THE TRUTH ABOUT MARKET BOTTOMS

Every time I read about someone predicting when the market will bottom, I laugh, and here is why.

The question is not when will the market bottom? It is when will the "markets" bottom. Every segment of every neighborhood, multiple listing coverage, and/or cities in the United States can be sectioned into several market ranges for the lowest price range, middle ranges and the high range. Each segment of the price range will bottom out at different times based on demand and/or affordability.

For example, I have divided the Inland Valley Association MLS for Riverside into 3 price ranges: $0 - $300,000, $300,000 - $600,000, and $600,000 plus. Each price range will bottom out at a different time. The lowest range will obviously bottom out first. The middle range will most likely bottom out later. And the high range probably even later. The bottom time will also depend on whether listings continue to decrease or will they be flooded with an increase in the number of foreclosures, short sales, or owners just abandoning their homes.

Statistically, I have been tracking IVAR's MLS data for Riverside for about 3 years for each of the range segments. Overall for the past year the following has happened: Listings have decreased 38%. Closed escrows have increased 325%, and expireds have decreased over 52% over the past 3 months.

I track the percentage of the market for each range segment involving the number of actives, pendings, and closed escrows. As of April 14th, 2009 the percentage of closed escrows at the $0 - $300,000 market range were 84%; $300,000 - $600,000 range were 15%; and $600,000 plus was 1% of the total. Every two weeks I track each of the 3 price ranges. The $0 - $300,000 total percentage of closings is still increasing. Once it levels out, probably in the next few months, it will bottom out as long as the number of active listings continues to decrease. If the active listings turn around and increase, it will probably signal a delay in the bottom for each of the 3 price range segments.

The markets bottom time is also affected by mortgage programs, mortgage rates, consumer confidence levels, and unemployment levels.

Lastly, the affordability level for different markets has always been quoted too high in the papers. At this time a 10% average down payment is assumed when it is actually closer to 5%, or lower, on the average. The increase in the percentage of FHA loans being obtained by qualified buyers with a minimum of 3½% down payment required and a reduction in prices has increased the number of sales.

For the different markets in the United States, you can divide the number of price range markets into any number. I could have divided the Riverside market into as many as six price segments, but the 3 seemed to fit the market movement.

Finally, the different price range markets will bottom out at different times.

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