

Open House: Decreased condo sales affect buyers as well as brokers

by Jim_Woodard

A couple of years ago, condominiums were among the hottest-selling niches in the supercharged real estate market.

Today, condo sales are sluggish, prices have leveled out or are dropping in many markets, and inventories are growing dramatically. Those factors can be good news for prospective buyers of condos. They now have far more units to choose from than were available a year or two ago, prices are dropping to more realistic levels in many markets, and buyers have more negotiating clout.

Condo prices nationwide are dropping at an annual rate of about 0.5 percent, according to a report from the National Association of Realtors. The number of sales is off nearly 7 percent from last year.

"Condo markets have been receding largely due to excessive inventory," it was noted in a report from the National Association of Home Builders.

The slow condo sales and large inventories have an impact extending beyond buyers and sellers. Many real estate brokers who had been specializing in condo sales are leaving that specialization niche and are promoting any brokerage activity - that is, if they are staying in the real estate brokerage business.

Some brokers are now reluctant to even list a condo property while inventories in their market are so high. They reason it's not feasible to spend time and money in marketing condos when the chance of making a sale is so slim.

One business is actually benefiting from the tight condo sales market. More and more builders and developers of new condos are turning to auction companies to liquidate their inventory of unsold units.

"It doesn't take developers long to figure out what an extra 12-month holding period will cost them," said Louis Fisher, managing director at the auctioning firm of Sperry Van Ness Accelerated Marketing Co. "Auctions provide developers with the ability to sell a lot of product on a given date and time, so there's certainty. The worst is yet to come because buyers are on the sidelines waiting for prices to fall."

It should be noted that condo prices are not falling in all markets. Some areas, particularly in West and East Coast communities, prices are continuing to slowly climb.

Q: Are reverse mortgages becoming more popular?

A: There is indeed a growing number of senior homeowners applying for reverse mortgages - a special type of mortgage for persons over age 62 that uses their home equity to generate added income.

The number of reverse mortgage borrowers will soon grow dramatically, that is if the proposed American Homeownership Act of 2007 is passed by Congress. It would allow about 2 million additional seniors to tap into their home equity to obtain reverse mortgage payments.

Seniors who have lived in their current homes for several years or decades have seen the value of their homes rise substantially in recent years. However, in high-cost areas, such as the Northeast and West, home values have far surpassed the mandated cap of \$362,790 for obtaining a Federal Housing Administration-backed reverse mortgage. That limit leaves millions of seniors without access to such a mortgage.

The new act would make reverse mortgages available to additional millions of homeowners by raising the FHA's Home Equity Conversion Mortgage loan limit equal to the Fannie Mae and Freddie Mac conforming loan limit. By increasing and simplifying the loan amount, this change would help seniors who have homes valued above the current FHA loan limit of \$362,790 and less than \$600,000 obtain a reverse mortgage through the FHA.

Eligible seniors would still have to be 62 years of age or older and have paid off their mortgage or have only a small mortgage balance remaining. The amount of the loan (or monthly payments to the senior) depends on the value of the home, the age of the homeowner and expected interest rate. In most cases, the reverse mortgage does not have to be repaid until the borrower moves out of the home permanently.

Seniors should carefully study and understand the provisions of this mortgage transaction before making a commitment. There are advantages and disadvantages. On the downside are large upfront fees.

Q: How do home builders handle all the fees required by local governments?

A: Home builders are becoming increasingly concerned about rising fees and regulations being imposed on them by local governments where they are building homes. This comes at a time when their prices are being lowered and inventories are rising.

A report from the National Association of Home Builders notes that each \$1,000 increase in the cost of a new median-priced home forces another 217,000 prospective buyers out of the marketplace.

"The NAHB study shows that even modest impact fees can have a dramatic effect on housing affordability," said Jerry Howard, chief executive officer of the association. "Local governments need to understand that higher regulatory costs frequently push up the price of housing beyond the means of many teachers, firefighters, police officers and other moderate-income workers."

Q: Are rents generally rising?

A: While home prices are steady or slightly lowering in some areas, rents are on the rise. Many prospective home buyers are opting to hold off on a home purchase in the hopes prices will be lower and more affordable in the future.

In the meantime, many of these hold-off folks need to rent their residence, thus pushing up the demand for rentals and increasing rents.

"During the housing boom, the 'rent vs. buy' decision became a buy," said appraiser Jonathan Miller. "Now the pendulum is swinging the other way. As a result, there are fewer vacancies and increased demand for apartments, allowing landlords to raise their rental fees. Tighter lending standards are also playing a part by locking more people out of homeownership and increasing competition for rentals."

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