



## Got real estate? Buying may be the answer

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There have been a number of market reports recently showing declines in housing sales across the country. Sales have slumped more than 6 percent on an annualized basis in the second quarter of 2006, causing major concerns in the market over where future sales are headed.

The far-reaching effects of home sales are also putting pressure on the predictors of whether we will see recession-driven forces or economic expansion. Despite stable equity markets and steady job growth numbers, the lingering effects of deflation in home sales could derail economic growth. These low sales numbers could be a concern for politicians, so we may see some measures by Congress to continue to stimulate the economy.

There is no better time than now to explore the way we finance many of our major purchases and understand how this ability to buy or sell your home can affect the overall economy. As housing prices have increased over the last several years, homeowners have enjoyed the ability to retire and downsize without losing money and have picked up substantial gains. The low interest rates of late have provided for easy buying, many renters have been able to purchase and home owners have been able to move into more luxurious homes.

Several years ago, Congress passed a bill that no longer allowed for individuals to deduct the interest they paid on credit cards and bank debt that included purchases of personal items such as automobiles. As a result, the second mortgage boom began. Using a second or third mortgage made more sense on purchases of larger items, and these loans allow for interest deductions. Rates were low, so

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why not go for it?

Here is the concern: With interest rates continuing to rise, monthly debt is costing more and more. At the same time the consumer who purchased the larger car or bigger home is now being squeezed by the increasing cost of gas at the pump and higher utility bills to service this larger lifestyle. When the price of the home was stable or rising, extra debt was not a problem. Now with prices beginning to fall, either in reality or by perception, it will be difficult to add any more debt and either maintain or create the "cushion" the owner may have needed.

Now comes the time to mitigate the problem of the third mortgage. It's hard to believe, but for those who have been waiting for a way to solve this, a buying opportunity is created. It is for those who have been unwilling to take the deal of buy today, sell tomorrow. New home builders who must sell will have deals on the table. Speculators who bought homes with the intention of selling them later will be forced to sell them because of the debt, and they will be tired of waiting for that sale.

Baby boomers who have saved their money will look for the second home or condo in some areas as prices begin to fall. This won't occur in all regions of the country as many places always seem to withstand that pressure. Some areas have limited land and stable employment that is tied to homeland security and industries primarily associated with war efforts. Renting will become more popular until it makes sense again for first-time buyers to purchase.

For those who got trapped in the extended mode, a reshaping of financial plans will be in order. It might be best to refinance the entire project at a higher fixed-interest rate than to consolidate into one lower payment. If your total income is not enough to keep you in a moderate lifestyle and pay all of your obligations, you should adjust sooner rather than later. It's necessary right now to decide what is important and what is not, and determine basic living needs versus luxuries. Once those rates have been locked, there's no need to worry about the value of your home as long as those payments are made.

The trick is to just keep budgeting. Remember most of these economic swings are temporary and dependent on many factors, mostly speculation. Once past that speculation, more stable increases in prices will happen. The overall real estate market seems to be stable right now, so a minor correction is not all bad. Just hope it does not take a downward dip too long.

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