

## Buyer Advisory, Part Two: Price Appreciation

Everyone wants to *buy low and sell high* but it is never as simple as it sounds. Fortune tellers are more mocked than appreciated! There are, however, obvious reasons to believe that we are at the bottom of the market now, and evidence suggests we might not be here for long. Some may argue that we do not yet have the fundamentals for substantial or sustainable economic recovery; others believe the housing market will help tow the economy out of the Doldrums.

### The Dynamics of Property Values:

Prices rise fundamentally because of supply and demand. Low inventory allows sellers to list their properties on the higher side of market value because they do not have to be as competitive to get the buyers. An increased supply of buyers means competition for the available inventory. Buyers search and buy quicker, and do not risk losing a sale for a few dollars off. They are willing to pay a bit more because the property will appreciate. When buyers lose out to other buyers too often, frenzy can occur. Multiple offers allow sellers to sell above asking prices and appraisers will grant the increased value because it is based on market demand. In the same way that during a declining market every sale brought the market value lower, so in an expanding market, each sale increases prices incrementally and we have housing inflation.

Today, buyers are once again buying. In fact, there is some pent up demand being played out from 5 years of stagnation. Buyers realize that prices are down from highs by 30-50% in our areas. They know interest rates are at historic lows and have been artificially kept there- for now! The disappearing inventory creates motivation to move quickly. Expectation of an improved housing market promises appreciation and therefore reward. Even some of the negative news about future inflation motivates buyers since real estate is one of the best hedges against economic inflation. Further downside risk for buying is perceived to be minimal.

Finally prices are stabilizing, the national property logjam is breaking up, and sales are flowing better than they have in over 5 years. Buyers are optimistic and sellers are hopeful again. Money has been warehoused for way too long and lenders are lending freely but reasonably. Many expect the housing markets to return to normal this year. Along with that comes price appreciation.

### What Is Happening To Pricing Locally?

2012 was a very good year for sales in Portland and closer-in suburbs. **Multiple offers** on properties became common and by the end of the year, no doubt they experienced genuine price appreciation. The rest of us are following suit this year. Multiple offers cause prices to rise and the effect is almost immediate because the solds become the comparables for appraisals and for new listings.

**Distressed sales** also have a dramatic effect on pricing. They pull prices down with each sale. Short sales (those in default or 'underwater'), and bank-owned sales (REO), come on the market at a price low enough to attract an offer within 30 days. They sell quickly, and adding insult to injury, often have also been negotiated aggressively by buyers. The dynamics are changing. The numbers of distressed sales in our area are dropping for a few of reasons right now:

1. Buyers have been buying-up the best values for a year now, reducing this inventory.
2. Sellers can sell before facing foreclosure now, and these short sales are being sold closer to market price right now, thus reducing negative effects on market pricing.
3. Judicial Foreclosures: Because of legal technicalities and lawsuits, lenders in Oregon must now use a judicial foreclosure process which is more expensive, time consuming, and labor intensive. Lenders are

holding distressed inventory (not a good thing) but this is giving us a reprieve from the damage done by bank-owned pricing. Lenders are also more motivated to sell properties as short sales which tend to sell higher than foreclosed properties.

4. Recently, an Oregonian article noted that Portland rates one of the worst areas nationally for buyers to buy distressed properties; this is a good problem to have!

**Oregon is in Demand:** Native Oregonians, and those of us who have chosen to move to Oregon, understand the allure. We enjoy a rich outdoor playground statewide with way too many opportunities to enumerate. We are a state of natural beauty and majesty. We enjoy the third most prestigious wine country in the nation and are world class competition with France for our Pinot. Our culture in the state is unique and that is never truer than in Portland.

Yahoo recently posted a Forbes article entitled: The States People Are Fleeing in 2013 (see <http://finance.yahoo.com/news/the-states-people-are-fleeing-in-2013-194007689.html>). People are fleeing the northeast for the sunbelt (not surprising). Most noteworthy to me is that the article ends with a note about Oregon, not about fleeing it, but about attracting people to it. Besting most of the nation's sunbelt cities is Portland!

One big surprise from the study is Oregon, which is the second most popular state with 61% inbound migration. Although it's not the typical temperate climate of a retirement spot, Stoll believes hipster city Portland may be attracting both older individuals and young people with its mix of economic growth, cutting edge urban planning and scenic landscape.

As more people from California (a state going bankrupt?) and Arizona (when you want a break from the sun), and now from all over the nation, come to Oregon, demand increases for our real estate. Demand means our prices will rise. Our real estate values are already the most attractive of any metroplex on the west coast. For us locally, out of state buyers often want land; this will spur our rural sales and prices will rise.

Buyer beware. Sellers be encouraged.

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