

Open House: Condo, townhome sales increase despite slow market

by *Jim_Woodard*

Sales of condominiums and townhomes are picking up. These units are just too popular with a large segment of buyers to be held down long by a general sales slump.

When I first started writing this real estate column in 1971, I had to explain what this new type of housing with the strange name of "condominium" was all about. Since then, it has become the preferred housing concept for an increasingly large number of buyers - particularly singles, newly married couples and retirees.

"We are definitely emerging from a difficult time and seeing some light in the condo market," said Bill Donges, CEO of Lane Co., a major condominium development firm. "The condo lifestyle, especially in urban areas, is very attractive and with mortgage interest rates low and selection good, we are seeing buyers come back into the market."

The steady and growing sale of condo units in certain markets is also helping the rental apartment market, it was noted by Steve Patterson, an officer with the National Association of Home Builders.

"We've had fairly strong rental demand for quite some time, but the unsold condos and single-family homes coming back into the market as rentals were hampering the rental apartment sector. With many of those units now selling, the so-called 'shadow market' is starting to dissipate and the multifamily market overall is getting healthier," Patterson said.

At the height of the housing boom, condo construction starts accounted for an unprecedented 45 percent of all multifamily starts annually. When the market rebounds, NAHB expects that percentage to hover between 20 to 30 percent of all annual multifamily starts.

"The real difference we're seeing now is that all our buyers want to live in the condos," said developer Donges. "The speculators are gone, which is a good thing. We're optimistic that, except for the most overbuilt markets, the worst is behind us."

Patterson also noted that multifamily housing developers on both the for-rent and for-sale side have been slowing down their construction activities in order to give the market time to "burn off" excess inventory. Preliminary estimates from the Census Bureau indicate that last year saw a total of 275,700 starts of buildings with five or more units. That's down about 6 percent from the previous year and is the lowest number of starts in this sector since 1996.

NAHB analysts recently lowered their forecast for multifamily starts this year, saying it expects about 250,000 five-plus unit building starts during the year. That number is expected to rise to just above 260,000 next year.

Q: Is the slow market making homeowners less enthusiastic about their investment?

A: People are feeling positive about their homes these days, despite a generally sluggish housing market. A recent survey conducted by Harris Interactive revealed an interesting insight into consumer sentiments.

It indicated that about 77 percent of homeowners believe the value of their home has increased or remained the same during the past year. Also, many homeowners say they are planning to do things this year that you might not expect during a housing and credit slump.

For example, 82 percent will spend the same or more on minor home improvements, such as installing a new garbage disposal or putting up wallpaper. And 67 percent say they will spend the same or more on major home improvements this year. Those projects might include replacing the roof or remodeling a kitchen.

About a third of respondents to the survey say they plan to take out a home equity loan this year, refinance their mortgage, take out a second mortgage, or sell their home.

Q: What are home builders doing to sell off their inventory?

A: Over the past year or so, home builders have come up with a variety of creative incentives to entice prospective buyers to sign a purchase contract.

One recent and timely offering is to offer buyers a "price protection plan." The plan provides the buyer with a written agreement that if the cost of comparable homes drops before the purchase transaction is closed, the buyer's price will be lowered according.

Major home builders, such as KB Home and Ryland Group, hope such a guarantee will ease consumers' fears about buying real estate at a point where values are falling. They also expect the plan will help reduce the number of cancellations.

KB Home, based in Los Angeles, rolled out its program in February in 35 markets. Ryland Group has also just started the program and will give it to any buyer who asks for it. The guarantee covers the base price for that exact floor plan, and includes units in the firm's existing inventory of unsold homes.

"Determining a specific reduction is a process that blends art and science," said Eric Elder, senior vice president of Ryland. "It varies by community and the protection ends at closing, so longer-term price declines could still leave buyers owing more than the house is worth."

Q: How are home inspectors dealing with the slow market?

A: Home inspectors are also rolling out new programs to help them survive the slow market. Some are now offering energy audits, maintenance inspections, phased-in inspections and other related services. And, of course, they are urging homeowners to hire an inspector before placing their property on the market.

"Maintenance should be at the top of every seller's list this year," said Brion Grant, president of the American Society of Home Inspectors. "In this market, home buyers have more properties to choose from and will look closely at how well a home has been kept up."

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