



The Solari Report

NOVEMBER 6, 2014

Successful Homebuying

with Dr. Gary Eldrid

HOME
sweet
HOME





Successful Homebuying

November 6, 2014

C. AUSTIN FITTS: Ladies and Gentlemen, it's my pleasure to welcome to The Solari Report an extraordinary scholar and investor, Dr. Gary Eldrid. I did a search looking for the very best person to advise on successful home buying. I said to our team, "You know, this guy is clearly the best. We probably won't get him, but let's try."

We're very pleased to have him. He is the author of many books on real estate including investing in real estate, beginner's guide to investing in real estate with Trump University real estate 101, and Flippers, Fixers, and Renovations: More Good Secrets all Borrowers Must Learn.

This is somebody who has very deep knowledge, but my favorite of his books and the reason why I really wanted to get him on today is the one called *The 106 Common Mistakes Homebuyers Make (and How to Avoid Them)*.

He has been a teacher and a professor. He was on the graduate business faculty at Stanford and taught at the University of Virginia. At one point he sent his students out to collect from all sorts of different real estate players all the worst mistakes they had seen. The lovely thing about the book and the format is I can read a lot of books that tell me about the mistakes to avoid and what I ought to do, but this – with the different stories and examples – really brings it home. You feel the risk and it makes it personal and special, especially if you're doing this for the first time. I think it really helps you get a feel for what is important and how to take care of it.

With that, Dr. Eldrid, I can't thank you enough for joining us from your second home in Florida for The Solari Report.

DR. GARY ELDRID: I can't thank you enough for that introduction. That was



quite nice. Thank you.

C. AUSTIN FITTS: I would say – and I certainly get this feeling from reading the books – that the most important investment someone has to make, particularly for the first time they are buying a home, is they really need to make an investment in their education. This is a lot of family resources, but it's also a home and a place you are going to be living with so this affects all aspects of your life. Think of this as one of your major consumption goods and one of your major investments. I would say number one is investing in your education.

As an academic and a PhD, I'm hoping you will agree with that.

DR. GARY ELDRID: Yes I do, and when we look back and hear so many people say, "Well, nobody could have predicted the downturn in prices," I always like to think that if people had read my book they would have avoided buying in some of these outrageous markets. They got caught up in almost the hysteria of buying and did not educate themselves.

As an academic, as you point out, I definitely favor reading books and talking with people. Also knowing who to trust and who to deal with. Trust in terms of their knowledge because so many real estate agents, appraisers, and mortgage lenders knowingly or unknowingly mislead you. I don't mean that in a crooked sense. I just mean they have their own biases and they often will speak and offer you advice in terms of what they think but not really listen to what you want.

Educating yourself to ask the right questions and probe becomes quite important.

C. AUSTIN FITTS: We have a wonderful young producer on our staff. My understanding from him – he's been researching buying a home – is that now a lot of the housing agencies and different governmental agencies, state and local entities are offering courses that help new homebuyers really get educated. Are there any of those courses that you would recommend?



DR. GARY ELDRID: Well, I recommend anything that someone can do. I think they can learn from it as long as they go in with an open mind and not think about what someone is saying as the gospel but rather as, “Oh, here’s an idea to consider. Let me think about other viewpoints,” or, “Let me think how this might complement or contradict other things that I have learned.”

It’s the piecing together and not taking from any one person – except me, of course.

C. AUSTIN FITTS: Right.

DR. GARY ELDRID: Many of these courses are taught by people who have narrow experience. They might have 20 years of experience, but it might be narrow in a particular kind of neighborhood or a particular city or they might be an expert in one particular type of financing. Even when I read books, I find in the many books I’ve read how narrow many writers are in their prescriptive advice without knowledge of markets.

I happened to have lived around the country and in foreign countries, too. I try to bring a little broader perspective. So make sure you are comparing and contrasting different areas, different kinds of loan products, different kinds of advice.

C. AUSTIN FITTS: Right. That really comes out in your book, *The 106 Common Mistakes*. You really get a sense that the person writing this has dealt with a very wide sample of different places and different circumstances. It really comes out, and that is unusual. That is unusual. Most people who are really good at real estate have a niche or have come up through a niche. You have a much broader spectrum.

I think what we’re saying is you are responsible. You are the one who is going to live in this home. You are the one whose money is on the line. So you have got to get intellectual mastery of what you’re doing and why

“They might have 20 years of experience, but it might be narrow in a particular kind of neighborhood or a particular city or they might be an expert in one particular type of financing.”



you're doing it.

So what about setting goals? I'm a great believer that you can't find what you want unless you can paint a real clear picture of what you want. So talk to us a little bit about how to go about setting your goals.

DR. GARY ELDRID: One of the things in setting goals, first of all, is to think about what goals are. I've erred in this way myself. I sometimes get focused on one particular idea. It might be location or it might be price or size. But remember, when you are buying a home there are really multiple goals and multiple objectives and multiple desires that you have. Don't overlook.

