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Dump This House: Unloading Your Property in a Slow Market

By Jonathan Clements

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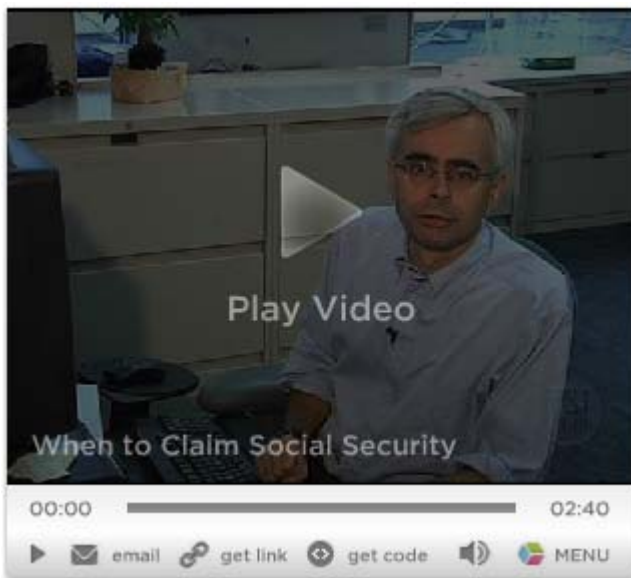
It could be the kindest cut of all.

Look at the prices of homes getting sold, and the property market's decline seems no worse than a rough day in the stock market. Look at the number of unsold homes, and you realize there's a world of financial pain out there.

True, these unsold homes may eventually get bought at decent prices. But in the meantime, the owners are often bleeding money -- and many of them would be smart to slash their asking price and go for the quick sale.

- **Taking time.** As you can see from the accompanying chart, home prices are down just 4.5% from their July 2006 peak.

Yet even as prices appear pretty much unchanged, the number of unsold homes has soared. At the current pace of sales, it would take more than 10 months to clear this backlog, according to the National Association of Realtors.



Personal finance columnist Jonathan Clements answers a reader's question about claiming social security. He says half of Americans claim social security at 62, the earliest age to claim, which could be a big mistake.

to cut deep," Mr. Whitehead says.

Good advice? Here's how to decide for yourself:

- Ask your real-estate agent how many properties are on the market in your town today and how many sold in each of the past six months, advises Chris Mayer, director of Columbia Business School's Milstein Center for Real Estate.

"If there are 2,000 houses on the market and 200 houses sold last month, that means it's taking 10 months to sell a house," Prof. Mayer says. "That's pretty simple math, but nobody ever does it. If you price your house like everybody else, it might take 10 months to sell it."

- Suppose you price your home like everybody else and it does indeed take 10 months to sell. Figure out how much you would be out of pocket over that stretch, either because your home is vacant or because the mortgage has become unaffordably large.

- Spend your Sunday going to open houses in the neighborhood. That should give you an indication of what you need to ask if you want to get your home sold now. Given the cost of carrying your home and the risk prices will fall further, would it be cheaper to slash your asking price?

Sure, it would be emotionally draining to have your home on the market for more than 10 months. But it probably wouldn't be a financial disaster -- as long as you're still in the house and you can comfortably cover the mortgage.

Maybe, however, you have an adjustable-rate loan that's now unaffordable. Maybe you're trying to unload a vacation home. Maybe you moved cross-country for a new job, but your old house still hasn't sold.

The monthly cost of carrying a vacant home could equal 1% of a home's value, figures Charles Farrell, an adviser with Denver's Northstar Investment Advisors. After all, you still have to pay utilities, insurance, property taxes, maintenance and, of course, the mortgage.

What if the mortgage is paid off? There's still an opportunity cost. The equity in your home could instead be invested in, say, bonds yielding 5%.

To make matters worse, "prices could be lower a year from now," Mr. Farrell warns. "There's also the risk of owning a physical asset. I'm thinking about things like fire, broken pipes, theft."

- **Cutting deeply.** Despite all this, sellers are loath to cut their asking price, which is the reason prices have barely budged -- so far.

"People focus on what their home was worth two years ago, or how much they've sunk into it, or on their desire not to bring a check to the closing," notes financial adviser Bert Whitehead, author of "Why Smart People Do Stupid Things With Money."

His advice: Ditch these emotional hangups -- and unload your property now. "If you really want to sell your house, you have

If you're going to lower your price, Prof. Mayer advises doing it right away -- or waiting until early next year. He notes that very few houses sell between Thanksgiving and mid-January.

"The best scenario is that prices fall through the spring and then stabilize," Prof. Mayer says. "But I'm more pessimistic than that. I would sell now."

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