



Mortgage Insight: How to Cash In on a Buyer's Market

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This year promises to be one of the best times in many years to be a home buyer. Unlike the past few years where there were more qualified home buyers than sellers (called a "seller's market") the current "buyer's market" is just the opposite- with more homes for sale than there are qualified buyers in the market place.

If you have been considering a home purchase, there are at least five key reasons for buyers to take advantage of the current home "buyer's market" in most cities.

They include (1) a record number of brand-new and resale houses and condos on the market for sale; (2) competition among sellers is keen for the available buyers; (3) new and resale home prices have stopped escalating and have leveled off or even dropped slightly in most communities; (4) mortgage interest rates are still very affordable; and (5) motivated sellers are eager to negotiate on price and terms.

Be a Smart Home Buyer

Although a few home sellers are in panic mode because they see so many homes coming on the market for sale in their vicinity, the truth is the current home-sale market is merely a "normalization," or return, to a traditional buyer's market for homes.

The sellers who are most worried are the homeowners who bought in the last year or two at the peak of the market, and who have to sell now for valid reasons, such as a job transfer, unemployment, pending foreclosure, illness, death or birth in the family, and divorce. These are known as "motivated sellers" who are especially anxious to sell.

However, just because the seller is motivated doesn't mean a home buyer will be able to negotiate a "good deal." The reason is if the seller bought at the peak of the market and is not willing to sell at that price or below, the buyer probably would be overpaying.

To determine if a motivated home seller can offer a fair sales price, savvy home buyers ask their buyer's agents to find out (a) how many years ago the home was purchased, (b) what price the seller paid, and (c) what is the total of the existing mortgages and liens secured by the house.

The answers will reveal if the owner, even a motivated seller, has home equity negotiation room. If not, savvy buyers move on to the next home.

Brand-New Houses and Condos can be Great Bargains

Many builders of houses and condos have unexpectedly found themselves in local buyer's markets, which rapidly changed within the last six months. The result is an oversupply of new houses and condos, which are competing with reasonably priced resale houses and

condos.

To cut their inventories, many home builders are offering amazing bargains, both in prices and included features or upgrades. For example, it is not uncommon to find builders advertising no down payments, no payments for six months, landscaping upgrades, upgraded appliances and carpets, easy mortgage qualifying, no closing costs, and other sales incentives.

But smart buyers of new homes should understand that builders are very reluctant to cut their asking prices. The reason is that appraisal and mortgage finance problems arise when builders sell below what they sold the same model for a few months ago; the builder can avoid such problems by instead including more features at no additional cost.

As house subdivisions and condo complexes gradually sell out their inventories, smart buyers realize the builders and developers become more anxious. The reason is their major profit is in the sale of the last few units.

For example, if you see a builder's newspaper ad saying "85 of 100 homes already sold" that really means the builder is highly motivated to sell those last few units, which represent nearly 100 percent of the profit from that project.

Markets Vary by Location and Price

A little-known secret is home buyer's markets can vary by ZIP code areas and price ranges within that

area. Being within the boundaries of a top school district can also determine if a house or condo is in a high-demand seller's market or a lower-demand buyer's market.

There are two criteria to determine if an area is in a buyer's or seller's market. Smart buyers and sellers understand the local situation is constantly in flux.

The first criterion is to look at the number of houses and condominiums listed for sale in the local market and their average number of days on the market before sale. The local MLS (Multiple Listing Service) has this number for resale houses and condos listed with the MLS. However, MLS statistics usually do not include brand-new houses and condos because most builders do not list with the MLS.

As a general rule, if the average number of days on the local market is 60 days or less, that is a house and condo "seller's market." The result is home sellers feel confident their realistically priced house or condo should sell within 60 days in a seller's market.

The second criterion to tell if you are in a local buyer's or seller's market for homes is to look at the number of months' supply of residences for sale at the current sales pace. To get this number, simply divide the number of home sales

closed during the last 30 days reported to the local MLS by the number of homes listed for sale.

If the result is six months or longer, that means there is a local buyer's market with an oversupply of residences listed for sale. However, if this number is three months or less, then it is a local "seller's market" where sellers can hold firm on their price and terms with reasonable confidence a fairly priced home will sell within 90 days, usually less.

How to Avoid Over Paying in a Buyer's Market

After determining if houses or condos within the location and price range where you want to buy are in a local "buyer's market," after finding a suitable residence to purchase, it's time to make a written purchase offer. However, there are several key steps to avoid over paying:

(1) Just as smart home sellers insist their listing agents prepare CMAs (competitive market analysis) showing (a) recent sales prices of comparable nearby homes, (b) asking prices of competitive neighborhood residences now listed for sale, and (c) asking prices of recently expired similar listings (usually overpriced), smart home buyers also insist on a CMA before making a purchase offer.

(2) Home buyers- with the

help of their buyer's agents- discuss the pros and cons of the homes shown on the CMA to arrive at a fair purchase-offer price for the home under consideration. This key step is necessary to avoid overpaying.

As smart home buyers know, you can always raise your purchase offer but you can never lower it after the seller accepts. Buyers can be sure their buyer's agent will show the CMA as justification to the seller when the purchase offer is presented.

(3) Every house or condo purchase offer should contain two key contingency clauses: (a) one for the buyer obtaining a mortgage based on a satisfactory appraisal of the property confirming the sales price and (b) another for the buyer's approval of a professional inspector's report on the house or condo to be obtained at the buyer's expense within five business days.

Summary:

Local home sales market conditions vary widely but it's a great time to be a purchaser when a buyer's market exists in your price range and location. Savvy home buyers then take advantage of favorable conditions to purchase their home at a reasonable price and terms after first becoming well informed.

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