You'll see lots of advice saying, "Don't buy the most expensive home in the neighborhood," or, "Always buy in the good school district," and things like that. This general advice doesn't work in the sense that there are always trade-offs involved.

Sometimes I've bought the highest price in the neighborhood, but it happened to have offered tremendous value. Other times, I think now the demographics are that fewer than 50% of people have children in grades one through high school. Many neighborhoods that would not have appealed to families with children are seeing a lot of gentrification and younger people moving in and single people or even retired people moving in.

Don't become obsessed with one particular objective or one particular goal as so many people do. Think about your other items. I would say, in terms of my advice, to think both between personal and investment.

C. AUSTIN FITTS: Right.

DR. GARY ELDRID: For many people their first home may not be their last home. We've now coined the term 'starter home'. So in that instance, perhaps building equity counts for more than the most desirable location or the most desirable school district or the closest to shopping.



Looking for the foreclosure scenario, some markets are still quite plentiful. I know here in Florida there are still quite a few depressed markets that are turning around, but nowhere near the price levels they were in 2006 and 2007. Buying that fixer-upper, “Oh, no! I don’t want a fixer-upper.” You can add \$25,000 or \$50,000 of money to that and build instant equity. Maybe that’s worth the effort.

C. AUSTIN FITTS: Yes.

DR. GARY ELDRID: In reading different books, just try to think of multiple criteria and then choose once you have a panorama of criteria and objectives in front of you. Don’t jump without education to a particular goal or objective.

C. AUSTIN FITTS: One of the things – and this is a drum I beat not just in real estate but in all aspects of investing and all aspects of your life – is that in this process you are going to deal with a lot of different professionals. You may deal with brokers. You may deal with other homeowners. You may deal with appraisers and inspectors, attorneys at closing, people from the bank, the mortgage lender. To me, one of the most important things you can do is find very high quality professionals to help you.

You want people who are both competent and excellent in every way and have an incentive to help you find what you want as opposed to lay off the inventory that they want.

Say a little bit about how to find the really excellent professionals.

DR. GARY ELDRID: I think the most important way to work with people who you can trust in terms of both their integrity and their knowledge is knowing yourself. I know in my old dealings with fraternities in the past – many years ago – I erred.

We were brought up with the idea of always trusting your lawyer and always following your lawyer’s advice. I did that and I found that that was one of the stupidest things you could ever do. Now whenever I’m



dealing with lawyers I make sure I read the cases. I make sure I read the statutes.

I'm just using the lawyer example. They are our favorite person to castigate, I guess. But there is no substitute for your own education.

C. AUSTIN FITTS: Right.

DR. GARY ELDRID: You cannot simply get someone who is very good and then ask them for advice because they still may not understand your perspective of what you're looking for. Also, they may not know the specific issues that are of concern to you.

I had one real estate agent I was buying property from during the downturn here in Florida, which is why I'm here now – to deal with some of these issues. This agent was very good, but she still could not understand certain things that I was looking for because she had her own biases.

Is she knowledgeable? Yes. Is she honest? Yes, but she still had her own mindset of what she thought was great. And it was great for some people, but it wasn't what I was looking for.

You have to have that compatibility. I know there's a good French word for this. You need a good synergism working together.

C. AUSTIN FITTS: The other thing is that you are signing some very complicated documents and the power of the law is behind them. That means that you have to read them.

Whether it's the lending application or whether it's the closing documents or whether it's the appraisal or whether it's the inspection, you really need to read it and understand it. If you don't understand it, you need to ask questions and you need to get those questions answered.

DR. GARY ELDRID: I think you bring up a very good point there because I've written a book on mortgages, too – this homebuying book. They really



give you the questions to ask and the issues to consider. You hear so much advice in newspapers and magazine articles, “Make sure you ask lots of questions.” Yes, but what questions do I ask?

The general person doesn’t know the questions to ask. That was my mistake in the early years of dealing with life: I didn’t know. I know some questions to ask, but I don’t know from an informed, intelligent perspective what questions to ask. That is where reading and learning comes about.

What you can find, too, is that tells you whether the person really has the knowledge once you start asking detailed questions. For instance, you are getting a mortgage and you ask, “Which index are you using?” You’re debating an adjustable rate mortgage or a fixed rate mortgage.

“That tells you whether the person really has the knowledge once you start asking detailed questions.”

The lender says, “I’m favoring an adjustable rate.”

I say, “Okay. What index are you looking at, and what is the volatility of those indexes?”

“What?” They probably don’t even know what index it is tied to and what the volatility of that index has been over the years.

You can ask, “What are the caps on that? Is it a lifetime cap or annual cap?” You have to know about adjustable mortgages. You just can’t say, “An adjustable is better than a fixed,” or, “A fixed is better than an adjustable.”

C. AUSTIN FITTS: Right.

DR. GARY ELDRID: There is plethora of questions that go into this that only the educated person is going to understand enough to ask about.

