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By Davenport Crocker Jr. - How purchasing a home now will make you extremely smart in just ten years

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A question that's puzzling buyers today is "Should I buy now or wait?" The question is prudent and understandable considering the breadth and depth of the dire news reported almost minute by minute in all forms of media today. Our own interest in 24-hour headline news, the constant buzzing of Twitter alerts and Facebook updates, and the competitive environment between news organizations to be the "first" with breaking news has provided a proliferation of statistics, studies, polls and reports.

An often overlooked quote of George Bernard Shaw is, "The problem with communication ... is the illusion that it has been accomplished." Too many times we assume since we've heard a statistic, scanned a headline, read less than 140 characters, or overheard a conversation that we know the true story. Real estate and the requisite question being asked by buyers suffer from this hyper assessment of the true market conditions. Without even a thought, I am quite certain that I could produce a compelling set of statistics to prove why the 4th quarter of 2011 is both the best and the worst time to purchase a piece of real estate. That's one of the wonderful things about statistics; they can be used equally effectively by both sides of any argument. Our collective willingness to accept any small set of statistics combined with a compelling narrative is why we get ourselves into trouble in the first place.

So what do we do about this? How do we answer the question as to whether now is a good time to buy? In a word, it is perspective. To truly answer the question we need to step back from the real estate marketplace of "this instant" and consider the question if asked from the future: "Was it a good idea to purchase a home in the 4th quarter of 2011?" When we think about asking this question in October of 2021, our answer becomes crystal clear, and the responsibility for whether we purchased at the lowest price will seem almost insignificant. In a real sense, the buyer who secures the lowest mortgage interest rate is almost always going to win the race.

Here's some interesting perspective: in 2009 and 2010, buyers were encouraged to purchase homes because of the availability of the homebuyer tax credit, which effectively provided an \$8,000 incentive to purchase as long as the transaction settled by late spring of 2010. At the time, the average mortgage rate was just above or near 5%. Now compare the same purchase occurring today. Depending on the community, there may have been either a very slight increase in average pricing, although in the majority of the state there have been continued modest declines in average home prices. Many will simply focus on pricing. However, regardless of the price, a purchase today without the \$8,000 tax credit and the current average mortgage finance rate of now just 4% is a huge windfall for a buyer. Why? Simply it's about the lifetime cost of the purchase - on average a

buyer who's paying a mortgage at 4% will be saving approximately \$3,000 a year in mortgage costs and if they stay in their home for 10 years the buyer today will have saved \$30,000 in total costs compared to the buyer who saved \$8,000 just over 18 months ago. That's a difference of \$22,000! There are some that feel that home prices are still readjusting, and there are more declines ahead of us. I think you would be in pretty good company if you agree. But again, think about the future. Are you going to worry more about the 3% to 5% you might save in a purchase price by waiting for the "bottom" of the market, or are you going to capture the lowest mortgage rate? Waiting for a lower purchase price isn't foolish, but it must be considered against the risk of rising mortgage rates. When rates move from 4% back up to 5% it will not only affect a buyer's cost of purchasing the home. It will also affect the actual purchasing power (how much you can qualify to pay for your mortgage). A common quoted figure is that for an increase of 1% in mortgage rate, a buyer's purchasing power declines approximately 12%.

We all love a story with a happy ending and for many there are too few happy stories being told. If you're a buyer -- that is if you need a place to live and homeownership is part of your American Dream -- purchasing a home now will make you extremely smart when we look back from the future. And for home sellers, despite the challenges of pricing and getting interested buyers to purchase your home, it's important to remember that if you sell and buy another home in the same market, you've lost nothing. As a seller, a recovery will reward you if you stay in your home, although selling today and purchasing the next home of your dreams will allow you to realize the recovery (and the equity) in the home you'll be in for the next 10 years.

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