

Bursting The Real Estate Bubble

A real estate bubble, or housing bubble exists when a local economy experiences an accelerated growth rate in housing prices or values and then the market "corrects" itself once values have reached their peak for various reasons. Generally followed by a correction or more drastically, a crash, real estate bubbles have caused many inexperienced investors to panic. During the period of growth in a particular area, a real estate investor can make a fortune if they use purchase techniques like house flipping or short term holding. Periods of accelerated growth typically allow the investors to buy at near or full retail value and still make a reasonable profit as a result of appreciation. However, an area affected by a real estate bubble will generally have retail housing prices and appraisal values increase in disproportionate numbers. At times, it can be an unrealistic increase due to various economic factors. The result can be good for an investor who just purchased a distressed property in the area where appreciation is steady. What typically happens in that scenario is that the investor buys the property for pennies on the dollar based on today's value. As the so-called real estate bubble grows, the value of the property goes up as well. Hypothetically, an investor could buy a property for \$75,000 and resell it for \$150,000, making almost a 100% profit, after deducting any fix up expenses and holding costs. Here's a little secret that all real estate investors should take to heart: You should ALWAYS buy properties at steep discounts because your profit is made when you buy, and realized when you sell! Simply banking on constant appreciation is not investing, it's speculation or may even be considered gambling. A professional investor can recognize the signs of a localized real estate bubble and avoid areas that are affected, waiting for the opportune moment to buy. Now understand that not all areas are affected by unnatural growth. This means there are still properties a savvy investor can obtain without taking undo risks. Understand that there are profitable deals in every market place no matter how hot or cold that local market is. You only need to know where to look. The so-called national real estate bubble (market correction) of 2007-2008 has found many mortgage companies on the verge of bankruptcy or declaring bankruptcy, creating a backlash resulting in a virtual implosion of the entire sub prime lending industry. In many instances, home owners were holding short term Adjustable Rate Mortgages (ARM) as well as negative equity mortgages that they should never have obtained in the first place and when a little bump in the road appeared, foreclosure soon followed. Many local economies have now begun to stall as panic became widespread. However, the real estate bubble bursting in various markets made conditions perfect for even a novice real estate investor to earn substantial profits. When a real estate bubble does burst the result is usually a substantial increase in foreclosures, as reflected by the constant deluge of media exposure seen during this election year of 2008. The "big picture" is that property values start to decrease to a more realistic amount due to the cooling off period. Housing prices begin to fall, sometimes slowly and other times at a frightening pace. While many folks are running around screaming that the sky is falling, there are scores of educated investors who understand that this is a prime time for a buying property. It becomes, what it referred to as, a "buyer's market." Investors like a buyer's market for obvious reasons. More profits are realized during times of economic panic. End home buyers also win because interest rates are currently low and the result is generally more house for the money for qualified buyers. In Your Own Backyard - A real estate housing bubble not only affects the housing market, but the entire community. As prices fall, new home construction oftentimes slow to a crawl. Contractors can start to lose money as their inventory of houses sit for months unsold. Skilled tradesmen can be laid off as consumer spending slows down. People start buying only what is necessary as the media paints a constant gloomy picture. The local economy sometimes slows to a stand-still. When a real estate bubble bursts, the local economy oftentimes suffers for quite a while and the recover time can be extremely slow. At this present time, the bursting of the housing bubble in many areas has a lot economists worried. However, any educated investor knows that real estate values are cyclical and the markets always return to their previous position. The Sky Is Not Falling - To determine if a local marketplace is caught in a real estate bubble, the smart investor must look at several things. The most important clue comes from the sale history of local properties. Hypothetically, if a house sold for \$65,000 three years ago and the owner is presently able to sell it for \$145,000 rather quickly, it is a pretty good indication that the local economy is booming and healthy, not caught in a real estate bubble. When a local real estate bubble is expanding, investing can obviously be tricky. A wise investor will proceed with caution and fully understand that their buying and selling strategies may need to be modified. It All Boils Down To Knowledge And Calculated Action- The bottom line is that any market place has plenty of highly profitable deals if an investor knows where to search. Education and persistence are keys to successful real estate investing. Remember, there is no national real estate bubble and anyone who says otherwise doesn't fully understand the intricacies of real estate investing. If you are just getting started in real estate investing or have been considering investing in real estate, you'll want to take full advantage of the current incredibly low interest rates as well as a seemingly endless supply of profitable deals to be made. Take some time and become educated on the intricacies of real estate investing the right way and then take action because there has never been a better time to get started investing than right now!

About the Author

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