C. AUSTIN FITTS: Right. I think on everything that you don’t know you need



to ask the question, “What could go wrong with _____?”

DR. GARY ELDRID: There are a lot of those people who sign those teaser rate mortgages and loan products, and in the earlier years they did not ask the right questions. And they didn’t listen to their intuition about no free lunch. They just went, “Oh, this is great!”

The contract is the same thing. It’s not just how much of the deposit, but also: How long do I have for inspections? Do I get my deposit back? What happens if there is a title issue?

C. AUSTIN FITTS: Right. I have to tell you a story. Its housing related. It’s not a homebuying story, but it will give you a sense.

I was in a bible class and my teacher was very extraordinary. She was a paralegal at a Washington law firm. She came up to the class one day and she said, “You’re a financial person.”

I said, “Yes.”

She said, “Could you help me?”

It turned out that she was an extraordinarily fearsome, powerful woman so I was surprised by this. She had a 401k at her law firm. It was really her only savings other than her home. She wanted to invest in a fund. It was Ginnie Mae Securities Financing FHA secured mortgages, but she didn’t want to put the money in unless she could understand it.

She said, “I’ve tried to talk to the people in charge of the plan, but they are really mean to me and I feel stupid. So could you look at this?”

I said, “Well, you know, I used to be the FHA commissioner so I’m sure I can understand this.”

Well, she read the thing and, Gary, I couldn’t understand a word of it! I said to her, “Lisa, I’m really sorry, but I’m having trouble. Could I talk to the people who answer the questions on the plan?” So we got on a



conference call and we called the woman. She was just really mean to me.

Finally I said, “Look, I don’t mean to be rude, but I used to be a partner at a major Wall Street law firm, and I was Assistant Secretary of Housing. I was the Federal Housing Commissioner. There are people who say I’m really smart about money, but I’ve got to tell you: I don’t understand a word of this. If I can’t understand it, how can anybody else understand it?”

Well, she broke down and admitted that the reason she was being so mean was that she didn’t understand it. So we ended up calling the firm that originated the offering and got our questions answered and figured it out, but what it reminded me – and I now live in the south – is that in the south it’s really easy to be stupid. It’s really easy to say, “Look, I just don’t understand this. Can you explain it to me?” Whereas I used to live in the north, and everybody would look at you like you were stupid and you’d get that meanness.

To me, part of what is really important – particularly for young people – is that you realize that you are responsible. This is a big decision. This is your money; this is where you are going to live. You’ve got to ask the questions and you have got to hold people responsible to answer them. Be stupid. It pays to be stupid.

DR. GARY ELDRID: Yes.

C. AUSTIN FITTS: So this next one is a big issue for me, and that is finding the right neighborhood. One of the things I loved about the *106 Common Mistakes* is that you really describe some of the issues with making sure you are in a neighborhood that makes sense for a variety of reasons.

Maybe you could go into that?

DR. GARY ELDRID: Well, just remembering that the neighborhood itself, like the term ‘location’, is multi-dimensional. We can divide it into



accessibility and environment and investment qualities. So you're weighing off these things.

You might have a great neighborhood with the environment, meaning the aesthetics of the neighborhood, or there is the accessibility of the neighborhood, meaning how close to work or shopping or the gym and parks, and then the investment idea is: what is the likely appreciation of this neighborhood over the next five years? Does it look like it's an up-and-comer? Is it being populated with higher-income people than currently live here, or does it seem to be moving down?

I would say that these are three major components to start with are, and each of them can be subdivided into further components. Rarely are you going to find one neighborhood that meets all of those criteria. If you do, let me know, especially if it also meets the price criteria.

C. AUSTIN FITTS: One of the things you pointed out is you could have some of the good neighborhoods going down in value with some of the gentrifying neighborhoods coming up.

DR. GARY ELDRID: That's a good point, and often people say, "Oh, that neighborhood has been appreciating fast and that neighborhood is not." Well, it may be that in the past that neighborhood has now become so expensive that you have to look around for where now people are starting to buy into. Remember when you worked at Wall Street? You may remember, depending on how old you are, the old days when nobody wanted to live in Brooklyn who was an up-and-comer, but certainly now there are many, many hot spots in Brooklyn.

C. AUSTIN FITTS: Right.

DR. GARY ELDRID: And Manhattan became too expensive and then people started redeveloping the Brooklyn neighborhoods. Now there is quite a desirable number of these neighborhoods, and it's tough to get into some of them for less than \$1,000,000.

C. AUSTIN FITTS: Right. One of the things you do a good job of is explaining



the importance of rules and regulations. A neighborhood can be in a jurisdiction that has rules and regulations that make it difficult, and you can be in a Homeowners' Association. There are all sorts of complex rules and regulations which can make a place desirable for you or very highly undesirable.

DR. GARY ELDRID: Yes. The rules and regulations, the homeowner restrictions, the deed restrictions, and sometimes even just city laws and city ordinances can all affect things that you may not think would even be covered that are covered. They are things like whether you can operate a home business out of your home or whether you can have renters.

