

Rapid City Real Estate Update

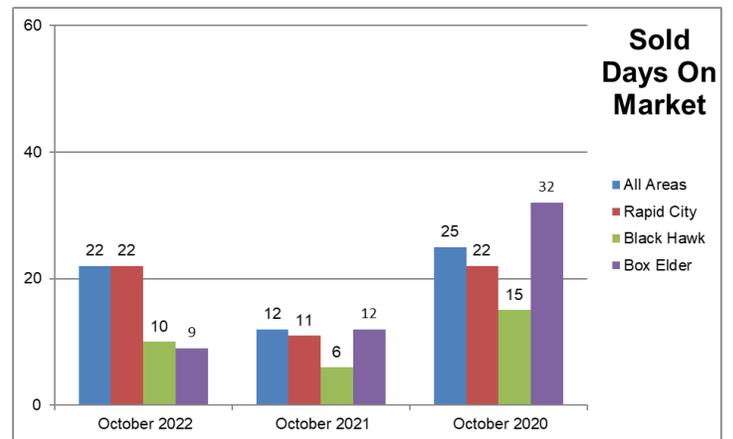
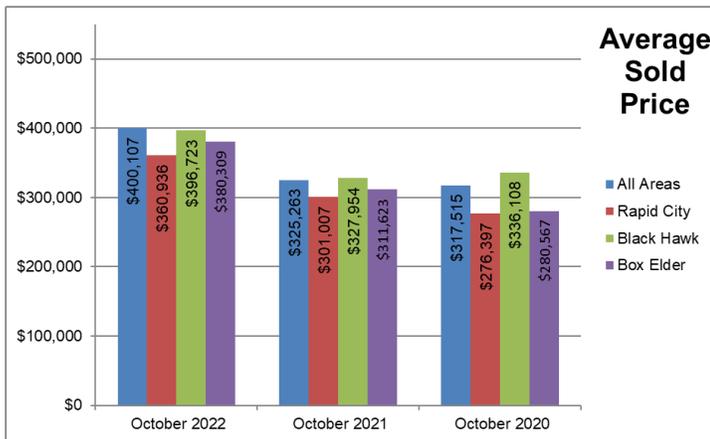
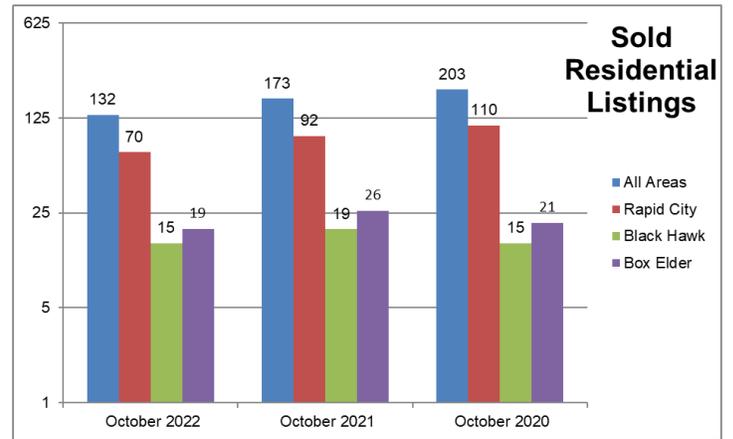
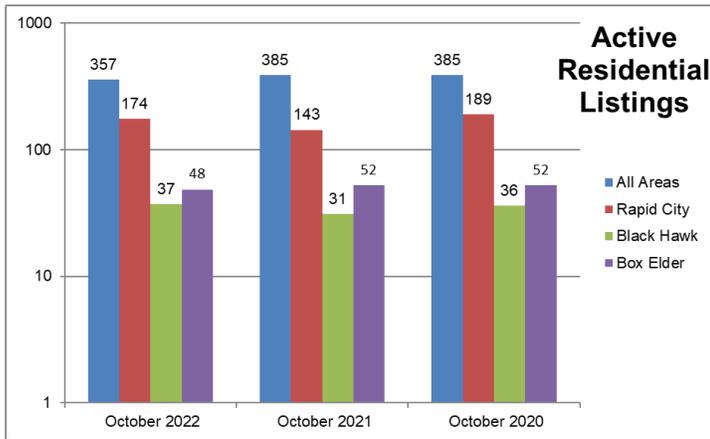


