighbourhoods and neighbourhoods in transition appreciate at a better than average rate. Some places grow and prosper while others shrink and die. Ten or twenty years can make a world of difference.

Rule #66: Buy a house in a neighbourhood in transition. Transitional neighbourhoods are typically close to major metropolitan areas and were once neglected and less desirable. Look for the clues. Is there a new restaurant where a tattoo parlor used to be? Has a Starbucks just opened or are there new shops and nightlife? Is there any major construction? These are all good signs that a neighbourhood is on the upswing.

Rule #67: Live in a university town. Universities provide jobs and other economic benefits to a city. Universities are stable industries that do not follow ups and downs in the economy.

Rule #68: Don't buy a house too close to a university. Universities are growing. Students would rather live in a house than a dorm or apartment unit. Renters don't take care of their properties as well as owners. Students have priorities that don't include maintaining their temporary homes.

Rule #69: Don't buy a house in a flight path. If you have an airport in town, find out if planes fly overhead your prospective home or neighbourhood. Airports are getting bigger and busier. What now might be a minor annoyance can become a major one.

Rule #70: You are not insured against riot, act of war or insurrection. Don't buy a house next to a hockey rink, stadium or auditorium.

Rule #71: View the property and the neighbourhood with Google Maps and Google Earth. Get a bird's eye view of the neighbourhood.

Rule #72: Research amenities. Part of knowing what a property is worth means learning about the neighbourhood in which the property is located. Be it close to a great school, or easy access to the highway, the value of a property is partly determined by what it's close to.

Rule #73: Don't buy a house near a go-kart track, gas station or auto garage. They are noisy.

Rule #74: Drive and walk around the neighbourhood on different days, at different times. Use your senses of sight, smell and hearing to discover the neighbourhood's influences. See if there's any excessive noise created by schools, stadiums, highways, airports and railroads. The landscaping of the yards and the cars in the driveways can give you a good indication of the financial demographics in the neighbourhood.

Rule #75: Research market value. Once you know about the property, learn what the market will pay for similar properties. Find a basic market value range based on houses of similar style and age. Real estate is very local. A three-bedroom bungalow in one area may sell for many tens of thousands of dollars more or less than a similar house in a different neighbourhood.

Rule #76: Beware of empty lots. If your prospective new house backs onto a cornfield, find out what is going to be built there. Will it be a highway extension or high-rise condo? Will it be a park or school?

Rule #77: Be on the look out for any legal non-conforming businesses. It will be something that does not comply with, nor conform to, the present zoning status for its location but was likely there before the zoning changed. What this means is if the zoning of an area changes from industrial to allow for a new housing, the factories and businesses that are already there are allowed to stay as long as they continue operation.

Rule #78: Don't buy a house near a coal mine, nuclear power plant, or wind farm. They can be noisy, dangerous, and smelly.

Rule #79: Don't buy a house near a gravel pit, factory, or freeway. You don't need to be near areas highly traveled by heavy equipment.

Rule #80: Investigate the demographics of your neighbourhood. If you have young children, you may not want to move into a senior's neighbourhood. The same is true if you are in your late 20's or early 30's,

you might not want to move into a neighbourhood full of university students. Realtors have information on the demographics of neighbourhoods.

Rule #81: If you buy a house in a new area you'll probably have to put up with construction vehicles, poor roads, dirt and dust and the unknown of what else might be built in the neighbourhood.

Rule #82: With new neighbourhoods you'll have to guess about what future traffic and noise levels will be. You have to wait for the trees to grow up, the foundation to settle and even for the local school to be built.

Rule #83: Home mail delivery is still carried out in older neighbourhoods but not in new ones. They get smartboxes.

Rule #84: Don't buy a house downwind from a cow pasture, mink farm, chicken farm, pig farm, sewage treatment plant or city dump.

Rule #85: Find out if your neighbourhood has a community or neighbourhood association. There may be rules and regulations that negatively impact your lifestyle. There may be rules against storing your boat or RV in your driveway or the colour you can paint the outside of your house. There may be restrictions about fence height or installing an above ground pool.

Rule #86: If your neighbourhood has a neighbourhood association, join the board. If you don't want to do that, at least go to the meetings so you know what's going on.

Rule #87: Most people don't want to spend more than 40 minutes commuting to work. A good commute is not more than 25 minutes. There are hidden costs (financial and emotional). Also, pay attention to the direction of the sun on your commute to work. Facing the sun on your drive to work and again on the way home from work is no fun at all.

Rule #88: A neighbourhood with a greater percentage of homeowners preserves its value and quality better than one with a high percentage of renters.

Rule #89: Safety is an important concern for many homeowners. Check the local police crime statistics. Most police departments publish "Incidents Reports".

Rule #90: Buy a house in the neighbourhood with good topography. With many new subdivisions, construction begins by clearing off all of the land and flattening out the terrain. It is much more interesting when builders build to conform to the land.

Rule #91: Buy in a good school zone, even if you don't have children. Homes in a good school zones not only appreciate at a higher than average rate, they also are easier to resell.

Rule #92: Pay attention to the number of "For Sale" signs in the neighbourhood. New neighbourhoods tend to have far more similar homes for sale. This gives the homebuyer a better bargaining position.

Rule #93: Real estate boards and associations keep all kinds of sales statistics for neighbourhoods. Ask your Realtor to share this information with you.

Rule #94: Neighbourhoods typically go through a lifecycle that last 50 to 70 years. Those phases include growth, stability, and decline. The fourth phase is revitalization or gentrification, which will increase in value again. Look for the signs to determine which phase a neighbourhood is going through.

Rule #95: If you're looking for a neighbourhood with lots of children, look for basketball hoops in the driveway and bikes on the front lawn. Drive through the neighbourhood on a Saturday at Sunday in the summertime or just when school is getting out for the day.

Rule #96: New neighbourhoods have a much higher turnover than old neighbourhoods. New neighbourhoods have a much higher percentage of first-time homebuyers. Many first-time homebuyers move again in five to seven years.

Rule #97: There is a trend back to urban from suburban. People like walkable neighbourhoods, and old neighbourhoods. Old houses and neighbourhoods are more interesting than new ones. Since 1995 the price of homes in downtown areas have risen at a faster rate than similar homes in the suburbs.

Rule #98: Find out about the neighbourhood zoning. Zoning rules are established by various levels of government and deal with how specific parcels and individual lots of land may be used. One of the main reasons

for zoning requirements is to ensure that adjacent lands have compatible uses. Most people would not want a factory built next to their house. Air pollution, noise, and other undesirable factors may make the factory and the house incompatible.

Rule #99: Buy the smallest house on your street. The law of comparative value is a measure of homes in a neighbourhood. You are looking for a home with positive relative value. You want to buy the smallest home on the street, as the larger homes will pull up your value.

Rule #100: Be nice to your neighbors. They are a wealth of information about the neighbourhood. They'll watch your house when you're away and might even shovel your sidewalk when it snows.

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