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Real Estate Leadership Series: Redfin's Daryl Fairweather on Contingent Offers



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Today's real estate landscape is a mixed bag. Some buyers face hot markets, low inventories and stiff competition. Others must sell their current home in a cold market before they can purchase their next one. Interestingly, both hot and cold conditions may occur in the same location.

Redfin's Chief Economist, Daryl Fairweather, PhD., shares her insights about current housing markets and how buyers and sellers are responding to challenges.

First-time buyer vs move-up homebuyer challenges

You might think that [first-time homebuyers](#), with no homes to sell, have an advantage. They don't need to write offers contingent on selling their current home. But in reality, these buyers face more competition and bigger price increases.

"Generally speaking," Fairweather explains, "First-time buyers and move-up buyers aren't really competing for the same type of home. Prices for the most affordable third of homes (starter homes) are increasing fastest right now, around 9% annually, and supply is shrinking.

"This means that buyers hoping to purchase a starter home are going to face competition more often than those looking at the 'move up' segment of homes or the luxury market."

Few move-up homebuyers waiving contingencies

While there is less competition for move-up buyers, having a home to sell first can make them less competitive. [Waiving their sale contingency](#) may get them in the door. But it's not a popular option today.

"Waiving contingencies is a popular strategy when the market is hot and buyers are likely to experience bidding wars," says Fairweather.

"According to Redfin data, bidding wars are at their lowest point nationally since 2011, so we're seeing fewer instances where buyers with homes to sell are waiving those important contingencies in order to win a deal."

That's probably a relief to those who'd rather not lose sleep at night over the possibility of owning two homes at once. But in some markets, this may be unavoidable.

"The exception would be some coastal markets like San Francisco, where more than 1 in 4 offers are still competitive," Fairweather clarifies.

What about bridge loans?

One option for those who don't want to waive the sale contingency is the [bridge loan](#). Bridge loans are short-term products that allow homeowners to tap their equity for a down payment on a new home and possibly cover a few months of mortgage payments, so they won't be cash-strapped while their old home is on the market.

Having a bridge loan in place can make an offer more attractive because the buyer avoids the sale contingency.

It's unclear if bridge loan use has increased in [today's mortgage market](#), says Fairweather.

"We don't have data on the use of bridge loans, but they're a viable option for buyers who found a home to buy before selling their current home. We have seen an increase in the share of offers including a home sale contingency, which is one way to avoid needing a bridge loan."

Why not just sell your home first?

One way to avoid both bridge loans and worrying about selling the current home is to just separate the two transactions. That means selling the old home, renting while searching for a new home, and then buying.

However, Fairweather explains that buyers have "not necessarily" turned to this practice in great numbers. It is obviously inconvenient, adding an extra move and the challenge of finding a month-to-month rental.

But sometimes it makes sense. "Renting for a time between selling your old home and buying a new one can be a good idea," Fairweather declares. "Especially if you're moving to a new city. That extra time can allow you to explore what neighborhoods you like, what your commute will be, and how much your other living expenses will amount to before committing to buying a home."

But it's probably cheaper to do that reconnaissance before moving. "If you're able to do that kind of research before you move," Fairweather says, "And you're in the financial position to buy a home in your new city right away, that's usually a good option because your money goes towards equity in your new home rather than rent."

How to compete with all-cash homebuyers?

One source of frustration, especially for first-time homebuyers, is the competitive advantage cash buyers have. There are no financing contingencies and closing can happen very quickly.

"Making an [all-cash offer](#) doubles your chances of success, which sounds intimidating since not everybody is in a position to make a cash offer," she acknowledges. But buyers have options.

"If you don't have the luxury of offering cash, you can consider waiving your financing contingency, which still improves your chances by a little more than half.

"Choosing to do that carries some risk if your financing falls through, but it's more effective than waiving other kinds of contingencies like inspections or pre-inspections -- and you can mitigate risk by providing a fully-underwritten loan pre-approval from your lender when you submit your offer."

[Mortgage pre-approval](#), not pre-qualification, can make improve buyers' odds for success. Mortgage pre-approval means applying for a home loan and securing a pre-approval letter. Pre-approval means that as long as the property meets the lender's guidelines, the buyers can close.

"Another strategy that can be effective," Fairweather adds, "Is including a [well-written offer letter](#) that gives the sellers some insight into who you are and why you're interested in buying their home.

"Moving on from your home can be an emotional process, so making a personal connection with the sellers can tip the scales in your favor when it comes to choosing who to hand the title to."

Escrow today is more efficient

One positive development emerging today is that the [escrow process](#) is less stressful for both sellers and buyers.

"Escrows are more likely to close within 45 days now than a few years ago, which indicates fewer homes are falling out of the process, and the process is moving quicker," Fairweather explains. "That's thanks in part to technology."

Sadly, not all home purchases close as expected. And often, it's financing that creates the biggest hurdle.

Fairweather observes, "Home purchases can fail to close for a number of reasons, but one of the most common reasons is issues with the buyer's financing.

"As a buyer, it's best if you come to the table with a pre-approval letter from your lender because it shows you've taken the initiative to get your financing in order before making an offer. It's even better if you can get your pre-approval fully underwritten, which is basically a guarantee that it won't fall through. Title issues and low appraisals can also impact a home closing."

While today's environment can be challenging for both move-up sellers and first-time buyers, there are solutions. And both first-time and move-up homebuyers have largely been able to weather the process without resorting to riskier bridge loans or waiving contingencies.

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Mortgage Rates from Our Lenders in California				30 Yr. Fixed
Lender	Rate	APR	Monthly Payment	Details
New American Funding	4.000%	4.106%	\$748	Learn more
US Bank	3.750%	3.831%	\$695	Learn more
LoanDepot, LLC	4.500%	4.574%	\$792	Learn more
CloseYourOwnLoan.com	3.500%	3.742%	\$674	Learn more
RateZip	3.500%	3.550%	\$674	Learn more

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- Drawing Equity Out My Home
- Buying a Home
- Reverse Mortgage

Property Type:

Property State:

Credit Rating:

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