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Why Buy Now?

Purchasing a home in the next six months might be the smartest thing you've done all year

By Seth Weissman

Bottoms of real estate markets never announce themselves with fanfare. Economists generally only determine the exact bottom long after the market has sharply rebounded. My prediction is that when the dust finally settles, the experts will look back on the time period between now and the presidential election as the best time to have purchased a home.

Why is this the case? There are several interrelated reasons. The first is that the housing market in the metropolitan Atlanta area is far healthier than most housing markets in the United States. We've seen some price reductions in housing but nothing comparable to other parts of the country. With our region's population increasing by 150,000 people per year, prices can only go so low because demand is constant. It's a nice cushion to have.

Second, for the moment, the Federal Reserve (Fed) is more concerned about encouraging growth than controlling inflation. Don't expect this to last. If inflation remains high, look for the Fed to start raising rates right after the presidential election. This, along with the turmoil in the secondary mortgage market, is likely to drive up mortgage interest rates. This will make the effective cost of housing much higher than it is now even if prices continue to fall somewhat or remain flat. Let's look at the following example to understand why this is the case.

Let's say that a buyer gets a good deal on a property at \$320,000 with a 30-year mortgage for 90 percent of the purchase price at an interest rate of 6.25 percent. The buyer's monthly mortgage payment will be \$1,773.27. Now, let's say that the buyer gets a great deal on the

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same house at \$300,000 but interest rates on the same 90-percent loan are now 7.25 percent. Even though the buyer is borrowing less, the monthly mortgage payment is \$1,841.88. In other words, the buyer who waited for the great price actually ended up paying more for the property than the buyer who paid a little more but got a better mortgage interest rate.

Rising mortgage interest rates could drive housing prices even lower. My bet, based on the above example, is that the effective increase in housing costs resulting from rising mortgage interest rates will not be offset by further decreases in property values.

What does this all mean? The answer is that there is likely a short-term window of opportunity to get the best deal in this down cycle of the housing market.

Where are the best deals? Well, remember that the entire housing market is on sale right now. The houses that are most deeply discounted are foreclosed homes presently owned by various lending institutions. These are sometimes referred to as "REO" properties or real estate owned. It's not a bad place to start your search for a home. However, there is one major caveat to this suggestion: There is a big difference between price and value. The house that is the most deeply discounted from a price perspective is not always the best long-term housing value. If a house is functionally obsolete, in a less than ideal location and/or in a mediocre school district, the long-term value of the house may not be as good as a higher priced home where these things are not an issue. For buyers interested in value, focus on the following four factors:

1. Location

Buyers want to be close to work, shopping centers, healthcare and recreation. This is even more true with the rising cost of gas.

2. School district

Quality public schools always have been a huge factor for most buyers.

3. Quality

Buyers want a well-built house.

4. Design and functionality

Many houses become functionally obsolete because of a lack of closets, size of bathrooms, layout of kitchens, height of ceilings or architectural design.

If the house is being bought for investment purposes, the price point of the house is far more important than when the house is being purchased to live in. Look for lower priced homes that will appeal to a broad rental market.

If you have been sitting on the fence, it is finally time to move! ❖

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