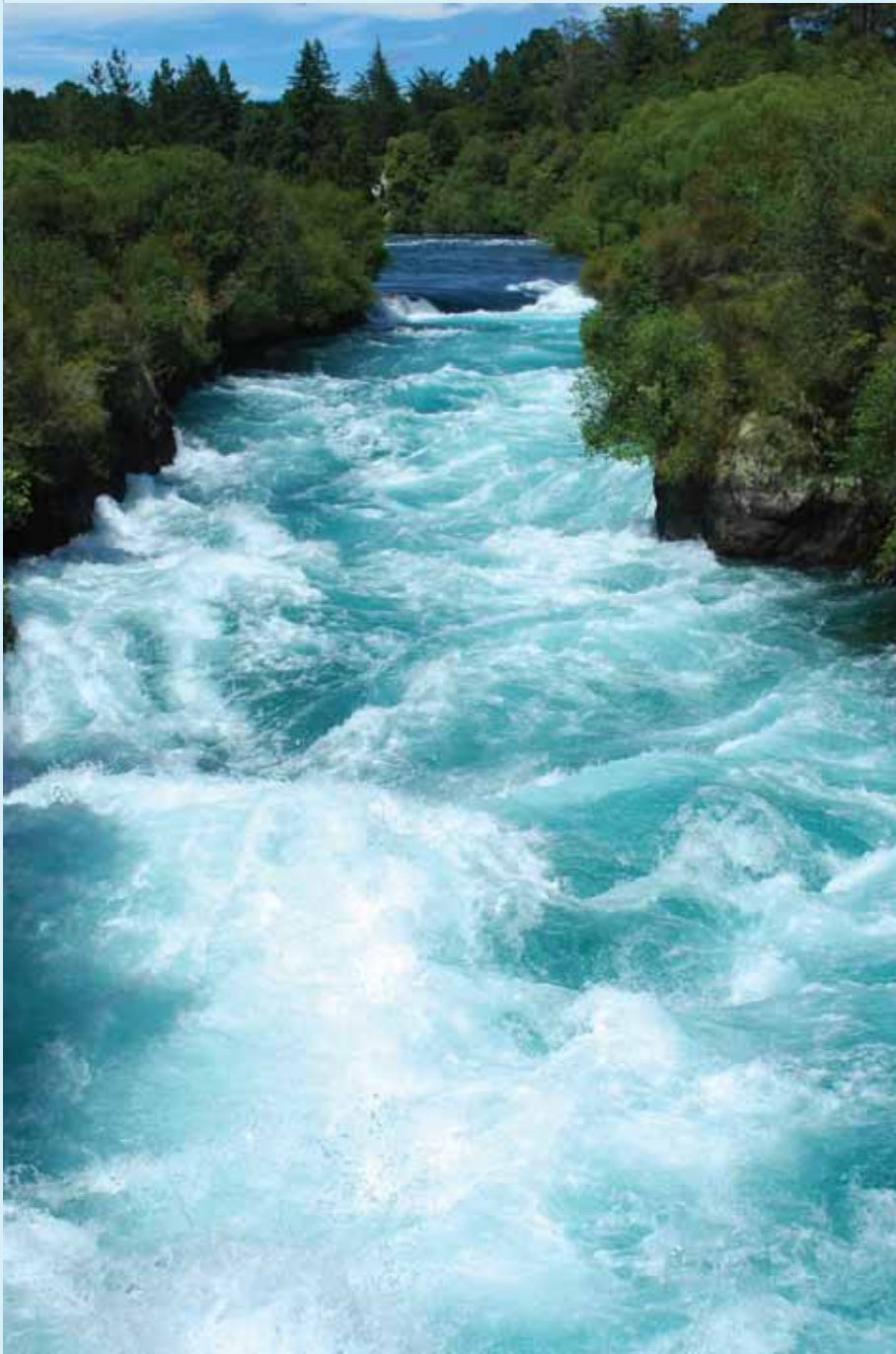


A Reprint from *Tierra Grande*

# the River Wild

Housing market  
ebb and flow

By Mark G. Dotzour



The housing market is like a river that flows continuously. For much of the year, the flow is “normal.” Occasionally, drought causes the flow to diminish substantially, or heavy rains cause water to overrun the banks. Transaction volume in the real estate market goes through the same ebb and flow.

In the past decade, residential real estate professionals have seen the river cycle through all its stages. Transaction volume surged midway through the period. During the Great Recession, flow slowed to a trickle and is still well below normal levels.

What factors influence sales transaction volume in residential real estate? Understanding the underlying reasons for increases and decreases in sales volume helps in predicting future sales volume.

The normal flow of the residential real estate market is affected by demand for housing. Demand in turn is influenced by many “life events” that occur throughout peoples’ lives. For example, they may:

- graduate from college and get a job;
- get married;
- have children and need a bigger home or a different school district;
- get promoted and move to another city or another neighborhood;

- lose their job and no longer be able to afford the house;
- get divorced and have to sell the house or move into a smaller one;
- buy a second home near their adult children;
- need to move into a smaller, one-story house with less maintenance;
- reach a point at which they can no longer care for themselves and need to move to an assisted-living facility;
- move to the United States from other countries to improve their quality of life; or
- move from other countries and buy homes here to protect their wealth and secure their safety.

The expansive Midwest flooding that made headlines for weeks this spring is a reminder that every now and then nature plays havoc with rivers.

Similarly, certain events and circumstances can cause housing transaction volume to rise significantly. For example, increases may occur when:

- home prices increase fast enough that the investment motive spurs purchases;
- prices increase even faster and speculators buy homes to flip them;
- prices increase consistently, so people prefer to buy now rather than pay a higher price later;
- mortgage rates drop enough that many people can afford to buy a bigger house or move to a nicer neighborhood without a significant increase in their house payments;
- the government offers tax incentives to homebuyers; or
- houses are affordable to a broad segment of all households and mortgage underwriting standards are lowered to include a broader range of credit risk.

The extreme weather patterns that spawn floods do not last forever. When they end, the river returns to the normal level within its banks.

At the other end of the weather spectrum is drought, which lowers the river's water volume. Transaction volume ebbs, too, when circumstances such as the following occur:

- people are worried about losing their jobs so they postpone buying decisions;

- people are worried that home prices will fall, and they might lose their equity;
- house prices rise so fast that they become unaffordable;
- lenders tighten mortgage underwriting standards, and by doing so remove potential buyers from the market;
- appraisals come in well below the contract price agreed to by a seller and a buyer;
- cost of homeownership increases (taxes, utilities and insurance);
- lack of liquidity in the market makes it harder to sell homes;
- employers reduce corporate transfers to save money; or
- random scares such as radon gas or black mold make media headlines.



**HOME SALES DRY UP** under some circumstances and reach flood stage under others. The key for real estate professionals is to recognize the factors that influence their local markets and share this knowledge with clients.

As the second half of 2011 begins, buyers all over the country are still skittish because of all the negative housing headlines. But there is evidence that Texas' residential housing market is beginning the gradual, lengthy process of moving back to normal.

Real estate operates in a local market. What happens in Las Vegas does not really matter to a homebuyer in Abilene. Each local market has its own story and its own dynamics.

Real estate professionals must understand

their clients' psychology — their hopes and fears. Careful consideration of the factors influencing home sales volume will help buyers and sellers make the best decisions for their circumstances. 📍

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## THE TAKEAWAY

Transaction volume in the housing market is like a river. For the most part, the flow is "normal," but on occasion, drought causes the river to dry up, or excess rain causes floods. The same ebb and flow exists in the housing market. A variety of factors precipitate these changes.



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