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Rapid City & Area Market Conditions For October 2022



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What Does It Mean To Make A Principal-Only Payment

You'll hear the terms principal and interest when you get a home loan. Your principal is the amount you borrow for your home loan, and your interest is what you pay monthly to use the loan.

To calculate the principal of a mortgage, you would subtract your down payment from the final sales price of the home you're buying. The principal you borrow starts accumulating interest right when you take it out.

Your interest payment is the second part of a monthly mortgage payment. You're paying your mortgage lender to give you a loan, which is reflected in your interest. Most lenders will calculate your mortgage rate in terms of an annual percentage rate or APR. APR is what you pay on your loan per year in interest. If you borrow \$200,000 and your APR is 5%, you're paying \$10,000 a year in interest.

Your principal is high at the start of your loan, so during this time, your monthly payment is primarily going towards paying your interest.

A few percentage points of interest significantly affect how much you ultimately pay for your loan. If, for example, you borrowed \$150,000 and your interest rate on a 30-year loan was 4%, your monthly payment would be around \$716. If you had the same loan but a 6% interest rate, your monthly payment jumps to more than \$899.

A difference of just 2% in interest rates, for example, can make a difference of tens of thousands of dollars in how much you pay in interest over the life of your loan.

When you make a payment on your loan, your lender will apply part of your payment to interest and fees before reducing the principal. The lender will use the same formula to pay the interest if you make additional monthly payments. The lender adds up interest accrued during the month, using a part of your payment to pay accrued interest before it's then applied to your principal.

So, What is a Principal-Only Payment?

A principal-only payment is going entirely toward reducing your principal. Since the amount of interest you pay is based on the principal, your interest charges are smaller when you reduce your principal.

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What Factors Drive The Real Estate Market?

There are a lot of discussions going on currently about the real estate market. The Fed has been aggressively raising interest rates for months, and to buy a home now is significantly more expensive compared even to the beginning of this year.

The Fed also indicates that it's got more rate hikes coming as it tries to slow down record inflation.

This, paired with other worrying economic indicators, leaves many wondering if a housing correction is coming. Some feel that it's already here. Many markets that were the hottest during the pandemic boom are starting to see the effects of a potential correction first.

For example, places like Austin and Phoenix are starting to see significant price dips.

Some analysts say we can expect pricing declines of anywhere from 15-25% in many parts of the country.

It leaves many people wondering exactly what factors drive the real estate market as a whole, affecting home prices in different countries.

Interest Rates

Interest rates holistically drive the real estate market. If interest rates are low, people will be more likely to purchase a house because they can borrow money cheaply. You can afford a lot more houses if your rate is around 2% versus a rate that's 6% and higher, and that's what people are seeing right now.

As interest rates rise, there isn't always an immediate slowdown in the real estate market. Rates move slowly, so buyers do have time to lock in their rates, but where we're at right now is a time when the rates have been increasing for months. People no longer have those opportunities to lock in the best rates, and it's likely to start catching up with the market.

When interest rates are high, there often tends to be a slowdown in the entire market because buyers can't afford to borrow money at these rates.

There may also be more people looking for cheaper houses to stay within their budget even as rates are high.

The Economy

Bad economies tend to drag housing down with them. In 2008, people were being laid off from their jobs and struggling to pay their bills. Then, making the payments on a current mortgage becomes

challenging, let alone thinking about buying a new home.

Even when people don't lose their jobs, consumers tend to feel negative about making big purchases if the economy is bad. They have a tendency to want to hunker down during bad economies and wait out rather than make a giant leap and buy a home.

