



# Low Inventory Spells Opportunity for Both Buyers & Sellers

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*If you are already working with an agent, this is not meant as a solicitation for that business.*

In many areas of the country, the real estate market has made a surging comeback. Some areas that were still experiencing inventory surpluses just a year ago have seen those inventories diminish to levels not seen since before the market correction.

Prices are on the rise too! The national median home price rose 10% between the fourth quarter of 2011 (\$162,600) and 2012 (\$178,900). This is the strongest year-over-year price increase since 2005. According to National Association of REALTORS® Chief Economist, Lawrence Yun, the demand we are currently seeing is due to pent-up demand not only from buyers who are finally ready to make a move, but is also due to our population rising and rental rates increasing (making homeownership more attractive).

#### What does this mean for buyers?

With the current interest rates hovering around an all-time low it is absolutely still a fantastic time to buy real estate. But that also means that since there are more buyers in the market, and with lower inventories, we are seeing a return to multiple offers in some areas. While most buyers might cringe at the price they may have to pay if competing in a multiple offer situation, they could possibly cringe *more* if they waited to buy and interest rates went up.

#### How does this work?

Let's say a buyer wants to purchase a home for \$200,000, but is competing with other buyers in a multiple offer situation. The final price may escalate to \$210,000, \$10,000 more than the buyer had in his or her mind to pay. But with today's low interest rates (3.71% for a 30 year fixed mortgage at the time of this writing) and with a 20% down payment, the corresponding monthly payment is about \$774.

Fast forward six months to the following sample scenario. Assuming prices have increased at that point a modest 8% per year, that same property may be on the market for \$208,000, but the interest rate has risen .5%. This equates to a corresponding monthly payment of \$814, \$40 a month more than if the buyer had purchased for \$2,000 more in the multiple offer situation. That equates to \$14,400 *more* over the life of the loan.

#### What does this mean for sellers?

Sellers may be wondering why they would want to list now if the inventory is so low as with further improvement, prices may go even higher. While the market seems to be in the favor of sellers right **now**, it does not mean it will be tomorrow ... or things *could* improve even more. The decision to sell must focus on the actual need to sell rather than on speculation and playing the market. Furthermore, if a seller is selling to buy a higher-priced property, market conditions could be more favorable now.

If a seller needs to sell but they want to hold off in the event inventory gets any lower they may also be holding off long enough to see an increase in interest rates which could cause the buyer pool to diminish.

Consider the following scenario: A seller decides today to sell his property and purchase a larger home. His current home is the one in the previous buyer example which sold for \$210,000 in the multiple offer. The seller purchases a home for \$350,000 (listed at \$330,000 in a multiple offer situation) and has put 20% down. His new monthly payment is \$1,290.

But using the same six month in the future buyer scenario above, when the seller sells, he receives \$2,000 less than he would have had he sold during the multiple offer scenario. Remember, interest rates have also risen .5% AND prices have increased 8% per year. The \$330,000 home is now selling for \$343,200 and with the rise in the interest rate, the monthly payment is \$1,344 - \$54 more per month, or \$19,440 more over the life of the loan, for a net loss of \$21,440 than if the seller had sold in the current market.

When determining if it is time for you to buy or sell, it is important to look at your motivation and drive for working within this market and what waiting might mean for your pocketbook. Sellers and buyers must look at an analysis of what it looks like to buy or sell today and what it *could* look like to buy or sell in the future - looking at how differing market conditions (such as changing interest rates and inventory) might affect the market for that property. Perhaps the stars will align for buyers and sellers tomorrow, but today's market it is a sure thing. If you would like more information, just give me a call at 360-620-2690 or send me an email at [mollyells@windermere.com](mailto:mollyells@windermere.com).