Here in Gainesville, Florida where I am right now, if you own a rental property or a rentable house, the law changed and you cannot rent to more than three unrelated adults in a single-family residential neighborhood, which is something that would disturb an investor who wanted to put four or five students into a house – as some do.

There are many rules and regulations. Again, that is where education comes in. Once you read through them, “Oh, I never thought about that.” Now you do think about it.

C. AUSTIN FITTS: The other thing that I hadn't ever thought about – and I thought I'd thought of every one – was relating to me being very focused on who I live next to and do I want these people to be my neighbors? When you are looking for a home, that is always a tricky business if you don't have personal friends or connections or network into a particular neighborhood.

One of the stories you told was of a woman who bought during the winter months. Then the summer comes around and, oh, the noisy children!

“The rules and regulations, the homeowner restrictions, the deed restrictions, and sometimes even just city laws and city ordinances can all affect things that you may not think would even be covered that are covered.”



DR. GARY ELDRID: Yes, that's right! I remember her. She was one of my graduate students. She told that story, and it was very good. It illustrates a great point to look at your property in different times of day.

I'll give you an example of a property that I own that I never knew about at the time. I knew it was located next to a high school. It's not right next to it, but close. What I didn't know was in the fall there is band practice! Fortunately I have very soundproof windows, but for others less endowed, wow! The band beats on those drums, and you can hear that thing six to twelve blocks away.

I think in the book, too, I talk about buying near the stables.

C. AUSTIN FITTS: Right. Downwind from the stables!

DR. GARY ELDRID: Downwind from the stables, or a street that looks quiet on Saturday or Sunday when you're looking at properties, but during the week it becomes a major traffic artery for people going back to university or business or whatever.

So looking at a property at different time periods and talking with people and making sure you read the disclosure statement all help.

In fact, many states and cities and real estate boards use various types of seller disclosures. In fact, they are a law in most states. But these disclosure statements differ enormously in the types of questions you can ask and what happens if the seller misrepresents.

I would just go online and Google 'seller disclosure statements' and you will find quite a few different varieties, and those are great for reminding you of certain questions to ask.

C. AUSTIN FITTS: That's a great idea.

DR. GARY ELDRID: Pay close attention to the answers that the person gives. Almost all of them, unfortunately from the buyer's standpoint, are not representations; they are 'to the best of your knowledge'. A lot of times



sellers can bypass the truth claiming ‘no knowledge’. In that instance, what you need is to move forward and actually find representation that there is no noise in the neighborhood or smells coming through or something like that.

C. AUSTIN FITTS: Right.

DR. GARY ELDRID: You need a representation of something stronger than a mere disclosure.

C. AUSTIN FITTS: I think it pays when you look at a property to think about it at different times of the week, different times of day, and different seasons of the year.

DR. GARY ELDRID: Yes.

C. AUSTIN FITTS: If you can find people in that area or neighbors, canvas them and learn about the neighborhood. I’m not one to look at a home at all different seasons before I buy it. That’s tough.

DR. GARY ELDRID: Of course not. It would be gone by the time the next season hit.

C. AUSTIN FITTS: Exactly.

DR. GARY ELDRID: Can I add one point here?

C. AUSTIN FITTS: Please.

DR. GARY ELDRID: It is important when you are moving from one climate to another climate because different features end up being less or more important. For example, if you live in the north, a below grade house with a steep driveway. If you are coming from Florida, you are probably not immediately thinking of snow and ice. But if you are from the north you are going to think, “How am I going to get up that during the snow and ice period?”



Or if you are in Florida where there are torrential rains quite often and you are below grade, are these rainwaters going to flood into the garage and the first floor of the house?

Look at the kinds of roofs in different areas and the different types of construction techniques. Each area – to a certain degree – interrelates with the climate. That is why asking local people for issues to consider becomes important.

C. AUSTIN FITTS: I'm beginning to wonder if anybody has ever made an app with all the different criteria of every step along the way. That would be a monster app!

DR. GARY ELDRID: You don't want to scare people away though. Sometimes, although I am an intellectual in a sense that I am an academic professor, I often over-intellectualize problems, too. Sometimes you've just got to go out and do it. You need to get as much knowledge as you can, but we all make mistakes from time to time and we learn from them and move on.

So don't get so much fear and get so analytical because intuition can work well for you, too.

C. AUSTIN FITTS: Right. Your book does a great job of encouraging people with animal spirits even though you give them the complexity. One of my favorite sections is, "If you rent, you can own."

You come up with a great list of all the different ways. The brokers say, "You don't have a down payment. You can't own a home," and you come up with a list of all the, "Yes, you can, and here's how..."

I think you do a great job of that.

DR. GARY ELDRID: I appreciate you saying that. I have a younger friend in Vancouver, Canada. As you probably know, Vancouver prices by almost any US standard are completely outrageous. But she only earns about \$100,000 a year and she bought a million dollar house.



