

A Rising Tide Raises All Boats!

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OK... ***“I’m waiting to sell my house until prices come back up.”***

We’ve all heard this well-known statement and it sounds great! Well, Not Necessarily! It depends!

In real estate this sounds right BUT.... it depends on what you are going to do. Consider the following circumstances.

If you are selling your personal residence and buying another home then it depends on if you are moving up or moving down.

You have a home worth \$200,000 in TODAY’s market. Aaaaarrgggg! Yes, I know, it used to be worth \$250,000, \$300,000 or yikes, even more. *Hey, you could be in Florida. Feel bad for those guys – some have lost HALF or more.* It doesn’t matter. Today, your home is worth \$200,000. We don’t like it but that’s what it is. The question is: “Can we turn this into an advantage for you?”

If we are moving UP in our home selection and we really like a home currently selling for \$300,000 – that one over in the *Really-Nice-Homes* subdivision with the great schools, what happens if we wait to sell until we can recover some of our price of our current home?

Oh, darn, time for a bit of math. Please excuse the simplicity of these examples but the math does work. You’ll see.

Your current home is worth \$200,000 and that home over in the *Really-Nice-Homes* subdivision is currently selling for \$300,000. Let’s wait a year and during that year, prices do rise – say even 5%. OK. You’ll see, it doesn’t matter how much. Just the fact that they rose is significant. So, a year from now your current home is worth \$210,000 (that’s good!) but the home you really like over there in the *Really-Nice-Homes* subdivision rose also – to \$315,000 (that’s bad!). Oh, I see a problem here. Today, you could sell your home and bring another \$100,000 to the table and own that dream home over there in the *Really-Nice-Homes* subdivision. But in a year, you will have to bring \$105,000 to the closing because the other homes price was influenced the same as yours. Whoops, that’s not good. You just cost yourself \$5,000 by waiting. And... it gets worse!

So... What if we are moving DOWN in our home selection because we really don’t need all the space we currently have, what then? Well, let’s see. Your current home sells for \$200,000 and that low maintenance one over in the *Age-55-And-Over* subdivision is currently \$150,000. Great, we have \$50,000 left over for Bingo or travel. OK, now if we wait – and prices do rise – again 5% - what happens? Oh, we sell our current home for \$210,000 and that home over in the *Age-55-And-Over* subdivision now costs \$157,500. We now have \$52,500 for Bingo and travel. That’s good. We just made an additional \$2,500. We must have made the right decision. Or did we?

Well, again, not necessarily.

Enter mortgage rates into the equation. Everyone agrees – today’s mortgage rates are great! Are they likely to go up or down? That’s easy. The Fed is currently loaning money out to banks at 0% - yep, ZERO%. Are they likely to start paying banks to take the money? *Uh Oh, bad thoughts – given the current administration, that could be possible but, I digress into*

that ugly political world. Let's just say that mortgage rates are likely to go up in the future. Now what happens if we wait?

First that home we want in the *Really-Nice-Homes* subdivision. Currently, good credit will get you a 4.5% mortgage with 20% down. So... \$300,000 home, 20% down, mortgage of \$240,000 at 4.5% for 30 years (*don't you dare do anything different!*). Your payment is \$1,216 for principal and interest. Instead of moving up today, let's wait for that year in our example. Now, the home sells for \$315,000 because we're having that economic recovery promised us. But, now the artificially low interest rates have disappeared. Now the interest rate is 5.5% (*and I think it will be higher*) but lets go with 5.5%. Now your payment is \$1,430 per month for principal and interest. Whoops – same house but our payment has increased \$214 per month – for the SAME house! Now, over a seven-year period (*average time spent in a home*), your **increase** in cost of that SAME house is \$17,976 (\$214 x 84 months). AND, you brought \$5,000 more to the closing because you waited. Whoops, the cost of waiting a year is now about \$23,000 because you have \$315,000 in your new home – not \$300,000. Bottom line – waiting a year cost you \$23,000! If the price of your old home went up even more than 5%, you would lose even more by waiting to move up. And, what happens if you stay in the mortgage more than 7 years? 30 years of increased payments is \$82,040 including the extra \$5,000 to purchase.

Now, our move DOWN scenario. OK, 20% down on that home in the *Age-55-And-Over* subdivision down the road. Today's cost is \$150,000. 20% down and we have a 4.5% mortgage for \$120,000. Your payment today is \$608 per month – principal and interest. Wait a year and that same home in our example is now selling for \$157,500. 20% down and we have a mortgage for \$126,000 at 5.5% - a payment of \$715. Again, 7 years in the home and we have an additional \$8,988 in payments over that time. Subtract the \$2,500 we gained on the sale and purchase and we still have a COST of waiting at \$6,488.

So... we see that there are TWO components to the sell now or later decision. The price of the property and the **cost of money to buy it**. You can do the math on ANY scenario and the real reason to move today is the interest rates that are only going to go up over time. Now, this paper is not going to go into the economy of what we are doing now versus what we did in the late seventies under Jimmy Carter. Check it out yourself and you will see a lot of parallels. The major point is that under Jimmy Carter, when I was first licensed in 1981, mortgage rates hit the 16%-18% range and it took them ten years to get back under 10%. I remember, that we got a 9.5% mortgage in 1991 and thought we got a DEAL! Can we go there again? I'll be glad to debate that with you but suffice it to say that when you do the math on selling and moving either up or down, it makes complete sense to do it now! **Today!**

Have questions? *Please call me.... Let's talk about selling your home now.*

Sincerely,

Jim

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