

## The View Ahead in 2006 Local Real Estate

By Richard Stanley

If last year was all about supply—not enough in the beginning of the year and too much at the end—this year will be all about price. 2006 will not be the year to test the water with an overly-ambitious (read: “greedy”) price. As a seller, if you don’t get the price right, you are likely to wait for an offer—“offer”, as in singular. Don’t expect queues of panting buyers, as last year. Feel lucky if you get one solid offer. Keep the big picture (closing the deal) in mind as you go through an escrow that may seem like a minefield. Don’t let pride or small-potatoes issues distract. A relative few dollars forfeited to keep the deal together may be money well-spent in 2006. Be glad that you, as a seller, are getting liquid in a still-heady market (remember last year’s F-word, “frothy”?).

Lately, the customary total sales commission dropped to about 5%. Already, though, I am seeing incentives such as “4% Commission to Buyer’s Agent” in print. Such incentives seem desperate. Remember: both agents AND buyers are coin-operated. Sellers are wiser offering the customary commission and the right price initially. Expect to see commissions rise again to about 6% as market times stretch and the weak agents fail and leave the marketplace (there will be fewer working agents in 2006). Discount agents cannot afford long, expensive marketing campaigns in a slowing market. Smart sellers will pay more in commissions to successful agents and talk to their accountants about the extra costs of sale at tax time in 2007.

As market times lengthen, look for more expired listings that get re-listed by second or third brokerages. These sellers may exhaust several brokerages before they either give up or sell at deeply-discounted prices. This agonizing phenomenon is called “holding your breath”. In particular, watch imprudent speculators turn blue in 2006.

There will be more foreclosures than before, but the real estate market will not crash in 2006. Here’s why: for a market to crash, at least two of the following must happen coincidentally:

- Interest rates soar. It is current dogma that the Fed will raise interest rates to about 6.75% for a 30-year conforming mortgage by year’s end. This rise is not dramatic enough to crash the market. 2006 is a mid-term election year. Washington is unlikely to use shock therapy on what has been the lynchpin of the economy lately.
- Capital gains tax rates soar. Not likely in 2006 for the reasons above.
- Unemployment soars. The entertainment industry is our local economic engine. Other significant local employers include hospitals, government and downtown concerns. It is unlikely that major unemployment in most, or all, of these sectors will happen in 2006.
- Other markets become wildly attractive. Recent upbeat news notwithstanding, Wall Street will not win back the hearts and minds of investors chastened by the .com bust—at least not en masse in 2006.
- Foreclosures pop up on every block. 2006 will not see a new “REO” (“Real Estate-Owned”), or lender-owned, market such as during 1990-1995. It’s too early to have

lenders taking back properties by the dozens and leading the market down by selling them for what the former mortgagors owed—or less. Look for these properties to come on the market possibly in 2007 or 2008 when the effects of rising short-term (adjustable rate mortgage and credit card) rates arrive.

- A major disaster occurs. Roll the dice on this one. We live in California and know earthquakes, fires, floods, landslides, riots—and Med-flies. Toss in “terrorist attack”, too.

What’s a buyer to do? Take advantage of the still-low interest rates and abundant inventory--soon. If there is a busy season locally, it is now through the end of April. After that, the market tends to decrescendo until the end of the year. Already, I have noticed two to three times as much Sunday open house traffic this January compared to late 2005. Wait too long and you could encounter less inventory at higher interest rates. Will the prices be lower toward the end of the year? Possibly. Remember, though, real estate is an investment that most people live in for years. A house you can’t stand waking up in is never a bargain.

## ## ##