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## How financing affects the entire real estate market

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I think many people have underestimated the influence that financing has on the real estate market. Although most people can see how lower rates can lead to higher overall real estate values, the availability of financing or lack of availability is huge.

This has never been so apparent as now. It wasn't so many years ago that we were saying, how long can this market appreciation last. Most professionals kept thinking that it would level off 2-3 years before it actually did. One of the factors that continued to fuel the market was the creation of all kinds of financing programs by the mortgage industry. While most banks continued to lend to borrowers who actually qualified for the loans or at least had a long term relationship with their bank, mortgage companies were lending to anyone who was breathing. You could buy with no money down, terrible credit and insufficient income to pay the mortgage. The rate however was another story.

For those who really couldn't afford those homes and had no financial discipline, the dream is turning into a nightmare. Many were just not educated enough or the temptation was just too great and they ended up in programs that could only lead to the eventual loss of their home or the financial struggle of their lives.

Now the mortgage industry has gone to the other extreme, pulling many programs from the market all at once and denying loans to people that probably could carry the loan. Underwriters are looking for anything they can find in the appraisal as a basis for a denial. This has had a huge impact on the market and real estate values because of the decrease, not in demand for real estate so much, as the decreasing pool of buyers. Going from one extreme to the other has played havoc with the market. People seem to be at a stand still, just not doing anything.

The construction industry has been hard hit, not just with the decrease in demand for new homes, but there is a reluctance by homeowners to build additions and do major remodeling.

It is amazing that rates are still so good, yet people think they should wait to buy. For those that still can, this is the greatest time to buy anything. The rates may go down further, which would be great for the market and for those of you who are still thinking about it, what are you waiting for? There are amazing real estate deals out there. Yes—it is time consuming to go looking for them but the payoff can be great.

And for those of you who think they are going to buy and "flip"—be very careful. Many are overpaying for these properties. The costs to renovate are always higher than you think. You must make allowances for those hidden costs. Carrying costs are increasing. You have to figure in the cost of the mortgage for 3, 6 maybe 9 months sometimes, while you are waiting to sell.

So we are all learning how financing can create or destroy wealth. It is an integral part of real estate value. And one way or another, history always repeats itself in the real estate market.

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