



## Math smiles on move-up buyers

A dismal real estate market can be a good time to purchase a bigger house

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BOTHELL, Wash. - After two years of married life in a 680-square-foot, one-bedroom Seattle condo, Lori and Chris Kirsten were ready to spread out in a real house with room for a home theater and a yard where the Labrador retriever they had always wanted could roam.

The Kirstens prepared to list their condo for sale and go house-hunting, banking on equity in the unit, which Lori had brought in 2003 for \$130,000, to help with the transition to a larger place. Seattle's hot real estate market had pushed the condo's value to \$215,000 or more at its peak in 2007.

But their home search lost some steam when their agent told them Western Washington real estate prices, although not in the freefall experienced elsewhere, had still declined to the point that their unit might now fetch \$25,000 or \$30,000 less than two years ago. When they saw condos comparable to theirs selling for as little as \$170,000, "I thought, 'I just can't do it,'" Lori recalled.

Their mood brightened when they began shopping in the spacious neighborhoods of this suburb northeast of Seattle and found a 3,000-square-foot, four-bedroom split-level on a half-acre of towering fir trees that they wound up buying for \$425,000. That's \$86,000 less than the \$511,000 peak value placed on the home by real estate Web site Zillow.com, \$64,000 below the original asking price of \$489,000 and even well below the final asking price of \$438,000.

### A buyer's market

The Kirstens — Lori, 36, is a physical therapist and Chris, 33, is a Microsoft manager — are among the relatively small number of home buyers across the nation who are taking advantage of the record drop in real estate prices and historically low interest rates sparked by the mortgage meltdown and foreclosure crisis to move up into bigger or fancier digs.

It's a trend that many in the languid real estate industry would like to encourage.

"Obviously, if you're selling for less than you could have gotten two years ago, you're disappointed, but you really need to look at your bottom line," said Walt Molony of the National Association of Realtors. "If you're trying to trade up, whatever you're going to trade up to is going to sell at a discount, too. You need to look at your net."

Real estate agents from the foreclosure epicenters of Florida and California to more stable markets like the Seattle area are using that advice to lure move-up buyers.

"Do the math," said agent Mark Zawideh, who has been selling homes in the suburbs west of Detroit, where prices have declined 18 percent in the last year alone. "If you're in a \$200,000 house (the median price in the area) and you lost 18 percent, that means you lost \$36,000," Zawideh said. "But if you're moving up and buying a \$500,000 house, that person just took a \$90,000 loss, so you can see you're making 54,000."

"If you didn't sell at the peak, be happy," Zawideh said. "Don't look back and be sorry. The fact that you've waited ends up being a great decision. A lot of people get excited when they sit down and do the math."

### Helping move the market

While buyers seeking larger homes have traditionally not been a huge part of the market — about 15 percent in the Realtor association's 2008 survey — Molony said they likely contributed to an uptick of 5 percent in year-over-year shopper traffic in February, a figure that he expects to be bested when March numbers come out today. In addition to the increase in shoppers, existing home sales also rose 5 percent to an annual rate of 4.72 million in February, the association reported.

A federal tax credit and other incentives for first-time buyers probably contributed more to the surge in both numbers, with half of all buyers now newcomers to the market, according to National Association of Realtors figures.

Molony stressed that price declines and low interest rates have combined to offer buyers "record affordability," as calculated by its national index. The national number is currently 167, which means that median income households can afford homes that cost 167 percent of the median price.

While rising prices can push affordability down, realtors point out that rising interest rates can work against would-be buyers much more quickly. A one-point hike in interest rates boosts monthly mortgage payments the same as a 10 percent increase in prices.

"The affordability conditions are optimum right now," Molony said. "We will be seeing a little pressure on rates later this year. It's really hard to time the bottom of the market, which will be apparent in hindsight. If we aren't at the bottom of interest rates now, we're within an eighth of a point."

Zawideh, the Michigan agent, said he asks clients who are nervous about moving up this question: "Where do you want to wait for the market to turn around?" He points out that just as market declines are leveraged by the total value of the house, so too is appreciation. "Where the market turns around, wherever you're sitting, it's going to turn around for you there, too."

Despite that logic, some agents still find it hard to persuade homeowners coveting bigger places to sell their current houses for tens or even hundreds of thousands less than they could have gotten a few years ago, especially in higher value areas.

"Sellers seem to still be frozen in time," with many unable to set realistic prices, said Sandy Wallace, an agent in Santa Cruz, Calif., where values are down about 30 percent from their highs in 2006, knocking the median price of a home from the \$800,000's to the \$600,000's.

Pricing their condo to sell quickly — they were in escrow within three weeks — was exactly what positioned the Kirstens to make a winning offer on the Washington state home of their dreams.

### **Struggling for the right price**

"We struggled for quite a while," Lori Kirsten said, touring many competing listings before settling on an asking price of \$199,900, which they received, less a few thousand dollars in concessions to the buyer.

Their agent, Jess Beyers of nearby Bellevue, said he is starting to see more move-up clients like the Kirstens, ready to lower their expectations on sale price to gain on the purchase side of the equation.

"I don't know that they really do the math to the extent that they say, 'I lost 20 (thousand dollars) on the condo but I saved 40 (thousand) on the house,' as much as they say, 'Wow, we couldn't buy that place two years ago, but we can afford it now,'" Beyers said. "I don't want to be the one to talk people into buying real estate or moving up right now if they don't already have a good reason, but if you're on the fence then this is one of the benefits you might gain."

Surveying the newly remodeled kitchen and gleaming wood floors of his new home, more than four times the size of the condo he left, Chris Kirsten agreed. "We're happy," he said. "No regrets."

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