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This Article

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4 ways to capitalize on shift to seller's market

Some see signs of the next *housing shortage*

BY BERNICE ROSS

It's the spring selling season and good news is popping up like wildflowers in many places. The rocky bottom may be behind us with a new challenge ahead: a seller's market with higher prices and not enough inventory.

"A seller's market? Are you serious?" the naysayers will say. "NAR just announced that prices declined again and that the current sales pace puts us on track for doing about 4.93 million home sales in 2012. That's less than the typical 5 million home sales that constitutes an average year."

Signs of the next housing shortage?

There's no question that many areas are still suffering from high unemployment and a glut of foreclosures. Nevertheless, there are rumblings on the lending side of the business about easing credit restrictions. This means more borrowers can qualify for loans. Increased demand will absorb the current glut of properties. This, in turn, will result in prices flattening and then beginning to inch up again.

Pent-up demand is also growing. The 80 million members of Gen Y (born between 1977 and 1994) are in their prime time for starting careers, getting married and having babies. These major life milestones are usually tied to changes in housing, most often a move from being a renter to becoming a homeowner.

Moreover, as inflation raises its ugly head again and the Federal Reserve ponders a third round of quantitative easing (QE3), investors are fleeing to tangible assets. While precious metals and commodities are certainly popular, real estate has almost always kept place with inflation over the long haul.

Couple these facts with the tremendous decline in new housing starts and you have the formula for a housing shortage in the very near future.

Reading the tea leaves

What does this all mean for your business? First, it's important that you are tracking how many months of inventory are on the market in the areas and the price ranges in which you work. The rule of thumb is that if you have six or less months of inventory, you are either entering or are already in a seller's market. If there are seven or eight months of inventory, your market may be flat or transitioning. If you have nine or more months of inventory, you are still in a buyer's market with too much inventory.

There are some important points to note here. First, sometimes you can have a seller's market and a buyer's market on the same street. For example, single-family homes under $250,000 may be selling well, but $180,000 condos are languishing with virtually no sales. Since most MLS systems supply this data, it's important to watch whether the number of months of inventory is increasing or decreasing. This will give you an idea about which way the market is trending.

What's especially fascinating about the shift from a buyer's to a seller's market is how far the prices actually lag behind the shift. For example, inventories began to grow back in 2004 and 2005. Nevertheless, prices continued to increase in many areas well into 2007.

You can expect to see the same thing now. Inventories are decreasing, multiple offers are occurring, and overall prices are still continuing to decline. The bottom of the market has already passed in terms of the demand, but hasn't shown up yet in terms of the price.

Capitalize on the shifts

What can you do to take advantage of this in your market? Here are four suggestions:

1. **Fish where the fish are**
Determine where the activity is the greatest and where there is the least amount of listings. This is a prime area for prospecting for new listings. You can call on FSBOs (for-sale-by-owner listings), owners of expired listings, or hold open houses where you invite the neighbors. The idea is to increase your visibility in the area so that when someone is thinking about buying or selling a home, they will contact you.

2. **Use print marketing to get the word out**
Many buyers have been waiting for the market to bottom out. You can use your print marketing materials including postcards, letters or newsletters to show people that the properties in their area have already bottomed out. A simple way to do this is with a graph that shows how many months of inventory were available over the last 12-24 months. Draw a line at six months. Your caption says, "When the inventory dips below six months, the market has already bottomed. Prices typically bottom out in the next 90 to 180 days after the inventory drops below six months. If you want to get the best price and the best financing, buy now."

3. **Reach out through social media**
If you have a Facebook business page or if you use Twitter, link to any data from your board of Realtors or other resources that show the state of your local market. Remember to remind recipients that different price ranges may be experiencing different market conditions.

4. **Show buyers it's cheaper to buy than rent**
A real shocker was recently released from Trulia showing that it is now cheaper to buy than rent in 98 of 100 large U.S. metro locations.

Is a seller's market around the corner in your area? If the months of inventory have crossed the "six months" threshold, it's time to load up on your listing inventory as well as dust off those unused multiple-offer forms. Also, don't forget to prospect first-time buyers, because it's the best time to buy since the Great Depression.

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