

# Real Estate Reality Is Now... THE RIGHT TIME TO BUY?



-Debbie Yost

With home prices more reasonable than they've been in the past year, many folks are asking if it might be time to buy the home that wasn't affordable for them last year. Many are looking at homes that are priced very attractively and seriously considering making a move. It's more of a buyer's market here than it's been in several years, with plenty of available inventory and sellers who are flexible enough to help pay some of the buyer's closing costs. This area is going to continue growing at a fast pace and nothing short of a major local disaster is going to change that fact. The statistics we track indicate that homebuyer activity is increasing, with nearly 1/3 of the homes that were newly listed in Casa Grande in May selling in an average of 36 days.

As lower prices, flexible financing and eager sellers continue to tempt buyers, what's stopping some of them from going ahead with the purchase that they would love to make? The major hurdle for most is confidence that buying is a good financial decision. If they already own a home they are wondering if they can sell it quickly enough and at a generous enough price to make the move into the new home affordable. While their existing home will sell for less money than last year, they can also buy the new home for less. Even though interest rates have crept up, mortgage rates are still incredibly affordable, especially by historical standards.

If the homeowner purchased their home in 2005 with a minimal down payment, it's very likely that their mortgage balance is so high that they would need to bring cash to the closing if they were to sell today. If they purchased the home prior to 2005, it's quite likely that they had a significant amount of appreciation and consequently have quite a bit of equity. If they are fiscally conservative, it's likely that they will want to sell their current home and reinvest the proceeds in a new home. It's a fairly simple decision for them. Their home won't sell for as much money as it would have in last year's market, but it will certainly sell for quite a bit more than they paid for it, and the new home is also not as expensive as it would have been if they had bought it last year. The people in this category are quietly making the move and buying some beautiful homes at wonderful prices.

When we sit down with folks to analyze whether they can afford to move to the new home, and we look at it from a black and white, dollars and cents viewpoint, rather than an emotional one, many are making a significant improvement in their future financial security by making the additional home purchase. As long as the loan balance on the existing home isn't exorbitant and the family isn't overloaded with consumer debt (credit cards, car loans, and home equity loans), in many cases it makes prudent financial sense to rent the existing home and buy the new one. In case your stomach is starting

to churn at this point, let me remind you that professional property management services are available to properly check potential tenant's credit history, rental references and history, as well as income. Vacancy rates on single family homes have decreased over the last year and rental rates have started to increase once again.

Real estate has been a great investment historically, and if you are able to purchase property at the lower end of the market cycle it performs even better than the average appreciation rates. If you are financially capable of purchasing the new home without pulling out every dime of equity from your existing home, your net worth will grow even faster due to appreciation on two properties and because of the favorable tax advantages of owning real estate rental property. For example, one property valued at \$200,000 will earn \$10,000 in value in one year with an appreciation rate of just 5%. If you were to continue to own the \$200,000 property, allowing tenants to pay the monthly mortgage payment, while earning additional tax deductions for you and buy a new property worth \$300,000, the appreciation on both increases to \$25,000 per year. While my crystal ball can't predict appreciation rates most properties in this area have had an average historical appreciation rate of 7% per year. In 2005 the abnormal appreciation rate hit 40% and I don't anticipate seeing that incredible one year increase again here for quite a while!



If the thought of taking advantage of the market's current lower pricing intrigues you, I highly recommend that you take a serious look at your financial situation and visit with your tax advisor to have them give you a projection of the tax consequences if you choose to invest in a new home for yourself or for a rental property. Talk to some property managers in the area to get their opinion on the size, price range and features most renters are looking for these days. Talk to your spouse about the level of anxiety they would experience if the home were unrented for one month.

Whether you decide to rent your existing home or sell it, don't pass up this opportunity to buy in this market before prices begin to rise again. The out of state investors are back here again, quietly picking up the best home deals on the market. Why should they be the only ones to benefit from this opportunity?

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