

Rapid City Real Estate Update

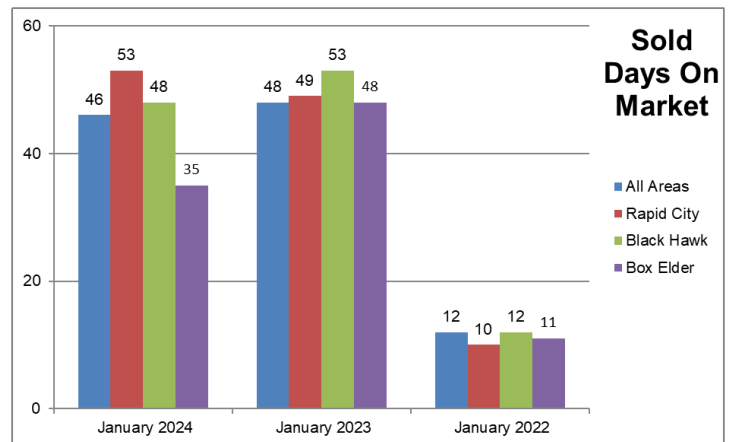
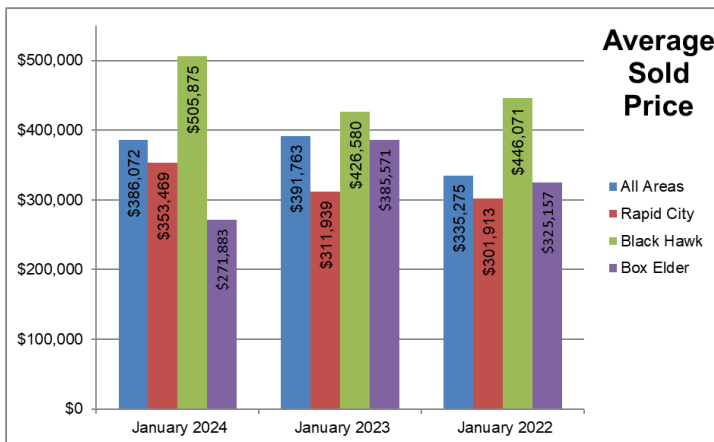
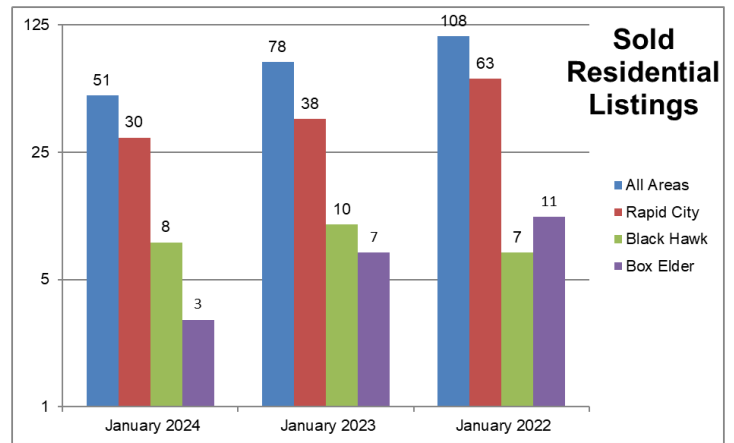
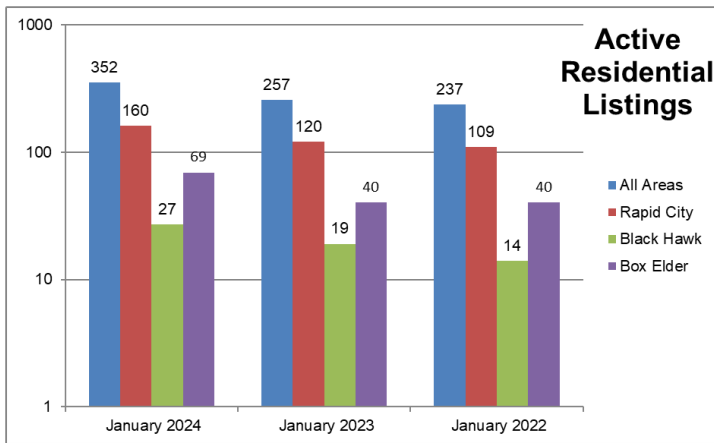


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Rapid City & Area Market Conditions For January 2024



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Are Home Improvements Tax Deductible?

There are tax implications of making home improvements, but only in specific situations. When it comes to your taxes, a home improvement might include any work done that increases the value of your home substantially, improves the useful life of the property, or creates new uses.

