

A while back, I wrote an article entitled “Caveat emptor...let the buyer beware”, discussing the importance of seller disclosures when purchasing a home. Well, it’s time for another “Caveat emptor” article, but this time as it applies to purchasing a home in a what’s referred to as a “Seller’s Market”.

The standard definition of a “Seller’s Market” refers to a real estate market where demand for property exceeds the inventory of property available for sale. In other words, there are more buyers looking to purchase homes than there are available homes for sale.

Typical “Seller’s Markets” are characterized by several distinct features including higher prices, a tight supply of existing inventory for sale, shorter marketing times, bidding wars, offers exceeding asking price, and desperate buyers (but don’t worry, there are a few simple steps you can take to deal with these issues).

Like many other jurisdictions in the United States, Guam is currently experiencing the effects of a “Seller’s Market”.

Over the past several years, Guam’s real estate market has continued to develop in large part to the continued presence of the US military and its continued policies for allowing off-base housing. This has created additional demands on Guam’s housing inventory from both investors looking to benefit from renting to military members, and military members themselves, looking to take advantage of their VA benefits by purchasing a home during their tour of duty on Guam. During this same period of time, the number of local residents looking for opportunities to leave the rental market behind by purchasing their first home has increased, as has the number of existing home owners looking to upgrade or expand to newer homes. This makes for a very crowded playing field based on the number of available homes.

In a perfect world, as the demand for homes increases, the supply of new inventory (most of which is new construction) comes on line to meet that demand. At that point, supply and demand establish an equilibrium that generally prevents major fluctuations in price, either high or low, and allows normal market conditions to influence prices.

Unfortunately, Guam's current inventory of residential property continues to shrink while new construction inventory has been slow to meet the growing demands. This has been attributed to several factors including the increase in the cost of land, an increase in construction materials, and the reduction of the H2 construction labor force. In addition to this there has been a reduction in the residential re-sale market. Current owner occupants are reluctant to sell based on the increase in prices for replacement property, while Investors who are generating strong rates of return can't find replacement property with equal to or better returns. A third factor impacting the lack of inventory is the growing popularity of short-term vacation rentals and bed and breakfast properties. Property owners are now holding on to, and improving their properties to taking advantage of Guam's tourism industry.

The primary features of a "Seller's Market" can be best supported by looking at the numbers associated with the increase in sales and listing prices, the number of days a property remains on the market prior to being sold, and the relationship between the listing price and the actual sales price. Information from the Guam Multiple Listing Service lends support to these indicators evidenced by a three-year trend showing 1) an increase in the median sales price of single-family homes from \$265,000 to \$307,350; 2) an increase in the median listing price of single-family homes from \$282,250 to \$305,350; 3) a reduction in the number of days on the market from 162 to 110 days, which is considerably more dramatic for newer, well maintained homes; and 4) the average sale to listing ratio which is now around 97%, meaning that there is no longer a meaningful gap between what a property is listed for and what it actually sells for.

So, what can we do as buyers to improve our chances of purchasing a home during this challenging time?

First and foremost, establish a relationship with an experienced Realtor who has the market knowledge and expertise to help guide you through the purchase process. Since homes routinely sell faster in a "Seller's Market", a good Realtor will have access to new listings when they first come on the market, and may also know owners who are planning to sell properties that are not currently listed on the open market. A good Realtor will also know how much you need to offer to be competitive with other buyers, as well as, how to structure an offer that is more attractive than one presented by a competing buyer.

Since time is of the essence during a “Seller’s Market”, being prepared before you begin searching for property is critical. That means a visit with your favorite banker to get pre-qualified or pre-approved so that 1) you know what your budget is when house hunting and 2) your offer is more credible and attractive to a seller if they know you are already qualified at their respective price point.

Keep in mind that you may pre-qualify for an amount higher than you planned on spending. Establish a budget that you feel comfortable with and stick to it, even though during a “Seller’s Market” there may be an occasion where you are involved with multiple offers and a bidding war. Don’t exceed your budget just to win a war, as it may have a negative financial impact on the quality of life for you and your family down the road.

That being said, if you find a property that meets your requirements and is within your budget, don’t procrastinate. More times than not, buyers who delay their decision making will find that the property they are interested in is no longer available when they finally do decide to make an offer. Work with your Realtor to prepare an offer immediately that is competitive in terms of price and conditions. You want to protect yourself in any purchase, but try to eliminate conditions that do not materially affect your offer and avoid presenting the seller with a laundry list of items you’d like to include in the purchase. Understand the difference between needs and wants.

In conclusion, it is still a good time to purchase a home and take advantage of historically low interest rates and the related tax benefits of home ownership. If so, remember the four “P’s”: Partner, Preparation, Patience, Pro-active. Hire an experienced and knowledgeable Realtor and Banker; get pre-qualified or pre-approved and set a budget before you go house hunting; be patient as you are competing with other buyers (don’t get into bidding wars and stick to your budget); and when you find a home, be aggressive in preparing an attractive and timely offer.