When is the Best Time to Buy? Is It Possible to Time the Market?

Timing the real estate market, like timing any market, is near impossible. In an ideal world, you would only buy real estate when prices are low and sell when prices are high. This is how to make the most profit on your investment. In the real world, however, homebuyers often shy away from buying when prices are low because they fear prices will drop further. Similarly, there is often a buying mania when home prices are high-the reverse of what you'd expect.

While it's important to keep the investment aspect of buying a home in mind, buying a home involves decisions that don't come into play when you're investing in an apartment or office building. With the latter, you're buying strictly for the anticipated return on your investment. When you buy a piece of real estate that you'll occupy as your home, personal life style factors such as the aesthetic appeal of the property, the local school district, proximity to work and neighborhood appeal are equally as important as the investment potential.

For the past 50 years, residential real estate has been a profitable investment in the U.S., returning far more than the inflation rate. However, home prices, like stock prices, go up and down. There were periods of time during the past fifty years when homebuyers experienced huge losses in home value.

For example, consider the volatility of San Francisco Bay Area home prices during the past dozen years. At the end of the 1980's, Bay Area home prices were increasing at a rate of approximately 20 to 25 percent a year. In 1990, prices started declining, and by the mid-1990's, Bay Area home prices were off their highs by 20 to 25 percent in some places. Now homes prices in the Bay Area are hitting new highs and in some places prices are significantly higher than they were before the decline.

One couple that bought a home in Oakland just before the market began its decline in 1990, sold at a significant loss two years later when they were transferred. Since they had only put 10 percent down when they bought the house, their mortgage balance at the time they sold was higher than the price of the house. They had to liquidate savings to pay back the lender the amount they were short. Clearly this was a losing proposition.

First Time Tip: It's impossible to time the market, but you can insulate yourself from experiencing loses like this by only buying for the long term. If the couple in the above example had been able to hold on to their home until today, they would be selling for a profit. A two-year time frame is risky because markets can change quickly. And it's only through hindsight that we know that a market has declined. To be on the safe side, buy when you know that you will be staying put for at least five to ten years. This time frame should carry you through a temporary downturn in the market.

The Closing: Certainly many home buyers have made large profits in the short run if they bought at the beginning of a period of rapid home price appreciation. But be especially wary of buying for the short term following a period of rapid growth. The market could be ready for a pullback. Also pay attention to local supply and demand factors. For example, if there has been a lot of new home building in the area and the demand for homes is weak, home prices-particularly of older homes-could drop.