We'll get more into what that means specifically below.

Home Improvements vs. Repairs

First, the money you spend on your home in terms of taxes can be divided into improvements and repairs.

The cost of capital improvements can be added to your tax basis in your house. Tax basis is what's subtracted from the sales price to figure out how much your profit is. With that in mind, you can only take advantage of this if you're selling your home.

A capital improvement in this context is what was mentioned above—anything that adds value, adapts a home to new uses, or prolongs its life. Something that you could include as a capital improvement might be a new roof or central air-conditioning.

Capital improvements don't have to be big purchases either—something like storm windows counts or a home security system.

Repairs can't be added to your basis. Repairs might include painting your home or fixing your gutters.

If you make improvements to your home, make sure you keep records of everything so you'll have them if you do sell.

Tax Deductions for a Home Office

One way you could save on your taxes and improve your home at the same time is to build a home office. You get a small deduction on improvements you make to

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What To Do When An Appraisal Comes In Low

When someone is buying a home and they're going to use financing in the form of a mortgage, they need an appraisal to cement the deal. Before a bank is going to extend credit, they want to make sure they're not giving someone a loan that's more than the fair market value of the house.

That's where an appraiser will enter the scene. An appraiser will give their unbiased opinion on the value of the home.

If the appraisal is less than what your offer is, then you may feel frustrated and even a little devastated.

This isn't an uncommon situation, however. One of the big reasons for contingency issues is the appraisal.

An appraisal goes over the condition of a property, and they have to be certified in the state where they're working. Appraisers look at a wide variety of features like the year the home was built, zoning details for the neighborhood, construction details like the type of foundation, and the utilities and amenities.

An appraiser will come up with a report for the lender in around a week or so, but for VA and FHA loans, the appraisal report can take longer to finish because it has to be more detailed. There are a lot of reasons an appraisal can come in low. A lack of comps can be one reason. For example, the market might be moving faster than appraisers, so home values in a hot market could be going up rapidly, but appraisals might not be matching that pace. There's also an issue if for example there have been a lot of remodels in a neighborhood to bring the overall value of the comps up.

So what if your appraisal comes in low? What can you do?

Cover the Difference in Cash

If you're worried a pending sale won't go through, both a buyer and a seller have options.

The buyer might be able to make up for the difference in the appraised value and the sale price using cash.



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The reason a lender even cares about the appraisal value is that it impacts the loan-to-value ratio.

In some instances, a lender won't let a buyer make up the difference in cash, so there could be another option here which is a buyer covering some of the closing costs on the seller's end.

Price Reduction

The simplest solution, when possible, is to reduce the price if it was priced too high. The lender will be happy, and so will the buyer and then the deal can go through. You have to think that if you let one buyer walk away over the issue, that there's certainly a high likelihood the next buyer's lender could have the same issue.

Dispute the Appraisal

You don't have to accept an initial appraisal. That doesn't mean that your lender won't go with the first one, but it's worth a shot to dispute it or to ask for a second one.

You should always ask for a copy of the appraisal report as a seller, so you can go over it and make sure there are no glaring mistakes.

Only a lender can technically demand another appraisal, and they may or may do that, but it's worth trying.

Get Comps

You can ask the real estate agents who are working on the deal to create a list of comps that would highlight the justification for the sale price that's been agreed on. Once that's compiled, you can give it to an underwriter and ask them to review the appraisal.

Finally, aside from flat-out canceling the transaction, you might be able to negotiate and come to an agreed-upon middle point. For example, a seller might agree to pay some of the difference between the sale price and the appraisal.

There are options, but you have to find what's going to work for you, and if you're working with a good agent, they should be able to help you find a solution if an appraisal comes in low.

Courtesy of Realty Times

What Does It Mean To Build Equity?



If you own a home, one of the benefits compared to renting is that each month you're making mortgage payments, so you're building an asset which is equity. Equity refers to the amount of your home that you truly own after you take into account the debt you owe.

To calculate your current equity, you should subtract your loan balance from your home's market value. If the number is negative, then your home is worth less than what you owe on it. That means you have upside-down equity.

This is obviously not the goal. The goal is to grow your equity over time as you pay your loan. Until you pay off your mortgage, even though you're considered a homeowner, your lender still has an interest in your property. You own your home, but it's collateral for your loan.

How Does Equity Work?

If you bought a home for \$200,000 and you put down \$40,000, which would be a 20% down payment, you would then have a home equity interest of 20% of your home's value. You own the \$40,000 of your home right off the bat because of your down payment.