C. AUSTIN FITTS: How?

DR. GARY ELDRID: How can you buy a million dollar house? Well, very easy. You take in roommates. You rent out the downstairs. So now she covers all of her mortgage payment except for about \$600 a month on that million dollar house with various ways that she has generated income from it.

Now, that won't be a long-term solution, but it helped to get in. Yet so many other people of the same income are saying, "Gee, I can't afford to buy. I can't afford to buy," but she did it.

C. AUSTIN FITTS: Right, and she'll be raising her rents and get her mortgage paid off. Someday she'll be able to live there just paying the property taxes.

DR. GARY ELDRID: That's right. Yes.

C. AUSTIN FITTS: That is one of the things you do a great job of pointing out, which is: If owning is the same price as renting now, your rent is going to keep going up. If you buy the house, you lock in now.

DR. GARY ELDRID: We in the US – and I'm not certain of any other country that offers a 30-year fixed rate mortgage. In Canada, the most you can get is a 10-year mortgage, and most people get a five. In many other areas of the world, the mortgage terms available are far deficient compared to ours whereas you can lock in that payment today for the next 30 years. Not only that, we get the option of refinancing if rates go down but not suffering an increase if they go up. I mean, that is a great thing.

“In many other areas of the world, the mortgage terms available are far deficient compared to ours whereas you can lock in that payment today for the next 30 years.”

C. AUSTIN FITTS: Can they possibly go down any more?

DR. GARY ELDRID: You know, I don't know. From there they are going to be



paying us to take out a mortgage.

C. AUSTIN FITTS: I know!

DR. GARY ELDRID: I've been saying this, and others with experience have seen a 12 and 16% rate that we saw in the early 80's. We're just amazed at these kinds of rates. Ten-year treasuries at 2.2% and ten-year notes in Germany at below one percent!

C. AUSTIN FITTS: I know. It's remarkable.

DR. GARY ELDRID: It is a wonderful opportunity to get out there and take some long-term financing at these rates.

C. AUSTIN FITTS: So let's talk about the best home for you. How do I figure out what is the ideal home for me to buy? Forget investment for a second. Just the home where I'm going to live, the home that I am going to enjoy. How do I figure out what is best for me?

DR. GARY ELDRID: There is where I think just the feel of the house seems to you. There are some houses I walk into that just feel right, and others just don't feel right.

What is the feeling? Does it feel comfortable? Does it give you the sense of warmth that you are looking for? Does it give you the views that are serene? (You can see my bias coming through here!)

That is what I think. We will deal with economics on one side, but the main thing in the home emotionally – unless you are buying strictly for the investment, but you said to ignore the investment part of it right now. It's really how you are going to feel in that home.

I do like views. I like a warmth. I like hardwood floors. What is your emotional quotient? What makes you feel warm and fuzzy? That's the kind of house to look for – or at least that is an important dimension of it.

C. AUSTIN FITTS: I have one friend who loves doing fixer-uppers. She can fix



anything. She is great with a power saw. For some people, it's: Can you make it the way you want it? For others, I have a couple of biases so I will just be honest about mine. I think a lot of the increase in value in home prices has been inflation and houses getting bigger. A lot of the federal credit has encouraged bigger and bigger homes. One of the things I'm seeing in my world is this move to smaller homes and a tinier footprint, but homes that are much smarter. They are much more energy efficient.

I'm seeing a shift away from size to something that is much more intelligent. I am curious to know what you think of the tiny home trend right now.

DR. GARY ELDRID: Well, I'm not so much enthused about the tiny homes if we're talking about those under 200 or 300 square feet, but the little house or the smaller house I definitely think is a trend of the future. Or buying a larger house that you can separate out part of it and rent it out.

C. AUSTIN FITTS: Right. I agree.

DR. GARY ELDRID: I'm trying to think of an author's last name, Susanka or something. She has written a number of books on the small house, although her houses are quite expensive small houses. That certainly is a trend as well as building more into a house – multifunctional areas and getting rid of rooms that nobody ever uses.

C. AUSTIN FITTS: How big were the Sears houses?

DR. GARY ELDRID: My guess is they were 800 to 1,000 square feet.

C. AUSTIN FITTS: That's what I was thinking. My perfect house is a Frank Lloyd Wright 1,200 square foot. Anyway, I love the ones he did as well.

So let's talk about appraisal and financing. Sometimes a home will have an appraisal on it or a near current appraisal, and oftentimes you have to arrange for an appraisal. Talk to us a little bit about how to go through the appraisal and the financing process.



DR. GARY ELDRID: Well, from the buyers' standpoint it has two functions. One, it has to come in high enough that you get your loan, but it is also to come in honest enough that if your contract price is too high the appraiser is going to have enough guts to say, "This house is too much."

Now most of the time they don't because lenders and loan officers earn their keep by making loans, not by turning people down. You must beware of appraisals that come in right at the contract price. Now there are laws and regulations that have interceded here to make this an arm's length type of thing, but it does not work that way. In fact, appraisers don't want to mess up deals. They will only do so if they really feel safe in doing so or really feel that the buyer wants them to do so.

