Open House: Homeowners haven't adjusted to shift in market

by Jim_Woodard

Finally, we're settling into a normal real estate market.

While many media reports indicate bad news, with slow sales, lowering home values in some areas and rising mortgage interest rates, all these factors are just deflating the boom years to the point where the market has returned to a more normal, balanced and stable point. At least, that's where we are from a historical perspective.

"Over the last few years, sellers held all the power because there was a sense of urgency in the market," said Brett Long, vice president of Fox Chase Bank. "That sense of urgency has disappeared and market conditions have returned to normal. Buyers are waiting to see a model home instead of just buying what they see on construction plans. Buyers now want to negotiate and wait for the right deal."

The same trend is seen in the marketing of previously owned homes.

That sounds like a description of a normal market. But home sellers aren't used to these conditions yet and, in many cases, are having a tough time adapting to them. It means being more realistic in pricing a home, waiting for a longer period for a buyer to be found, a sale to be consummated, and being willing to negotiate.

Home prices now show a widely dispersed drop in single-family home prices, according to a recent study and survey by Global Insight, an economic analysis and forecasting company. Of the 317 metro areas covered in the study, 157 of them experienced price declines during the first quarter of this year. That, combined with wage gains and slow but steady interest rate increases, has reduced the widespread overvaluation of homes.

The overall number of single-family housing units deemed to be overvalued fell from 17 percent in the last quarter of last year to 14 percent in the first quarter of this year.

Markets identified as being overvalued decreased to 54 metro areas in the first quarter, down from 62 metro area markets in the preceding quarter.

The nation's most overvalued market currently is Bend, Ore., according to Global Insight. In Bend, the median single-family home price is more than $324,000 - almost twice what it sold for four years earlier, and 78 percent over the survey's valuation price. The most undervalued markets are Dallas and Houston.

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Q: Are owners of luxury homes worried about dropping prices?

A: Not yet. One important niche in residential sales seems to be oblivious to the market slump. High-end luxury homes are selling well in many markets, and the owners expect their home values to continue to rise substantially, according to the finding of a survey recently completed by Coldwell Banker's Previews division - the segment of the brokerage firm that specializes in upper-end properties.

Things haven't changed much in that area. Years ago (in the 1980s) I served as director of Corporate Communications for Previews. Sales were strong for luxury units, even when other home sales declined.

In the new CB survey, a full 56 percent of respondents expect the value of their luxury home to increase in value over the next 12 months. It was also noted that over the next five years about 58 percent of respondents believe their residence will increase significantly in value.

It's interesting to note that women are even more optimistic than men, the survey revealed. About 61 percent of female respondents expect the value of their home to increase over the next 12 months, compared to 50 percent of male respondents.

The survey report noted that homeowners are so positive about the real estate market that 40 percent of respondents are considering purchasing a home within the next year as a second or vacation residence. About 38 percent are interested in purchasing a property as an investment, and 22 percent are looking for a retirement property.

Among those who plan to move their primary residence, 61 percent want a bigger home and 51 percent are relocating. About 47 percent want to move because they prefer a different floor plan, and 41 percent want to move to be closer to recreational activities.

"The responses to our survey tell us that the affluent truly understand the value in owning real estate," said Jim Gillespie, president of Coldwell Banker Real Estate Corp. "It's important to remember that in addition to being a home, real estate is a long-term investment - one that can withstand periodic changes in the market."

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Q: When will it be a good time to invest in residential real estate?

A: Right now and over the next 12 months is an excellent time to invest in residential properties, according to a report from Housing Predictor, an independent real estate research firm.

The subprime loan meltdown has produced a near record level of foreclosures, providing the highest number of lower price homes in many years in most real estate markets, the report stated. Housing prices in three out of four markets have fallen. The oversupply of inventory is making a significant impact on many markets. Investors are flocking to these markets to make purchases of foreclosures or negotiate lower prices in the conventional resale market.

The number of new housing construction starts is still falling. In May, they fell another 2.1 percent from the previous month, according to figures released by the Commerce Department. Starts are down 24 percent from a year ago.

"Builders are cutting back on new production as they work down their inventories in the face of slack home buyer demand," said Brian Catalde, president of the National Association of Home Builders. "Builders are trimming prices and offering a variety of nonprice incentives to boost sales.

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Q: Is this a good time for home builders?

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