

October 18, 2005

**Falling leaves. Falling prices?
The Emerging Buyers' Market in Real Estate**

By Richard Stanley

The seasons have changed. It's no longer summer—and it's certainly no longer spring. Those seasonal changes apply to this year's real estate market, too. The sizzling market of six months ago has cooled considerably. Here's what to expect in the season of our new real estate market:

The Mood of the Market – In a word: “anxious”. No one seems to be happy about much of anything lately. Consumer confidence is at a 13-year low. Approval ratings for politicians are at new lows, too. Prices, especially for energy, are rising. Wall Street is still in a funk. And does anyone feel warm and fuzzy about the economy? Will we have another era of “stagflation” as we did in the last energy crisis?

The Inventory – Presently, there is about *triple* the inventory of houses for sale compared to mid-summer, when there were many more houses than last spring. The inventory exploded in September. Perhaps many folks came back from their vacations, sensed a market peak and decided to sell.

Pricing – Over-pricing a property is deadly. Some sellers, even if they ask for the moon, believe that *someone* will inevitably make an offer on their property. Over-pricing a property discourages everyone from making an offer, except perhaps for the flakiest of buyers. With over-priced properties, buyers lose hope for success. Pricing a property realistically is imperative now. Buyers are not jumping at anything at any price today.

Multiple Offers – In short, unless your house is ultra-special, stylishly “done”, in move in condition, priced under-market or a fixer with great “bones”, don't expect multiple offers today. Impressive numbers of buyers are still shopping, but with few exceptions, the keen competition has passed.

Market Time – Market times have lengthened considerably. The real estate adage: the longer the market time, the lower the price is true. Some astute buyers watch and wait for properties to “go stale” on the market, then they swoop in for a bargain. This strategy is working again. Some sellers are giving up and taking their properties off the market. The number of expired listings is rising, too.

“Low-Ball” Offers– A “low-ball” offer is one that is considerably under the asking price. No serious buyer dared make one of these earlier this year when buyers lined up with offers. “Low-ball” offers are now common. Buyers, including speculators, are not afraid of making “aggressive” offers—even if the property is new on the market!

Who's Buying? – The profile of buyers has not changed, and the amazingly stable interest rates have not inspired people to buy now, before rates jump higher. There is movement, however. Jumbo rates are now above 6% for the first time in a while. Still, buyers are picky, demanding and slow-to-act, even to the point of indifference. Compared to the buyers in the market of last spring, they are a different species.

The Escrow Process – Escrows are not so happy lately, as sellers are asked for more concessions than before. Sellers beware: today's sales usually contain a "Round Two" of negotiations after the buyer conducts inspections. No house is perfect. Inevitably, defects are revealed, the buyer asks for monetary compensation or repairs (even though the house is sold "as is") and the seller, to keep the deal together, offers to perform repairs, a price concession or a credit toward the buyer's "non-recurring closing costs". Last Spring, these negotiations were brief and the concessions minimal, if any. Now, expect significant concessions by the seller if the house has problems. Often, negotiations fail. Cancelled escrows are on the rise, too.

The Opportunities – In every adversity there is opportunity. The opportunity for buyers is that the end of a calendar year is traditionally a slow selling season, as many sellers find selling now inconvenient. Today's high inventory, longer market times and anxious sellers mean possible bargains for buyers—and at what may be some of the last under-6% loans to be seen in a long while.

For sellers, this may be "last call" for some time for relatively high sales prices. Still, the last ten years have shown that, come January 2nd, the market revives. Buyers come back from their holidays and begin spending serious money again in the real estate market. Whether this precedent will hold sway in 2006 is anyone's guess.

For realtors, this market demands intensive, effective, consistent and expensive marketing; keen negotiating skills; creative problem solving; lots of client "hand holding"—and stress. It is not a market for the neophyte or amateur. Everyone will need to keep wits—and pencils—sharpened in the days ahead. In the meantime, happy hunting in the remainder of the 2005 real estate market and happy holidays!