The bottom line here is never count on an appraisal. "The appraisal came in, so it must be worth this much." No, no. Also, the appraisal is today's price from today's market, and what you really want to know is what the future price is. The appraisal is not going to give you that, and that can work to your advantage if you are in an area that is going to appreciate, but it is more to your disadvantage – as many people learned when they paid way too much for a future price during the 2006 and 2007 period.

The other part to verify is always look at the comparable, an appraisal of a residential single family home or condominium. You can use two, three, four, or as many as six other houses. It is critically important to go through and see the addresses of those houses and go by and look at them. Appraisers will take comparables.

They may just find one for something that supports the value, and it may be on the wrong side of the street or it is older. I do this just for fun. I go out and look at comparables that appraisers have selected, and so often these comparables are not comparable at all.

C. AUSTIN FITTS: Right.

DR. GARY ELDRID: That's one of the most important things.



C. AUSTIN FITTS: Is there any way you can get the comparable information before you make a bid on a house? Can your broker get you the comps?

DR. GARY ELDRID: Oh sure. Of course. In fact, in today's world anybody can get any of the comps they want through Zillow and Trulia and Realtors. In fact, the appraiser is almost a useless occupation these days given the wide availability of information on the internet.

In Florida – and I think in most states – you can go onto the county assessor's website and pull things up.

C. AUSTIN FITTS: Yes. More and more of the assessors are online.

DR. GARY ELDRID: Today no one needs to depend on an appraisal to find out what comparables are selling for.

C. AUSTIN FITTS: I just have to tell you, though, we have an appraiser in my county who is sort-of 'the top guy' for decades. He is such a wealth of information. I love it every time I get the house appraised because I get quite an education. But he is special. Hopefully you can find a good one.

DR. GARY ELDRID: More today if you are getting a loan, the loan officer delegates their appraisal hiring agents. It's a middle person who then selects the appraiser, supposedly keeping them an arm's length from that. I don't think the buyer actually has much choice in it, but, of course, you could always hire your own. There is no reason why an appraiser couldn't give you great information.

C. AUSTIN FITTS: I live in a remote section of Hickory Valley, so every lender is going to go to this guy.

DR. GARY ELDRID: Oh.

C. AUSTIN FITTS: He's the top dog. Financing. How do we find the right

“In fact, the appraiser is almost a useless occupation these days given the wide availability of information on the internet.”



lender? I've got a lot of feelings on this one because I've found in my own circumstance that if I allow the loan to be securitized I can end up with a nightmare of servicing. One would have to be very, very careful. I would love to hear your thoughts on how to get a mortgage that ends up with an honest servicer.

DR. GARY ELDRID: Well, you really don't have a choice in loan instruments. The loan instrument itself gives the lender the right to sell the servicing rights or sell the loan itself. Then even the person who owns the loan can change who the servicing is going to be. That would be tough. I don't know quite how to do that.

There are some lenders now who are holding their own long-term loans and not securitizing them. I have not experienced much problem with the loan servicing companies, but I certainly have read some horror stories on it, especially during the downturn when banks were going out of business and selling off.

In terms of the interest rate and the closing costs, for these generally – unless you are going to a subprime lender or something, if you are dealing with any type of Fannie Mae or Freddie Mac product – the market is going to be pretty competitive.

C. AUSTIN FITTS: Yes.

DR. GARY ELDRID: Dealing with a lender – or a loan officer, I should say because you are really dealing with a loan officer not with Wells Fargo or JP Morgan Chase. You are dealing with that particular loan officer, although they all have a standard. The loan rep is the one you want to count on to help you assemble your information and put forth the data in a way that will guarantee or almost guarantee your loan approval. Talking with one ahead of time and finding out what you need to do to make your credit score higher, or even going to www.myfico.com and trying to arrange it ahead of time.

C. AUSTIN FITTS: What is that website, Gary?



DR. GARY ELDRID: It's www.myfico.com. It's the credit scoring firm that most lenders use, and then it gives pointers on different methods to increase your credit score. In today's world, the mortgage market is loosening up a little bit but it's still pretty tight. The higher your credit score the better you are going to qualify for the lowest interest rate and the best terms.

C. AUSTIN FITTS: Now let's say I've made a bid on a property and I've applied for financing, so the appraisal and financing process is in the works. I get an inspection, and of course my bid is subject to the inspection not bringing up anything that was not known, that was not disclosed.

Talk a little bit about how I go about the inspection process.

DR. GARY ELDRID: First, make sure you go with the inspector when the inspector goes through the house. When he starts poking into a little wood rot, ask questions about it. Is it serious? Where is the leak coming from? Does that signal deeper problems that likely exist that we are unable to see from the surface?

Going with the inspector and asking questions on what he discovers and looking out for yourself because the inspectors won't catch everything. Ask the question.