The Government

The government can do things that can strengthen the real estate market and encourage people to buy homes, or they can do things that slow it down.

In 2008, the government introduced a homebuyer credit that was meant to help people afford to purchase a home. They also created the HARP program, meant to help people refinance so they could sell their homes. While neither had a massive impact on the market, they did help stimulate some activity.

The government also creates and offers loan programs that can help people afford to buy a home more easily.

Supply and Demand

One of the things that some analysts feel could help the housing market out right now is the relationship between supply and demand. The supply and demand factor can be local, but it can also be national. Right now, even though interest rates are going up, there is a limited supply of homes. That's a big part of the boom during the pandemic. People were competing for a very small supply of homes relative to how many wanted to buy.

This may not shift much, so it could keep the housing market stronger than otherwise, given the economic situation.

Demographics

Finally, demographics describe the makeup of a population. These statistics play a significant but often overlooked role in the real estate market, the types of properties in demand, and prices.

When there are big demographic shifts, it can have a significant real estate effect.

For example, more older people are deciding to stay in their homes for as long as possible and age in place, reducing the supply of homes. At the same time, Millennials who delayed buying homes past when previous generations did are at a point where they have more interest in buying, reducing supply and increasing demand.

Courtesy of Realty Times



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Tips For Choosing A Home Builder

If you've decided you're going to build a custom home rather than buying an existing one, the process of getting started can be intimidating. When you buy an existing home, you know what you're getting. When you're going to do a custom build, there is a lot of uncertainty. One of the first things you have to do is choose a home builder.

The following are some of the things you should generally know about choosing a builder and tips to help you along the way.

What Is a Home Builder?

The term home builder is a broad one. It can refer to any contractor who builds residential housing, but there are subcategories within the larger category of a home builder.

There are home builders for hire. This means that you hire a company, and they have a team of professionals who work in-house. The team manages every aspect of the project, and you get a turnkey final result.

Another option is to hire a general contractor. A general contractor will hire people and manage them. They will ultimately build your home. A general contractor is also responsible for getting materials and permits.

You might have your own architect design your home, and then you would hire a general contractor to build it.

When you hire a general contractor, you would typically sign an agreement that would include a fee of up to 20% of the cost of the project, which would cover your contractor's services.

Then, there's the option to hire project managers or a construction management company. They may hire subcontractors and get materials, and they'll charge a fee for overseeing the process.

Choosing The Right Builder

Now that you have a general idea of the types of homebuilders, how do you start choosing the best one for your project?

- Know your niche. When you're building a home, think about your budget, the size, and the style. You want to look for a company that specializes in the niche that your home will fall into. For example, if you're building a custom starter home, you're not going to hire a company specializing in luxury properties.
- Before you start talking to any builders, have a list of the most important things to you and a clear idea of what you want.
- As you're comparing contractors, you want to ask to see examples of their work. You'll also want to know how long they've been in business.
- Online reviews can give you some valuable information about contractors.
- Check the credentials of builders. This includes state licensing, and you want to make sure they have updated insurance.
- Does the builder offer a warranty?
- You should visit a builder's recently built homes in person, and if possible, take a tour, although this might not always be an option.

What to Ask Builders

You should interview at least several builders. Before you do this, as was touched on above, you do need to have an idea of what your expectations and anticipated timeline are. Some specific questions you should ask include whether or not they're happy to provide references and if they guarantee their work. You'll need to talk about how allowances are determined, the type of materials they use, such as copper or plastic plumbing, and once you decide on a builder, every detail of what you agree upon needs to be in writing. When potential builders give you references, you should actually call them. Along with clients, references should include vendors and subcontractors.

If you have no idea where to start as far as finding someone, begin with your local home builder's association. That organization can give you a list of builders who work in your area. You might also be able to get help from local real estate agents, friends, or relatives who have worked with a builder.

