

'Outbid on 3 Houses!' Doc's Nightmare in Crazy Housing Market

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April 06, 2022

After more than a decade of moving because of medical school, residencies, and international fellowships, Abhi Kole, MD, PhD, is ready to put down roots. But he's learning that buying a house in today's housing market is easier said than done.



In the past 6 months, Kole, an internist at Grady Hospital in Atlanta, put in offers on three houses. None resulted in a purchase. Kole says he's learned how to be more competitive with each subsequent offer, starting out with a bid significantly above the asking price and waiving his right to an appraisal or financing contingencies.

The experience has been surprising and disappointing.

"I knew the market was bad when I started looking and that home prices had gone up," Kole says. "What I didn't realize was that it would still be so hard for me. I have a good job, no debt, and great credit."

Another frustration for Kole: He's been approved for a physician's loan (a type of mortgage that requires a lower down payment and does not count student loans in debt-to-income calculations) from a national bank, but sellers seem to prefer buyers who work with local lenders. Kole has been willing to waive the appraisal and mortgage contingency on the right home, but he draws the line at waiving the inspection, a trend that some other buyers in his area are going along with.

"With each house, I learn more about how this works and what amount of risk I can safely assume," Kole says. "There are certain things I definitely wouldn't give up."

Kole's experience mirrors that of millions of other would-be homebuyers navigating a strong seller's market.

"Potential homebuyers are really facing a triple threat right now," says Clare Losey, an assistant research economist with the Texas Real Estate Research Center. "There's high home appreciation, high mortgage rates, and low inventory of homes for sale."

It's still possible to find — and buy — your dream home, even in today's market with all its challenges. Here are some important steps that can help you.

1. Do not low ball.

There may be some cases in which you can save money by making an offer significantly below the asking price on a property. However, with most housing areas across the country experiencing a seller's market, you run the risk of offending the buyer or being dismissed as not having a serious offer.

In today's market, a better strategy is to go in with close to your best and final offer from the start, realtors say. It can help to waive the appraisal or financing contingency as well, although it's important to understand the risk associated with doing so. Last month, the average home sold for 103% of the list price, according to [data compiled from Statista](#).

2. Get credit ready.

The better your credit, the easier time you'll have getting a mortgage — and the lower the rate you'll pay for the loan. The average first-time homebuyer has a credit score of 746, according to a [recent paper by Fannie Mae](#). If you know you're going to buy a home in the next few months, you can improve your credit by making sure to pay all your bills on time and by avoiding taking on any new debt.

This is also a good opportunity to check your credit report (get all three reports for free from [AnnualCreditReport.com](#)) to see whether there are any mistakes or other problems that you'll need to clear up before applying for a loan. Also, take a look at your credit-utilization ratio (the amount of credit you use compared to the amount available to you). Experts recommend keeping this number below 30%.

3. Prepare to move quickly.

Among homes that closed in March, the average number of days on the market (the amount of time between listing and closing) was just 38 days, according to [Realtor.com](#). In busy markets, homes are moving even faster, realtors say, with sellers commonly accepting offers within days of listing their house for sale.

"It's crazy," says Sarah Scattini, president of the Reno/Sparks Association of Realtors. "The market is moving extremely fast here. If you list your home, your sale is pending within 5 days."

In addition to moving quickly to make your initial offer, do the same if a buyer counters with a negotiation. A speedy response will show the buyer that you're very interested — and to beat out any other bidders who may have also received a counteroffer.

4. Shop around for mortgages.

Especially for first-time homebuyers, the process will go much more smoothly if you've got a team of professionals to help you. Look for a realtor and a mortgage lender who have experience working with first-time homebuyers and with physicians, if possible.

Since mortgage rates can vary wildly, you'll want to shop around a bit before settling on a lender. Get quotes from a local lender, an online lender, and, potentially, a credit union or a mortgage broker to get a sense of the types of mortgages and rates available to you.

"With multiple offers on every single listing, you really want to align yourself with a great realtor who can negotiate for you on your behalf and navigate you through this very tricky market," says Scattini

For both your realtor and your lender, you'll want to know up front how they get paid and how they calculate their fees. Typically, the real estate agents for buyers and sellers split a 6% commission on home sales, meaning that your realtor will likely take home 3% of the purchase price.

5. Get preapproved.

Once you've settled on a lender, getting preapproved for a mortgage can make your offer more appealing to potential buyers. Preapproval is an in-depth process in which lenders pull your credit and look at other financial factors, such as your income and assets, to tell you ahead of time how much you could borrow under their standards and how much that might cost you.

These days, a large number of buyers are coming in with a cash offer, which in former times was considered very appealing to sellers. However, preapproval helps equalize buyers, and as one seller noted, "I don't care if it's cash or mortgage, as long as I get the money."

If, like most homebuyers, you need a mortgage to finance the purchase, having preapproval can provide some assurance to sellers that your offer won't fall through because you can't qualify for the mortgage you expected. Once you've received preapproval, don't open any new credit accounts. If your credit score goes down, the amount you can borrow could decline as well.

6. Firm up your budget.

While the preapproval process will tell you how much a lender thinks you can afford, it typically makes sense to come up with your own budget as well. That's because banks and other mortgage lenders may approve you for much more than you want or are able to pay for a home.

You'll want to factor in future costs of homeowners as well as any other (current or future) expenses for which the lender may not have accounted. For example, if you're planning to have children soon, you may want to lower your budget to factor in the cost of childcare.

Knowing your budget ahead of time — and looking only at houses that fall within it — will prevent you from falling in love with a house that you really can't afford.

7. Stick with it.

Buying a house in today's market is no easy task. The first part of the process requires simply looking at multiple houses to get a sense of how far your budget will go and whether there are homes that meet your requirements.

If you're sure that purchasing a home is the best financial move for you, don't give up. Instead, consider whether you can make adjustments that could widen your pool of potential homes. That may mean changing your budget, moving a little further out geographically, or opting for a house that needs a little more work than you expected.

That said, while the pace of price increases will likely moderate, it's unlikely prices will go down significantly in the future.

"We might see home price appreciation subside to levels close to 10% to 15% [from 20% last year] or even just 5% to 10%," Losey says. "When you do the math, home prices just can't continue to go up 20% year over year."

Kobe is planning to keep looking for his home for at least the next several months.

"Prices are still going up, but we are hearing that the inventory will increase over the summer," he says. "I'm still out looking for the right house, and I'm ready to make an offer."

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Cite this: Beth Braverman. 'Outbid on 3 Houses!' Doc's Nightmare in Crazy Housing Market - *Medscape* - Apr 06, 2022.