



Buying in a Soft Housing Market By Ken Harney

Everybody knows the “housing boom” is over in most parts of the country. But what does that mean for people who are thinking about buying a new home?

Is a “soft” market a good time to buy? Or is it a time when it’s smarter to just sit on the sidelines and wait and see where things are headed?

Here are some practical thoughts that you can add to your own analysis of whether to shop, buy or hibernate for a while.

Let’s look at both sides of the equation:

First, slumping real estate markets also go by another name — **buyers’ markets**. Boom real estate periods, by contrast, tend to be known as sellers’ markets because most of the advantages are with sellers, not buyers.

Unlike the boom years of 2003-2005, home sellers and home builders today no longer have the upper hand. They can’t expect double-digit price increases year after year. Or long lines at sales offices or open houses. Serious buyers are fewer in number and a whole lot slower to sign on the dotted line.

Builders have to sweeten their packages of concessions in buyers’ markets — offering discounts, free upgrades and other deals that they’d never consider during the boom years.

Many builders also offer discounted financing packages to make their houses more affordable in buyers’ markets. Often builders have special relationships with large mortgage lenders or they own a mortgage subsidiary themselves. That puts them in the position to create cut-rate mortgage programs and even custom-tailored financing solutions for buyers that would never have been possible during the boom years.

Finally, home builders — by necessity — are now more open to negotiating specific details of transactions with serious buyers. There’s no hard and fast guarantee that you’ll get everything you bargain for — after all, successful negotiations require give and take on both sides. But you can be guaranteed that builders will listen and try to go the extra mile.

Now let’s look at the reverse perspective.

There’s no question that softening real estate markets can look a little scary. Nobody can tell you for certain where real estate prices will go in the coming year. Nobody can tell you exactly where we are in the real estate cycle. Are we close to the bottom of the post-boom correction? Or is there still a way to go?

Most economists, along with the Federal Reserve Board, forecast that the boom cycle will be followed by a year or two of flat prices, possibly slight declines, followed by a gradual resumption of the upward cycle. We are well into that pattern right now.

Looking at the cyclical ups and downs of real estate during the past seven decades, only in markets where local unemployment rates are high or rising — and where mortgage money comes with high interest rates—do housing values suffer significantly in downturns. Otherwise, the historical pattern has been for values to flatten out or go slightly negative for short periods before rebounding and resuming their normal upward movement.

Although some local markets are facing employment problems and layoffs this year, job growth in most parts of the country is solid. Mortgage rates continue to hover just slightly above the near-record lows they reached in 2004, and are a full two percentage points below the average interest rates paid by mortgage borrowers during the past three decades.

So where does this all take us? What's the bottom line?

Any way you look at it:

- We're in a market where buyers have the upper hand and the overall economic risks look reasonable. That was not the case just two or three years ago.
- Mortgage money is affordable and plentiful—big plusses for buyers.
- The best real estate bargains almost always occur in buyers' markets. Prices and terms this year may look like great deals a few years down the road.
- If you truly want or need to buy a home, the equation is more positive than it has been in several years: lower prices, more homes to choose from, and more flexible sellers.

You may want to take a cautious approach and not plunge into a purchase while the cycle is still in flux. On the other hand, you may want to lock in a low price and low mortgage rates sooner rather than later.

But either way, here is my suggestion: Shop and research what's available in the communities where you seriously want to buy one day. Get a good grasp on what's selling, at what price, with what features and on what size lot.

Then, when you feel comfortable about getting into the market, you will have the knowledge to identify what is — and what isn't — a super deal for you on a new house.

For more information on why **now** is a great time to buy, visit www.nahb.com/timetobuy. To subscribe to NAHB's free consumer e-newsletter on all things home, visit www.nahb.org/housekeys.

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