

Building Success 101

Q: What are "investment" homebuyers?

A: Investment buyers are people or companies that buy homes in order to rent them to someone else. The rent pays the monthly mortgage and then, when the home has appreciated in value, it is sold. Investment (or speculative) buyers study local markets and are betting that the home's sale price will go up enough to sell it at a healthy profit.



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The "Housing Bubble"

The popular media – radio, television, print media, websites -- provide us with information, but they always have one eye on another priority: to gain listeners and viewers, to sell papers and magazines, and to attract online readers. Unfortunately, the sensational spin sells better than complex or upbeat stories. That's why, during the past few years of record-setting new home construction and property value appreciation, the media has accompanied reports of this market with "warnings" about a so-called housing bubble destined to burst and to send the economy into a tailspin.

A housing bubble, at least on a national scale, is a myth. Homebuilding has been and remains a locally focused business, even among builders that operate in several states and markets. Local economic conditions in each market drive the production and value of new homes in that area.

It makes an exciting story to equate the housing bubble to the "dot bomb" fallout of the high-tech industry in the late 1990s, but the comparison is mostly inaccurate. For example, the housing industry -- unlike the technology sector -- is a mature, well-established cornerstone of our nation's economy that has performed on a fairly predictable cycle for nearly 100 years.

Since record keeping began in 1968, the national median home price has increased an average of 5 percent every year, even during recessions and periods of sales decline, according to the National Association of Realtors (NAR). Housing has been and continues to be a solid investment for homeowners and property owners, providing a steady return on investment that is sustained by fundamental demand in the future. Because of that predictable need for future building, investment in housing is largely unaffected by the volatility of the stock market.

That said, homebuilders and developers have learned over the years to guard against too much speculative activity that could create a gap between real and perceived value. The housing industry does not want to *create* a housing bubble that (if you believe the media) would cause it to falter and affect the rest of the economy.

When a gap between real and perceived value becomes apparent, market-smart builders scale back slightly to maintain the balance of supply and demand, often by adjusting (or slowing) the pace at which they build and offer new homes. Land earmarked for future projects may be sold or held for later development. Sales to investors, instead of owner-occupants, may be slowed or eliminated until balance is restored.

Between 2004 and early 2006, the nation's homebuilders set a record for the number of new homes built in a comparable period, while price and property value appreciated. According to the NAR, prices rose by 12.7 percent in 2005. The current condition of the housing industry is, by all accounts, a correction of an unsustainable level of activity and price appreciation. Many economists see this as a healthy correction.

Builders who are in the housing business for the long term realize that it is a cyclical business by nature, relying for the most part on local factors. Like breathing, the new home market's "exhale," or decline, is always followed by an "inhale," or growth, that acts like oxygen to the industry, infusing new life and strength. Builders trust that housing value and demand are not going away. People will always need shelter, both literally and financially. Housing serves both of those needs.

We believe that a correction in housing production and sales price appreciation is taking place in many parts of the country. However, it is important -- and comforting to owners and investors -- to understand that media stories about bursting bubbles are more about increasing readership than about thoughtful analysis of the historically stable, though cyclical, housing industry.

Warm regards,

Brian

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