Courtesy of Realty Times

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You can pay off debt faster with principal-only payments and save on interest.

Not all lenders will allow a principal-only payment, and some lenders will let you make additional payments during the month, but you need to specify it should go toward only the principal.

Regarding a home loan, you're making an additional principal payment that's supplementary and applied directly to your principal mortgage amount, which goes beyond your scheduled monthly payment. Your monthly payments stay the same, no matter how many principal-only payments you make. You will save more money in interest throughout your loan life.

You might want to recast your mortgage if you want lower monthly payments.

Mortgage Recasting

Finally, if you want to save on your home loan, mortgage recasting can help you pay less interest costs and maybe cut down on the total number of payments you must make before you pay your mortgage in full.

You make a lump-sum payment towards your loan's principal balance with a mortgage recast. Your lender amortizes your mortgage, reflecting your lower balance. You can lower your monthly payments because your principal went down, but your term and interest rates stay the same.

One example of when someone might recast a mortgage is if they bought a new home before selling their old one. Then, once they sell their previous home, they can use that money to recast their new mortgage.

If you get a bonus or windfall of money for some reason, you might also want to do a mortgage recast. Many lenders will charge a servicing fee for this, but not usually more than a few hundred dollars.

Not every lender will offer this option, and some types of loans aren't eligible.

You can't have a government-backed loan and it must meet minimum standards for principal reduction. For example, you usually have to make a minimum payment of \$5,000. You'll also probably need to meet equity requirements, and you have to meet requirements set by your lender for your payment history.

Courtesy of Realty Times

October Real Estate Roundup

Freddie Mac's results of its Primary Mortgage Market Survey® shows that "The 30-year fixed-rate mortgage broke seven percent for the first time since April 2002, leading to greater stagnation in the housing market. As inflation endures, consumers are seeing higher costs at every turn, causing further declines in consumer confidence this month. In fact, many potential homebuyers are choosing to wait and see where the housing market will end up, pushing demand and home prices further downward."

- 30-year fixed-rate mortgage (FRM) averaged 7.08 percent with an average 0.8 points for the week ending October 27, 2022, up from last month when it averaged 6.7 percent. A year ago, at this time, the 30-year FRM averaged 3.14 percent.
- 15-year FRM this week averaged 6.36 percent with an average 1.4 points, up from last month when it averaged 5.96 percent. A year ago, at this time, the 15-year FRM averaged 2.37 percent.
- 5-year Treasury-indexed hybrid adjustable-rate mortgage (ARM) averaged 5.96 percent this week with an average 0.3 points, up from last month when it averaged 5.3 percent. A year ago, at this time, the 5-year ARM averaged 2.56 percent.

Courtesy Of Realty Times



Courtesy of:

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Black Hills Events



Black Hills Farmers Market

Saturdays November 5, 12 & 19
Market Park on Omaha

Keystone's Victorian Christmas

November 18 & 19
Keystone Community Center

Festival of Trees

November 19
Homestake Opera House, Lead

Broncs In The Black Hills

November 19
Central States Fairgrounds, Rapid City

Rapid City Rush Games

November 23, 25 & 26
December 8, 9 & 10
The Monument, Rapid City

Hill City Olde Tyme Christmas Parade

November 25
Hill City

1880 Train Holiday Express

November 25 & 26
December 3, 4, 10, 11, 17, 18, 22, 23, 24, 27 & 28
1880 Train Depot, Hill City

Christmas Nights of Light

November 25, 26 & 27
December 2, 3, 4, 9, 10, 11, 16-23, 26-31
Storybook Island, Rapid City

Holiday Celebration & Winter Market

November 26
Main Street Square, Rapid City

24th Annual Festival of Lights Parade

November 26 - 6:00 PM
Main Street, Rapid City

Custer Christmas Parade

December 3 - 5:30 PM
Downtown Custer

Holiday Marketplace

December 10
The Monument, Rapid City