

Home Buying or Selling: 7 Top Tips for 2007

In most parts of the country, the New Year will dawn on a housing market that's shockingly different from just a year ago. Overzealous speculation, too-lenient lending and aggressive overbuilding have combined to create the type of home-inventory levels and price stagnations that haven't been felt in the U.S. since the early to mid-1990's.

In short, the housing market, after a historic run-up in prices, is correcting. While that's of little concession to current and would-be sellers, it's not the end of the world either, especially if you don't need to sell immediately. Economics elsewhere are encouraging. Recession doesn't appear imminent. Wall Street appears healthy. Unemployment is low, and the general economy is good.

The market, as it always does, will reach equilibrium again, though probably not before mid-2008 or so, most economists estimate. So reset that panic button and sit back to raise a glass to 2007 as a transition year that will bring us one step closer to healthier home sales. In the meantime, take note of how home-buying and home-selling strategies change in a down market.

Here are seven selling tips and seven buying tips for '07 that could help save you a little grief in the short term and a lot of money in the long term.

7 selling tips for the down cycle:

- 1. Price to sell.** If you really must sell now, don't mess around. List your house based on what the market dictates today, not the prices that friends, relatives and co-workers got last winter or last spring.
- 2. Consider all credible offers.** Holding fast for a better offer might put you in a situation where you're merely playing catch-up with a moving market. Don't assume there'll always be another offer coming down the pike. You may need to come off your price 5 percent in some areas and 10 percent or more in others.
- 3. Offer to proffer.** Buyers are requesting all kinds of enticements to spice the pot. Club memberships, prepaid lawn maintenance, moving-expense reimbursements, all appliances included and liberal repair credits are just a few possible throw-ins. Don't be shocked if you hear, "Throw in that plasma TV and we've got a deal." Consider in advance how far you'll be willing to go, but draw the line, however, at "first-born child."
- 4. Catch the wave at the source.** Prepare your home for sale at the very earliest point this "spring" (actually early March or even late February), the time when seasonal buying interest is just starting to build.
- 5. Preserve your equity.** Until the market stabilizes, refrain from borrowing from home equity (or raiding your 401(k), for that matter) to pay your bills, or for vacations and other purchases.
- 6. Gain in a sell-buy scenario.** If you'll be buying another home at the same time you're selling your current one, the price reduction on the new one can compensate for the "loss" you're taking on the old one. If you plan a "move up" to a better neighborhood and are paying 10 percent below list after selling your old home for 10 percent below list, your net dollar savings will actually be more.
- 7. Stay if possible.** If you're happy in your home and are meeting your expenses but want to sell due to continuing "housing bubble" fears, sit a spell. A home is a shelter first, and investment second. Except for a handful of markets that are still hyper-inflated, odds are that it will pay to ride out the storm. Generally, the early stages of a downturn are the scariest because that's when amateur investors are dumping "spec" properties cheaply.

7 buying tips for the down cycle:

- 1. Negotiate with builders.** Don't be afraid to ask builders for concessions such as steep price discounts, closing-cost waivers, luxury upgrades, free landscaping, free trips and free club memberships. Many builder-incentive packages are worth 10 grand and up! In some markets such as Boston, new condos are selling for 20 percent less than they were in mid-to-late 2005.
- 2. Negotiate with home sellers.** Unlike the go-go market of recent years, offers of 5 percent to 10 percent or more under asking price will not be inappropriate. (See "selling tips" for some of the throw-ins that buyers are being offered.)
- 3. Educated timing.** Read up on local – not national – market trends, religiously read for-sale ads, and get a sense of what's moving and where, then be prepared to jump on bargains, especially as the last of the speculators are being flushed out of the market and for-sale inventories are at their zenith.
- 4. Avoid hot spots.** Stay away from buying homes in neighborhoods that appreciated significantly above average home prices in recent years – especially if you're moving for the short term. Once prices in these hot spots are corrected, these often see slower upward movement or remain flat after the overall market heads north again.
- 5. Modesty is the best policy.** Consider more modest homes in well-maintained, established neighborhoods. By contrast, pricing and re-pricing on expensive homes, new homes and new condos make those products riskier during down cycles.
- 6. Flexibility.** For maximum flexibility in pouncing on the right deal, get preapproved for your home loan.
- 7. Follow fundamentals.** Just because a lender will advance you money to live or build beyond your means doesn't mean you're standing on sound fiscal footing. At year-end 2006, \$330 billion of adjustable-rate mortgages, or ARMs, were creeping upward. Avoid risky interest-only loans and ARMs, opting for fixed-rate mortgages instead. And learn from the recent past: Don't assume housing will appreciate enough in the near term to cover your home's rising interest payments.

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