Also, asking not only about the condition of the property but asking about the maintenance required to keep the property in good condition is important. Some homes are low maintenance. Some homes are high maintenance. I think often people buy without the idea of knowing this. There is a big variance between houses as to the amount of money, time, and effort that is required.

Those are the issues: Go with him, find out what is wrong, and ask questions, but also find out what is right or what could be creating problems down the road and how do you maintain the property and how expensive it is to maintain the property.



C. AUSTIN FITTS: I always encourage people to not only do a money budget but a time budget. I used to be on the board of a group called the National Association of Multi-Family. We had a professor come in from the University of Maryland who spent his entire career collecting information and data on homeowners versus renters. What he said was an absolutely fascinating presentation. What he said was that essentially if you owned a home, on average families spend 20 hours a week on things related to taking care of, fixing up, gardening, and working on their home as opposed to renters.

Then he said that renters spent most of that 20 hours watching television.

DR. GARY ELDRID: I think the point is well taken, but the time estimate that he discovered is quite, quite exaggerated unless one enjoys doing those things.

C. AUSTIN FITTS: I think what he was capturing was the fact that people enjoy gardening or fixing things up. Part of that is not maintenance as we would think of maintenance, but its things that people enjoy doing in and around their home.

DR. GARY ELDRID: I know my father did. My parents spent a huge amount of time, but it was for their personal enjoyment. My father had a garden and flowers and doing things to improve the home and making the home feel much more like a home than a place where I'm going to be moving from as soon as the lease is up.

C. AUSTIN FITTS: Right. In terms of budgeting time, on average how much do you think somebody should budget for taking care of their home on a weekly or monthly basis?

DR. GARY ELDRID: I'll tell you how much my time budget is.

C. AUSTIN FITTS: Okay. That works.

DR. GARY ELDRID: Would you like to guess?



C. AUSTIN FITTS: I bet you are unbelievably efficient, so I bet it's on average two hours a week.

DR. GARY ELDRID: Yes. That's about right. My philosophy is: Hire somebody else to do it.

C. AUSTIN FITTS: I agree.

DR. GARY ELDRID: That is my philosophy. I just don't want to do yard care or painting or any of that. Of course, I wash my dishes. You won't find big piles of dishes or clothes or something around.

But I would say for the average person that when you think about shoveling snow, the condominium or a townhouse is one of the ways to avoid those types. My Canada home is a single family but it is in what they call a bare-land strata development. So all the exterior – not the exterior maintenance on the house, but outside the exterior maintenance of the house – is built in such a way that it requires very little maintenance. It goes back to the low maintenance.

You can have low maintenance properties or you can have high maintenance. When I look at some of these big houses on an acre of land with massive yards I just think, "Work," or, "Money!" \$300 a month for a lawn keeper.

C. AUSTIN FITTS: I'll tell you an interesting story. When I lived in Washington at one point, I'd never lived in the suburbs. I thought, "I want to try this. I want to see this, but I don't know if I'm going to like it."

I found a literally all-glass house that was up overlooking the river. It was out in McLean. It was very beautiful, but it was extremely unusual. The guy had built one exactly like it in York, Pennsylvania where he had moved because he loved the house so much.

"I would say for the average person that when you think about shoveling snow, the condominium or a townhouse is one of the ways to avoid those types."



I said, “I just don’t know if I want to do this.” I leased it with an option to purchase. If you are in a market that is as down as it was back in 1991 when the market was way down, to me it was a very clever thing if you can find an owner who is willing to do it.

I locked in an option to purchase, and the first thing that happened – and remember, I had always lived in the city – is there was a wonderful gardener who came with the property. He had the deal on keeping it up. The first spring he said to me, “The bushes got ratty.”

I said, “Just fill them in. Get whatever you need.” Well, the bill was \$6,000 for bushes.

I said, “Well, I want to keep it beautiful. I think I may buy this.” Then the next spring it was another \$6,000. I said, “That’s it. I’m moving back to the city.”

But it was beautiful.

DR. GARY ELDRID: Wow!

C. AUSTIN FITTS: In closing, let’s talk about success. If anybody would know this, you would. Have there ever been any studies that say, “Am I happier as a renter versus a homeowner?” What is the satisfaction quota of being a successful homeowner? Is there any science on that fact?

DR. GARY ELDRID: Well, I would say the biggest science would be just what we witness, that two-thirds of households own their own house.

C. AUSTIN FITTS: Right.

DR. GARY ELDRID: If there was some distinct advantage to renting, it would work the other way. I think the experience of the fact that most people want to own and want to become a homeowner, you certainly find it rare that they want to go back to renting. I have a few friends who have done that, but for the most part people who own want to remain owners.



As we are so often reminded of the aging of the population, whether that will remain true I do not know at some older age. I think just looking around and seeing that most people own or aspire to ownership is the best way to follow for most people.