If your home value goes up over time, then while your loan balance could stay the same, your equity could go up. If you bought your home and the market spiked, so your home was worth \$400,000, you'd still owe only \$160,000, meaning you'd have gone from owning 20% of the home to 60%.

How Can You Build Equity?

The primary way you increase your equity is by paying off your loan.

If you have a standard amortizing loan, that means you're making equal monthly payments. Those payments in this scenario go toward the interest and principal. Over time the amount that's going toward your principal goes up. Each year that you own your home and pay your mortgage means you're gradually paying it off faster.

You can also grow your equity by working to increase the value of your home. Home prices do tend to rise in a healthy economy on their own as long as the real estate market is doing well, and you can speed that up based on the work you do to your home.

You can also make accelerated payments on your mortgage. Most of the time as a homeowner, you'll make 12 payments a year. If you split a payment into two equal amounts and send it every two weeks, you end up making 26 payments a year. That ends up being the same as having paid 13 monthly payments, so you're taking some interest off the total life of your loan.

You'll be able to pay your mortgage faster and build equity more quickly too.

Using Home Equity

The equity you have in your home is an important asset, and it's calculated as part of your net worth. You can use your equity in different ways. If you sell your home, then you're taking the equity you have in your home from the sale.

You can also get a loan against your equity. This is known as a home equity loan or second mortgage. Overall, having a mortgage is sometimes viewed as forced savings. Each month that you're making a payment or perhaps multiple payments, you're building equity or building the value of an asset. It's like adding money to a savings account but instead of your asset being cash, it's your home's equity.

Courtesy of Realty Times

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your home if you're using one of the rooms exclusively as your work area, which many people are doing now.

Any repairs benefiting your home can also be deducted, based on the percentage amount of your home used as an office.

Similarly, if you rent out a part of your home, you might be able to deduct what you make in improvements to that area. If you were to, just to give you an example, add a bathroom to the area of your home you rent, you might be able to write that off in its entirety.

Medical Modifications

If a health care provider suggests modifications to your home to help you or to allow you to provide care for your family member, such as an aging parent, the expenses of these updates may be deductible. Examples include adding a wheelchair ramp or modifying your doorways. If the improvement adds value to your home, on the other hand, it's not deductible.

Upgraded Energy Systems

The IRS has residential energy-efficient property credits. Qualifying properties according to their guidelines updated in April 2021 include solar electric, solar water heaters, fuel cell property and small wind turbines. Also included are geothermal heat pumps.

Improvements qualifying for a residential energy property credit include adding energy-efficient exterior windows and doors and skylights and roofs that are metal or asphalt. Insulation updates are included, and so are upgrades to heating and air systems to make them energy-efficient.

There are some ways to save on your taxes by upgrading your home, but limitations also exist. If you're unsure of anything, it's best to talk to a tax professional because guidelines can change from year to year.

Courtesy of Realty Times

January Real Estate Roundup

Freddie Mac's results of its Primary Mortgage Market Survey® shows that "The 30-year fixed-rate has remained within a very narrow range over the last month, settling in at 6.69% this week. Given this stabilization in rates, potential homebuyers with affordability concerns have jumped off the fence back into the market. Despite persistent inventory challenges, we anticipate a busier spring homebuying season than 2023, with home prices continuing to increase at a steady pace."

- 30-year fixed-rate mortgage (FRM) averaged 6.69 percent for the week ending January 25, 2024, up from last month when it averaged 6.67 percent. A year ago, at this time, the 30-year FRM averaged 6.13 percent.
- 15-year FRM this week averaged 5.17 percent, up from last month when it averaged 5.95 percent. A year ago, at this time, the 15-year FRM averaged 5.69 percent.

Courtesy Of Realty Times



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Black Hills Events

Rapid City Rush Games

February 16 & 17, 28
March 2, 22, 23, 24 & 27
The Monument, Rapid City

Black Hills Farmers Market

February 17 & 24
March 2, 9, 16, 23 & 30
Market Park, Rapid City

Nemo 500 Outhouse Races

February 24
Nemo

Road 2 Destruction Tour

March 2 - 7:30 PM
The Monument, Rapid City

Mountain West Whiskey Festival

March 9
The Rushmore Hotel & Suites,
Rapid City

Saint Patrick's Celebration

March 14-16
Deadwood

2024 Home Builders Association Home Show

March 22-24
The Monument, Rapid City

Dino Eggstravaganza

March 23
The Museum of Geology, Rapid City