

Benefits Of The Housing Slump?

Contributed by Steve Gillman
Tuesday, 21 October 2008

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To begin with, don't we normally love the idea of lower prices? Certainly we would love to see a 25% decline in the price of cars or food. What makes housing different is that we use it but don't "consume" it. It is in part an investment that we may have to sell someday. If you were in a house for life, the value could fall by half and it would make no difference. In fact, you might even get to pay less for both property taxes and insurance as a result of the lower value.

{bot_wrgoogle}That brings up the first benefit of the housing slump: lower prices and lower expenses. For those who have not bought a home yet, this is an opportunity, isn't it? House just went on sale for as much as a 30% discount from where they were. With that comes lower payments, lower insurance, and lower property taxes. This may be the best time to buy.

What if you already own a home? Is there any benefit to the housing slump for you? Possibly. If you have ever thought about moving up into a more expensive home, this may be a great time. You may have been thinking it's terrible that your own home is worth \$30,000 less than it was three years ago, but what about the bigger home you have wanted? It may be selling for \$50,000 less that a few years back. That's an opportunity.

You can see that there can be possible personal benefits for both owners and renters. But there are two more long-term benefits to the whole housing mess we are experiencing. One is that prices are getting back in line with what is actually affordable. People with ordinary jobs may once again be able to buy a home, which means that prices can stabilize soon.

Let's face it, prices just went up too fast and too far. Many who bought those half-million-dollar starter homes in California never could actually afford them. They only bought them with the hope to hang on long enough to sell for a profit. The market made gamblers out of home buyers, and the last ones to play lost big. That brings us to another benefit of this housing slump: Big lessons.

We learned that zero-down interest only loans really don't make sense, and negatively amortizing loans were just insane. Though the reaction to these and other mistakes in finance may go too far, the lessons of this era will be remembered for a while, and that hopefully means there won't be a repeat of the run-up in prices based on outrageously easy loans, and therefore there may not be another huge housing slump in our lifetime, nor another banking crisis based on it.

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