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Is now a good time to buy a home? Don't focus on falling prices, focus on long-term goals

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Last year, the home sale market began to slow, causing many buyers to postpone buying hoping that prices would drop. In fact, in some areas and in some segments of the market, prices have declined. However, in high-demand markets like San Francisco, Austin and Seattle, prices increased compared to a year ago, particularly for upper-end properties.

When interest rates fell below 6.5 percent at the beginning of 2007, San Francisco Bay Area buyers were back competing against one another in a low-inventory market. Was it wise for these buyers to postpone buying until 2007? Waiting resulted in lower interest rates, but in many cases, a higher purchase price.

Mass psychology influences home-buying patterns. For example, when buyers decide that it is not a good time to buy due to fear of falling prices or rising interest rates, this notion tends to become a self-fulfilling prophesy. When the volumes of home sales drop, buyers tend to hold back. When sales heat up, buyers perceive this as a good sign. They feel they must buy immediately before home prices rise and they are priced out of the market.

Buyers tend to follow the herd, which is counterintuitive. It would seem that the best time to buy would be when there isn't competition from other buyers -- that is, in a slow market. However, most buyers feel more comfortable buying when all their friends are buying. The comfort of the crowd validates that their decision is a good one.

Home sale markets are cyclical. There are up markets, down markets, and stable or balanced markets. In an ideal world, you would buy at the end of a down cycle, just before the housing market picks up again. But, it's impossible to time the real estate market. You know that the bottom of a cycle has passed only when the market is moving upwards again.

HOUSE HUNTING TIP: Given the cyclical nature of housing markets, home buying is risky unless you have a long-term perspective in mind. If you buy at the peak of a cycle and are forced to sell soon after in a softer market, you could end up selling for less than the price you paid. Buyers who can stay put and ride out a down cycle are in a better position to recoup their investment when they sell, and possibly make a profit.

In an uncertain market, buyers who are not sure about how long they will be living in an area may be better off renting than buying. It's often difficult to find a rental that feels like home. However, from a purely financial point of view, buying for the short term could end up costing more than you anticipated if you need to sell in a down market.

A common complaint about renting is that it's a waste of money. There are no tax benefits and you don't build equity. However, it can cost less to rent than to buy. To get the tax write-off, you often need to pay more than you'd have to pay renting. Renting usually requires no home maintenance and there's no risk of losing equity.

Good candidates for buying in a slower market are buyers who are ready to put down roots and stay put for awhile. This not only means that you aren't planning on moving out of the area soon, but it also means that you can afford to buy a home that will suit your long-term needs.

THE CLOSING: A purchase decision should involve a consideration of the dynamics at play in your local market. Prices might or might not drop in your area. In many places, sales volume is off, but not prices. When inventories are reduced and buyers are back in droves, prices could go up.

Dian Hymer is author of "House Hunting, The Take-Along Workbook for Home Buyers" and "Starting Out, The Complete Home Buyer's Guide," Chronicle Books.

