

Capitulation versus Opportunity

To capitulate is to surrender, consent, or yield. Capitulation is the giving up of resistance. Pundits speak of the need for there to be capitulation in the markets before we see a recovery in asset valuations. In the stock market, the signal for this is a sustained three week to three month sell off. During capitulation, prices break through all resistance barriers and effectively freefall, because investors lose confidence in a recovery and decide selling at any price is better than hanging on. Buyers wait because they are sure prices will be lower tomorrow. During capitulation, as in a bubble, fundamentals are temporarily thrown aside while emotions drive the market. The reversal happens when the opportunities for buyers are just too good to pass up.

Sound familiar? We are well into the stage where sellers are “dumping” their homes because selling at a distressed price is better than not selling at all. During November, December, and January, buyers stood on the sidelines waiting to see what would happen to home prices. Today, foreclosures and short sales are presenting opportunities that are just too good for buyers to pass up.

The land markets are experiencing this on a dramatic scale. Land sales larger than 10 acres evaporated over the Christmas Holiday last year, and buyers are still reluctant to step in nine months later. As a result, sellers have become more and more aggressive with their pricing hoping to draw in buyers. The investment opportunities in the land markets are tremendous today, but the fear of the current cycle remains paralyzing. Sellers and buyers are waiting for the other to flinch. The recovery begins once the standoff is over.

Gerald Loeb, one of the great contrarian investors of the last century, stated: “It should be recognized that [the exceptional opportunities] will inevitably be available principally when the majority of buyers refuse, because of fear, to take advantage of low prices.

The presence of buyers suggests the housing market has capitulated. Since Warren Buffet stepped in to invest \$5 billion in Goldman Sachs on September 23rd, it looks like the banking sector may have capitulated. Once the broader recovery has begun, we will all breathe a sigh of relief and then regret our positions weren’t more aggressive during the uncertainty.

If you are a seller, adjust your price slightly more aggressively than current market conditions and be ready to do the deal that presents itself. If you are a buyer, waiting until tomorrow may yield a better price; waiting may also yield a missed opportunity. Buyer remorse is just as nagging when it comes as a result of the deal you should have done. Opportunities are not for those with weak resolve.

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