

WHERE WILL THE WHEEL STOP?

TIMING THE HOUSING MARKET IS A GAME OF CHANCE

The season is here. Or is it? The roads and restaurants may be crowded, but will consumers be in a homebuying mood? Will they give our residential market the jump-start that is so desperately needed?

Sellers are optimistic that they will. They make a strong case by stating factors that support their position, including attractive interest rates, positive economic news, and a smorgasbord of choices for the buyer. Let's examine each of these factors a little further.

Attractive interest rates. Long-term interest rates are near a 12-month low and by historical standards are still very attractive. Other economic indicators such as unemployment and consumer confidence suggest a bullish economy. But we had these conditions last year. In fact, most of the leading economic indicators have been at record levels for the last several years, yet we find ourselves in a falling residential market. Therefore, this won't be the battery that starts this market.

Buyers' smorgasbord. In my 21 years of selling homes, I have never seen such a supply of homes and condominiums for sale. Imagine that our residential market is a bathtub and the water in it represents the homes for sale. If we opened the drain and didn't put another drop of water in, it would take almost two years to empty. In reality, there is still more water coming in than going out, which suggests an improving buyers' market. This should be the signal for buyers to start their engines. Unfortunately, I believe too many buyers will miss this great opportunity because they will wait one day too long. Or put another way: They will spin the wheel one too many times. Think of it as playing "Wheel of Fortune". The contestant can solve the puzzle but wants to keep spinning in order to accumulate more money. This makes sense: however, there is risk with each spin because the wheel can stop at Bankrupt. Some will quit spinning as soon as they know the answer; others will get greedy and end up with nothing.

I hope that buyers will recognize how much they have won rather than how much they might be leaving on the table. But if history repeats itself, they will wait too long. I know this because it was just over a year ago when the sellers were spinning the wheel. They had a four to five year run, and they were ecstatic as they watched their home values increase beyond their wildest expectations. Although there were plenty of warning signs that they should sell before it was too late, they didn't. Buyers should learn from this. The question is, will they?

Real estate values have dropped an average of 20 percent from their peak. The oversupply suggests that sellers are in the mood to consider offers and contingencies that they would have laughed at last year. Buyers are winning; and might I add, it's

about time. But like the sellers, there will be a limit to how much the market will fall. In addition, unlike the seller's situation, there will not be any warning as to when the market will change. Therefore, buyers should be warned!

We are currently selling property at the same pace we did in 2002 and 2003. However, our population is greater and there are people moving here every day. This suggests a back log of buyers developing. Most are sitting on the fence, waiting for the most opportune time to buy. When this pent-up demand is released, it will immediately shift the market from a strong buyers' market toward a natural one. Sellers will become less flexible as they sense better days just around the corner. The fence-sitting buyers will not want to completely miss out on the buyers' market and will want to step in before it's too late. Good deals will still be there, but the market will have already bottomed and will be heading back up.

Everyone wants to know when this shift will occur. But even if we knew the exact time and day, what good would that do for the majority of the buyers? The fact that nobody knows when the market will reach bottom is a plus for buyers. Fear accompanies the unknown, and if sellers fear that tomorrow will be worse, they will be more flexible. The buyers' leverage would be eliminated if the sellers had an idea of when better days were coming. So if you happen to know the exact date, be sure to keep it to yourself!

Each day brings a new spin of the wheel. Buyers have tens of thousands of dollars in winnings and were lucky again today. How many more days will they test fate? In the game show, there is only one winner, and there are two losers. Likewise, I believe about a third of the buyers will cash in and the other two thirds will wait a day too long. Which one will you be?



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