

# HOUSING PRICES ARE SO LOW:

# SHOULD I BUY NOW?

(or would that be just plain crazy)



March 2008

## A STRAIGHTFORWARD ANALYSIS

from jay nord and karin nord martinek

Just where are we in the property market value cycle? The powerful changes in the housing sector have everyone doubting the traditional forecasting models. Those willing to step into the fray find opinions about the short-term market running the gamut from guardedly optimistic to crankily apathetic. We've been in the field for this entire market cycle and we have an opportunity to brainstorm with smart, inventive professionals, investors, and consumers every day. For those of you who are tired of the pundits, the hysterics, and hype-mongers, we're here to offer our point of view on one of this market's biggest questions: To buy or not to buy? We hope we enhance the dialogue with a balanced, down-to-earth, ultimately useful point of view.

### 1 THE BOOM AND THE BOTTOM

Ah, spring 2008! You know the old saying, in like a lamb, out like a lion? So sorry, this year we've got no shortage of lamb and not even a lion cub on the horizon. But there's a significant upside to all this mutton, so read on.

First a little back-story for those of you who don't follow the housing market that closely. The Twin Cities real estate market has historically included a March and April blooming—and booming—with the eternal hope of spring. Back in the golden, glorious, grand old days of 1999 -2005, the spring market had a fine frothy head on it by the first or second week in March and hit the high bar by Memorial Day weekend. Those were the days, my friends. Pricing kept rising, money was cheap, projects were plentiful, and all of us, professionals and consumers alike, felt like real estate masterminds.

In 2006 and 2007 the buy spike flattened out. But the developers were still building at boomtown pace, the annual Parade of Homes book grew to phone book proportions, and it was painless to ignore the symptoms of a bust well under way. Developers and builders in particular, in the face of overwhelming evidence, did a lot of what our dear granddad would've called "whistling past the graveyard" as they built ... and built ... and *built*.

This year spring didn't really happen at all. The whistling has stopped, we've all had the necessary reality check—though for some of the players, it's taken a hard hip check into the boards of reality. Sanity has returned. As a result, prices have adjusted. Inventory has leveled off. The wolves of Wall Street have been tethered and muzzled, as regards the subprime market is concerned anyway.

### 2 ON THE LEVEL: STABILIZATION INDICATORS

All hail the return of sanity and its traveling companion, sound reasoning! While we won't go so far as to claim this year's quiet spring reflects a market place experiencing the peace that surpasseth all understanding, we do believe that after a dozen years of wacky behavior, the Twin Cities residential housing is stabilizing. Here are four undeniable indicators that the market is leveling off:

- **MORE BUYERS SHOPPING** Increased showings on existing listings, by many accounts up 50% from the same period as last year. To be fair, as a baseline 2007 was no barnburner, but growth is growth.
- **MORE BUYERS APPLYING** Increased mortgage applications, by many reports up 50%. Underlying this is the fact that buyers now understand that firm lending commitments are essential to striking the best bargain.
- **BUILDERS GONE BYE-BYE** Builders have finally stopped building spec homes, and applications for land development are close to zero. There is still a lot of inventory out there, in some areas 18 to 24 months worth, but at long last no one is throwing more inventory into the mix.
- **THE PROFIT-SEEKERS ARE JUMPING IN** Professionals that specialize in the real estate market boom-bust cycle are buying everything they can get their claws on. We know of a dozen well-financed, experienced, savvy groups that are out there writing offers ranging from huge land developments that banks are liquidating for 50 cents on the dollar to block purchases at \$60K per home of hundreds of homes in high-foreclosure urban neighborhoods. In many cases they are repurchasing property they themselves *sold* for triple or more the price just a few years ago during boomtime. Why do we care about this, other than to boggle in wonderment at the avarice it exemplifies? Because these guys play for one reason only—maximum gains. Ergo, they are purchasing now because they believe prices have hit bottom.

### 3 SMART MOVES IN 2008 FOR A REGULAR JOE

But you're not a wolf looking to capitalize on the market's misery; you're a regular hard working Twin Citizen trying to make a right and necessary change for you or your family's lifestyle. What's your move?

#### ➤ IF YOU ARE A **NON-CONTINGENT BUYER**

First and foremost, congratulations are in order. You are golden. In fact, you are on the right side of the best buyers' market that we'll all probably see in our lifetimes. Go ahead, take the props for this one—tell all your friends you saw it coming. Want to offer further proof of your genius? Here's how:

- One** Determine how much debt you want to take on. Find a lender you like and get a rock solid financing package.
- Two** Determine what you want from a home. Are you a weekend warrior, or do you want to move in and relax? How much room do you really need/want? What's your appetite for yard work and maintenance? Be honest with yourself and you'll be much happier in the long run.
- Three** If the idea of rehabilitating a bargain property intrigues you, determine your appetite for bargain vs. risk/work/sweat equity. What skills do you bring to a project of this kind?
- Four** Once you know your housing preferences and your financial objectives, engage a great realtor. We aren't just pitching here. With all the beautiful properties on the market, you may (should) choose to see 25-30 properties before cherry-picking the best of the best. Utilizing a pro that is able to pre-screen, arrange tours, compare properties, run analysis, and work on your behalf will save you a huge amount of time and money.
- Five** When you've found the right property, don't let your Minnesota niceness get in the way of asking for a big discount off list. This is the year to go for it.
- Six** Don't take it personally if sellers don't roll with your first offer. As a savvy market swing buyer once told us "if more than 25% of my offers are accepted, I know I am offering too much."

#### ➤ IF YOU'RE ON THE **PROPERTY LADDER**

House too small, too big, too high-maintenance, too dated? It *is* still possible in 2008 to move from the starter home to the bigger family home, or from the family home to the low-maintenance townhome, condo, or co-op. It simply requires some adjustments to the way we typically plan and execute "property ladder" transitional moves.

A thorough, objective evaluation of all the options for your current home is essential to success. Many sellers are looking for a method of deferring their sale for one to three years rather than offer their house in this highly competitive market. Conceptualizing alternatives to a traditional sale are now an important bullet point in the planning process for any potential seller. We suggest that you plan and execute as follows:

- One** Determine who your pool of potential buyers is. Based on your home's location, size, features, and price point, can you expect interest from non-contingent, qualified, serious buyers? If not, selling it will be extremely challenging this year.
- Two** Determine your financial needs for your new home purchase. Find a lender you like and look at all your options. You want to be in the strongest negotiating position possible for your new home, so getting non-contingent may be an important objective, be it through your current home's sale or through other means.
- Three** If your prognosis for selling is not excellent, consider renting your current home. Offsetting your current mortgage debt with rental income may make you a non-contingent buyer. But being a landlord is not for the faint-hearted! We advise utilizing a professional property manager—the fees are percentage-based.
- Four** If your prognosis for selling is not excellent and renting does not appeal, determine what you can do to make your current home work for you for a few more years. Does a remodel (and the future equity it will bring in a *recovered* market) create a practical lifestyle option?
- Five** If you feel the evidence supports your house selling in the current market, price it aggressively, stage it better than the competition, and give yourself 90-120 days.
- Six** When you get depressed about your timing and the small return on your hard work, remember that on the buy side you'll be holding the best set of cards dealt in this generation. You'll get it all back and then some.

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