

Casa Grande Real Estate Reality

BUY NOW OR WAIT?



-Debbie Yost

Should we buy now or wait? Will prices go any lower? Are interest rates going to rise? These are the questions homebuyers are asking today. Sellers, who are disappointed that appreciation rates have slowed are asking: How much longer will my house be on the market before we get an offer? Should I lower my price or just wait? What's it going to take for us to sell this house so I can still close on the new home we bought?"

After reading headlines such as "Valley resales plunge.....May sales down 34% from 2005" and "Holdouts clog up housing market" I am reminded of Chicken Little running around proclaiming "The sky is falling." The media absolutely fueled the buying frenzy and price escalation of 2005 and now is creating fear of today's "normal" market. In 2005 the news featured stories of investors and young families gleefully planning their move up into a bigger, better home after experiencing an incredible equity jump after just a few months. Investors were profiled for buying several homes in new subdivisions and "flipping" them for enormous profit before construction was completed. Just one year later, news reports are profiling similar families who cannot sell their existing home at the increased values they were hoping for.

What actually happened to our real estate market? Allow me to paint the picture that I see. As baby boomers mature, the biggest wealth transfer in history is occurring. Their aging parents, who learned to save for a rainy day, are transferring assets as they die to a generation of Americans who love to spend. Baby boomers seek active retirement lifestyles and are naturally attracted to the sun belt. The demographer, Harry S. Dent predicted all of this in his series of books.

Disillusioned by stock market cycles many investors moved their money to real estate. Prior to 2005, Arizona's home prices were greatly undervalued compared to similar metropolitan areas. In 2005 investors were swarming the state, seizing opportunities for quick profit. They bought in new subdivisions at pre-construction prices and sold with a healthy profit when they "flipped" the house months later. The production builders were quick to recognize another potential boom and bust cycle, having just witnessed this in Las Vegas the year before, and stopped selling to non-owner occupants early in 2005. The investors shifted to buying existing homes. This caused the 40% price increases of 2005, as investors and homeowners outbid each other for a declining supply of homes. The media reports fueled this price escalation by featuring people who were profiting on the market increase, while at the same time beginning to ask the question in the summer of 2005, "when will this bubble burst?"

As housing costs escalated at record paces across the country the Federal Reserve Board began a series of interest rate increases designed to slow down consumer's buying frenzy and resulting inflation. At the same time fuel prices increased and the "drive to qualify" began to slow the sales pace in those less expensive new developments on the fringe of the metro area. The professional investors, who actually help create these types of binge cycles estimated that market values were peaking (Sept 2005) and began to sell their properties. In the fall of 2005 the

inventory of available homes for sale began to increase and sales prices became static. Investors accounted for almost 40% of the home purchases in 2005, and when they stopped buying, supply exceeded demand.

When the market peaked those who had counted on continuing appreciation to fund their move into a new home were surprised and unprepared. As reality hit and these folks were unable to sell their home at the price they had hoped, they've cancelled the purchase of the new home. Builders now have an inventory of "inventory or spec" homes as a result and you'll notice their offers of large price discounts plus cash incentives to cover buyers closing costs. Experts suggest that production builders are still profitable, although lowering their corporate profit projections from the record 2005 numbers. All is proceeding according to the plan of the Federal Reserve Board in slowing down an economy they perceived was growing too quickly.

All indications are that the local real estate market is experiencing a normal correction. Last year homebuyers were forced to participate in a lottery for a chance to buy a new home or outbid each other for homes that were sold in "as is" condition. Buyers once again have a selection of homes to choose from and most home sellers will still experience a healthy profit. It's the folks that bought in the peak of last year's market or those who are insistent upon overpricing their homes based on last year's sales who will experience a tough selling experience in terms of lower prices, longer days on market and making repairs or cosmetic improvements. Many of the thousands who first obtained their real estate license last year will quietly not renew their license as the costs of doing business increase with fewer sales to offset those costs. Experts predict that only 7% of those who were first licensed in 2005 will renew in 2007.

What are my answers to the questions buyers and sellers ask? Real estate provides security, shelter, a place to raise a family or enjoy your retirement years. History shows it has continually been an appreciating asset, while providing tax deductions. Informed investors who purchase property for the long term rather than the quick flip are already quietly back into the local market, buying homes that can be rented easily while normal appreciation augments the tax advantages of owning real estate. Families who want to move to a larger home are relieved that while their home may not sell at record high prices, the replacement home is also not at a record price.

Arizona experienced a 20% population growth in the past 6 years. As Elliott Pollack, Arizona economist stated in the June 12th Arizona Republic, "In the 36 years I've been doing this, the one constant is a lot of people saying 'Things are going to slow down.' They never do." Statistics from ARMLS (Arizona Regional MLS) show that 34% of the new listings that came on the market in Casa Grande in May sold in 36 days for the median price of \$206,050 which compares positively with the median sales price of \$167,000 in May 2005 and \$185,000 in Sept of 2005. Is the supply of homes larger than a year ago? Absolutely. There is an 11 month supply of homes in Casa Grande compared to a 2 month supply in May 2005 and 4 month supply in Sept of 2005. Bubble bursting? I don't think so. Just a normal market correction.

The question that is on the top of my mind is "Are we on the tip of this market cycling back upward again or will the public allow the media scare to exaggerate this phase of the market, just as they did last year?"

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