C. AUSTIN FITTS: It's funny. When I went on the board of the Multi-Family Association, I went into the first meeting and there is a huge number of people who were talking about how unsuccessful we have been at lobbying. So they're going on and on about how unsuccessful they have been and, "What is their problem?"

I said, "Wait a minute. Who here is a renter?" No one raised their hands. I said, "So everybody here who is lobbying the congress is a homeowner. What you have to understand is when those congress critters look at you guys, what they see are homeowners."

It was kind of funny. The last thing is I just wanted to touch base on the market because there is a lot of discussion over the last week because the financial institutions are finally starting to loosen up their terms. The terms were very tight, and it always happens. When the market crashes everybody tightens up the terms.

Finally it's starting to loosen up. I would ask you any comments you have and what impact you think that is going to get and how the market is in general and where the opportunities are for people who are looking to buy their first home.

DR. GARY ELDRID: With the fact that most markets are still well below where they were in 2007 and interest rates are at 3.75 to 4.25 I suspect on a 30-year now, not that I'm recommending a 30-year. If someone can afford a 15, I would urge that too. The rates there are probably about 3.5 now.

C. AUSTIN FITTS: Yes, they are lower. I just refinanced to a 10- or 15-year. I'm in the process of doing it now. I'm bringing it in as short as I can.

DR. GARY ELDRID: Yes. With these kinds of interest rates I cannot emphasize enough that you get out there and own, with obviously some personal



exceptions that people just don't want to at this stage or whatever, but if someone is anywhere near the fence, now is the time to jump over it. These lending rates and housing prices both being what I think is at a low, it's an opportune time.

C. AUSTIN FITTS: It is an opportune time. I would say this. I spend a lot of time travelling by car. I see tremendous dispersion in the strength in different markets.

You have some areas – and this gets back to your discussion on neighborhoods – where the economy is still very much down and it could even go further down. There are other areas that are going gangbusters.

I'm talking to you from the San Francisco Bay Area. It's just: How high can you go?

DR. GARY ELDRID: That is an area that has really recovered. Yes.

C. AUSTIN FITTS: This is not a housing market; it's a space elevator.

DR. GARY ELDRID: Yes. It's wealth-driven more than earned income. Of course, it is earned income also.

You mention a very good point. In helping look forward into the future prices is: What is the economic base of the area? What is the stability of jobs in the area? Some of those depressed areas are areas where the jobs aren't coming back, and there are other areas where they have either some demographic or some economic reason for having a population growth and income growth and wealth growth.

C. AUSTIN FITTS: Well, Gary, I can't thank you enough for doing this today. It's really been a pleasure to talk to you. You have to just give us two more minutes and describe how to find your books. Before you do, I'm going to tell anybody who is thinking of buying a home that they have to buy the *106 Common Mistakes Homebuyers Make (And How to Avoid Them)* because this is how you get decades of experience without having



to personally suffer through it.

DR. GARY ELDRID: Well, thank you. As I think you mentioned at the very beginning, they are based upon real life stories. Its more stories than just advice giving.

Most of the bookstores will carry it or can obtain it. Barnes & Noble often carries it or can easily obtain it. And, of course, any of the online retailers such as Amazon have it available.

I am someone who really loves my local bookstores and I want to do everything I can to support them. Unfortunately they are disappearing.

“I am someone who really loves my local bookstores and I want to do everything I can to support them.”

C. AUSTIN FITTS: Yes they are.

DR. GARY ELDRID: That is very sad culturally, so I like to support whatever local bookstores are available.

Of course, Amazon is a great blessing, too, for authors because it does make our books available to everyone in the country or the world.

C. AUSTIN FITTS: Yes it does. I used to always buy my books at Bibliophile which was a used network where you could buy used books, and then Amazon bought it. Then there I was back at Amazon.

There is a good selection of both the new and used books at Amazon. And I'm sure if your library doesn't have it you can ask the library. I live in a place where the libraries are very good about ordering something and getting it on the inner-library loan system. And I'm sure your books are available.

DR. GARY ELDRID: Yes.

C. AUSTIN FITTS: Are you going to be updating *Investing in Real Estate*? Are you going to come out with a new edition?



DR. GARY ELDRID: I hope so. We usually do that about every two or three years. The last time was in 2012 so I'm hoping we can come out with a new edition next year.

C. AUSTIN FITTS: If you do, let me know. I would love to get you back to do *Investing in Real Estate*. That would be terrific.

DR. GARY ELDRID: Thank you very much.

C. AUSTIN FITTS: Okay, Gary. You have a wonderful day. Enjoy Florida and we will let you know when we post the interview. Have a wonderful day.

DR. GARY ELDRID: Thank you very much. I appreciate it. Bye.

DISCLAIMER

Nothing on The Solari Report should be taken as individual investment advice. Anyone seeking investment advice for his or her personal financial situation is advised to seek out a qualified advisor or advisors and provide as much information as possible to the advisor in order that such advisor can take into account all relevant circumstances, objectives, and risks before rendering an opinion as to the appropriate investment strategy.