

Building Construction

Housing slump may offer opportunity to buy dream home

Although the news about the economy has been gloomy lately, there could be a rainbow on the horizon if you're thinking about moving up to your dream home.

As everyone knows, the real estate market has taken a sharp turn south. Areas in California and Florida have seen 40 percent or more declines in housing values.

But no recession since the Great Depression has lasted more than two years (that one lasted 10). And all the others were good times to buy real estate.



When values decline, many people wait on the sidelines to see how low they can go before making a purchase. But given that history usually repeats itself, the question should be, "How much can I buy before prices go back up?"

In addition to considering a second home or investment property, it may be just the right time to move up to your dream home.

Your dream home is likely to be a more expensive home. Even if you will need to sell your current home at a perceived loss of 10-20 percent during a housing slump, you might more than recoup that loss with the gain you'll realize on the purchase of a home of greater value.

Let's say you sell a \$300,000 home at a 15 percent "loss," which simply means a lower market value than you might get during a good market. It feels as if you just lost \$45,000.

But if you purchase a \$600,000 home at that same 15 percent reduction, you've just realized a \$90,000 gain, for a net gain of \$45,000. This is provided you purchase your new home at the right price and can hold through the slump. And remember, historically slumps have averaged no longer than two years.

So how do you buy your dream home at the right price?

Look for languishers

Homes that have been on the market longer than average are probably overpriced. In any market, if a home is priced right, it will sell.

To learn which homes are languishers, ask your real estate agent to check the days on market (DOM) for the general area and send you listings of homes in your price range that exceed the average DOM.

Be specific. You want to check days on the market of homes in your area in your price range.

For instance, perhaps homes under \$250,000 are selling in your area in an average of 38 days. But homes above \$600,000 are taking longer, say 53 days. If you're interested in the \$600,000 price range, you'll want to look for homes above \$600,000 that have been on the market longer than 53 days.

Offer less

Let's say you discover a home that is priced at \$800,000. It's exactly what you're looking for, but it's \$200,000 over your limit, and you've noticed that similar homes in the area have sold for closer to \$600,000.

This home has been for sale 130 days in a market where 53 is the average. That's a huge clue that it's overpriced.

In addition, it's vacant. The owners have moved on, and they're probably paying two mortgages. This is a home that is ripe for a lower offer.

Many buyers are afraid to offer substantially less. Often they assume the sellers have already turned down low offers, and they don't want to insult the sellers. But what if your offer is the only one they receive because they are overpriced and don't know it?

Even if they have turned down lower offers, time has passed, and their situation may have changed. What if they're faced with either accepting your offer or going into foreclosure? If you can, make a case for a lower offer. Then make your offer.

Pay attention to interest rates

If you're waiting for prices to drop even further before you make your move, don't forget a crucial part of the equation: interest rates. Principal and interest payments for 30 years on a \$425,000 home – after a 20 percent downpayment – at 7 percent amount to \$2,262. But today's interest rates are dropping to historic lows, and no one knows where they will end up. At a rate of 5 percent, you can purchase a \$525,000 home and have nearly the same monthly payment. That's \$100,000 more purchasing power with a difference of just two to three percentage points in interest rates.

With the current combination of lower housing prices and low interest rates, now may be the best time to buy – until the next recession.

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