

# LOCAL MARKET CONDITION REPORT

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Real estate market crashed! This is the kind of headline we see frequently nowadays. Meanwhile, real estate agents are saying that everything is fine, and that this is really the "normal" market as opposed to the "hot" market. What is the real story, and just how is the condition of the real estate market today?

The media always tends to sensationalize the news when it is bad, while down playing it when news is good. This is because bad news sells... good news does not. The reality is that the news about the market is true ... but not entirely. Here are some facts.

All markets rise and then fall cyclically, and all markets fall and then rise. This is simply the way trends operate, so "bubbles" can be either an upward or downward price trends. Bubbles tend to be short-term in nature and they do not affect longer-term price trends, which are always influenced by real supply and demand. When the press announces that real estate values are coming down, they usually are correct. However, the question is **where** and **when**?

Let's address the "where." Real estate is *always* local; and bubbles are unique to specific areas, and there is no logical reason that *all* real estate values have to fall because a bubble bursts in one of the markets (for example, Miami, Florida). It would be inaccurate to apply *national* averages to local market condition. The only national trend that is likely to affect local property values directly is that of monetary policy. The local influences that affect value are population trend and related demand for housing, employment, and quality of life issues (crime, traffic, climate, etc.). Therefore, consumers should focus more on what is happening in their local market area – not national averages or events.

Now, let's address the "when?" Everything is relative. It is important to know if statistics being given apply to the relevant period of time. Let's take Delaware County as an example. Delaware County's average prices during the 6-month period ended August 2004 increased 13.9% relative to similar period a year before. Now compare that appreciation to August 2007's annual appreciation of 6.6%. You can conclude that the double digit appreciation is no longer there, but there is still considerable appreciation. Also, how about the four-year appreciation at 38.3%? That's equivalent to a *compounded* rate of increase of 8.5% *per year*. **It's the long-term trend and rate of increase that we should consider, and not the short-term (which is subject to fluctuation) -- unless you're in the business of flipping properties.** This is

no different from the stock market, unless you're a day trader.

Here's the rest of the statistics for other counties in our region:

	Avg Price** Inc (Dec)		4-Year Price Change
	Aug- 04	Aug- 07	
Chester	11.7%	1.6%	33.8%
Delaware	13.9%	6.6%	38.3%
Montgomery	15.5%	-0.4%	32.9%
Philadelphia	15.7%	5.3%	55.2%
Camden, NJ	12.6%	2.2%	41.9%
Gloucester, NJ	17.2%	3.4%	48.7%

\*\* Based on 6-mo. Average

Source: Analysis made based on data from TrendMLS

It is evident that most counties in our region (including Camden and Gloucester Counties, NJ) were enjoying double digit appreciation in the past. This year's *market correction* simply slowed down the appreciation rate. **To the savvy buyer, this presents an excellent buying opportunity.** Remember that best opportunities arise when the outlook is gloomy, not when everyone expects the good times to last forever.

History shows that people are generally emotional and tend to overreact. When prices are high, people jump onto the investment in the belief that prices will go upward forever. When prices are low, doom and gloom prevails and everyone is frightened out of the market.

These "greed and fear" tendencies are two powerful and potentially distractive emotions that distort rational thinking. Rather than follow the age-old advice to "buy low and sell high," the usual pattern is exactly the opposite: people tend to buy high and sell low.

If you were a speculator, you naturally have to think short-term. However, if you're a homeowner with no plans to move soon, relax; at worst you're looking at paper losses. If your intention is to remain in your home for the indefinite future, it is a mistake to think like a speculator.

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