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CELEBRATING 55 YEARS

History always repeats itself in the real estate market

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Real Estate values historically run a 7-10 year cycle. One of the greatest influences on value is the mortgage interest rate and the availability of different types of loans. Years ago it was typical that a first time home buyer would have to save a percentage of the home purchase price for the down payment. The buyer would also have to come up with closing costs. When values were lower, this was a little easier to do than it is today. It is more typical now that the seller credits back money to the buyer for closing costs, and luckily there are still some programs for 95-100% financing. The thing that is not as prevalent as it used to be is the availability of money for people with poor credit and bankruptcies even at higher rates. If people do not qualify because they are self employed and/or don't show enough income, loans are not available.

Because rates were so low and then trickled up a little, it kicked a lot of people off the fence and towns that were showing stable market trends began to appreciate rapidly with full price and multiple offers. Appreciation in the state is still market specific but most areas of Central and Eastern Massachusetts are showing increasing market values. Often I am asked by lenders if a certain aspect of a piece of real estate affects the value or marketability of it. Often my answer is "it depends", (which is a standard answer that an appraiser gives to any question). I then ask, if I say yes, will you not lend on it? Because if it affects the ability of a buyer to get a mortgage on the property, then the answer is definitely yes. It is a "catch 22". The condition of a property is still a factor in obtaining a loan today. If a property needs some repairs there are still many mortgage options available especially if you have a down payment. But many of the most popular loan programs require the property to meet minimum property standards. So you see, mortgage financing has a great affect on real estate values. The last real estate peak in most of Massachusetts was in 2005 after which the market began to decline until it bottomed out in 2009. It then stabilized and eventually began recently appreciating at a fast pace.

So the question is, how much will it appreciate and for how long. Obviously, we cannot be totally sure. That outlook may be a little optimistic but perception is reality. Optimism can only help the market. Certain types of properties, in certain areas, will be affected more or less depending on the basic principle of supply and demand. No matter how high the values are in a town, if too many houses in the same price range are put on the market, they will sit longer and decline more in order to sell. A good appraiser will analyze all the data, and make a determination whether values are truly appreciating and at what rate. It is inappropriate to just make an assumption either way, based on speculation.

Lenders are beginning to scrutinize appraisals even more than in the past, ordering second appraisals and review appraisals to try and eliminate fraud. The credentials of the appraiser can play a more important role than it did in the past. It helps if the appraiser has a designation or at least is a member of a credible appraisal organization like the Appraisal Institute or the Massachusetts Board of Real Estate Appraisers.

And yes, history will repeat itself. There are still many opportunities to make money in the real estate market. The availability of money and the interest rate will become more important than ever. The world of financing has changed and will continue to change. There is a simple principle that applies as interest rates rise. A buyer cannot qualify for, or afford as much of a house. Sellers and buyers need to be educated as to where in the cycle the market is and act accordingly.

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