

# Three Truths That Rule Every Real Estate Market

To better understand the ups and downs of the real estate business it is important to know and recognize the three rules of any real estate market.

1. The law of supply and demand governs real estate. The appreciation of a market, the expectations of buyer and sellers and the speed of home sales are all dictated by the supply and demand for real estate in any given area. During the years 2002 to 2005 this was never more evident than in Southern California, where as a result of an overabundance of buyers and too few homes for sale, properties were selling for an average of 18% over listed price.
2. The law of cause and effect governs real estate. Positive situations cause positive outcomes and vice versa. For example, a vibrant economy leads to a vibrant real estate market and a strong appreciation of homes, while job loss and a sluggish economy produce the opposite effect. A specific example of this was that in 2004, 21% of U.S. home sales were second homes that were largely purchased by the baby boom generation. This desire for additional homes affected the construction and home values in second home markets nationwide.
3. History will repeat itself. In any market, there are cycles. Periods of rapid real estate expansion are followed by stagnant periods where values stabilize or even decline. A worry here is that in some key U.S. markets a significant number (up to 40%) of new 2005 home loans are interest only mortgages. Buyers took out these loans on the assumption that appreciations would outstrip loan value and create an easy way to make some money with less outlay. As the rapid price appreciations cycle cools and home values decline, mortgage balances will exceed resale prices and home sellers will be foreclosed upon or have to bring significant funds to closing in order to sell their property. This condition will further impact values in markets, as foreclosures will be part of appraisers comparables for home valuation. To protect yourself and your investment, be sure to work with a knowledgeable and dedicated Realtor who will assist you with your buying and selling needs.