Sticky Prices and the Investor

In economical terms, "sticky" refers to a variable resistant to change. Price stickiness in terms of real estate occurs when asking prices of properties remain high, and in some instances, may increase during a period of decreased demand. In a period where demand is decreased, prices become flat, while appraisers and listing agents still observe the "sticky price" as the going market price.

Real estate investors often fall victim to holding out for the "sticky price" because they are relying on sales comparables and appraisals as the finite value of their property. As the market continues to change, the investor needs to remember sales comparables and even an appraisal offer no guarantees.

How sticky are prices?

Thomas Stevens, a former president of the National Association of Realtors received media attention last year when even he couldn't sell his Washington D.C. area home. He, like many homeowners and investors, slowly lowered the price, hoping to find a buyer. Approximately fourteen months later, his home still sits on the market. But while this may be the case with certain sellers, builders and developers seem to be drastically cutting prices in order to move inventory.

Sticky real estate prices affect everyone. Sticky prices cause home sales to decrease more than they typically would. Because the transaction costs of real estate are high, a decrease in the sale of existing properties affect the income of mortgage originators, realtors, title companies, appraisers, inspectors and others.

With tightening lending guidelines and an overall contraction of the housing market, rental demand increases, especially when individuals can afford to rent a nicer home than they could afford to own.

If your real estate investing plan still involves selling, don't become fixated on last year's (or even last month's) selling prices.