What happens when rates go up 1%:

Problem: Buyers are fence sitting; not motivated. They see the entire inventory and hear stories of a housing crisis so that even if they would like to buy a home today, they are afraid of paying too much. At a minimum they think time is on their side.

Solutions: There are at least 3 things buyers need to understand: *1) The consequence of future higher interest rates; 2) Prices are not collapsing together with the precedent for appreciation over time; and 3) The combined benefit of terrific selection with moderating prices.*

An important phrase we should be prepared to say to mitigate a buyer's fear of paying too much and rekindle their motivation is *'what you hope to save in lower prices could be more than offset by the inevitable increase in interest rates'*.

This is a true statement, but it lacks impact without our ability to make it real. The following example demonstrates the point. However, as a pro, you should be prepared to do this example *at their price point* to make it real.

Sample impact of a 1% increase in interest rates on a typical sale in our market:

Sales Price: $1,000,000
80% Loan: $800,000

On a 30-year loan at 4.5% the payment would be $4,053.48
On a 30-year loan at 5.5% the payment would be $4,542.31
Note: Check out the exercise on our STATS page so that you can demonstrate for your client http://RLSIRMarketing.com/stats Click the Calc icon and follow the instructions.

In this example, this is an increase in payment of $488.83 for the same property.

If you then calculate what that $488.83 payment difference would finance, it's a whopping $96,476 @ 4.5%. This is effectively how much borrowing power is lost with that 1% mortgage rate increase.

As a percentage of the original sales price it's almost 10%. Put another way, the effective cost of the home is 10% higher! (About 9% if you use 5.5% instead of 4.5%)

The point is this—at some level everyone knows that interest rates are near historic lows and that is a good thing. They know that lower rates translate into lower payments and hence more buying power. However, looking at the overabundance of inventory, they act as if they are immune to the consequences in real buying power when rates inevitably go up. Again, as a professional in today's market we need to be able to make this point as vivid and real as possible. It's motivating and it's true!

Granted, we are speculating on interest rates going up. However, we our basing our thinking on the understanding that the Fed rate policy is to artificially keep rates low as a temporary tactic to help the banks manage the credit crisis. Evidence QE2!