



THE REAL ESTATE REPORT

November 2006

A monthly column on the real estate market and related issues in the upper Hudson River Valley by Roderic H. Blackburn, principal of R. H. Blackburn & Associates, Inc.—Real Estate of Hudson and Kinderhook, NY. It also appears in *Berkshire HomeStyle* and *Capital District HomeStyle* magazines. If received in error notify blackburn@berk.com. Questions welcome.



Whither this Market - to wither?

It is time to reassess where the real estate market is and is going. The season is heading towards the slowest period - who wants to show or look at houses during the November-January holiday period? Only the most motivated, and that is why real estate agents do not dare take a snooze anytime during the year. By now even Rip Van Winkle knows there has been a change in the market. It was first noticed in our region by some, if not most, when the number of new listings began to shoot up beginning April 2005.

This is a precursor indicator reflecting owners who wished to sell, but who had held their homes off the market while prices were still climbing. They wanted to catch the top of the market, and a few did. Or more accurately, when so many began listing their homes it created the top of the market. The new supply of houses resulted in an imbalance of supply (up) and demand (which began to go down) such that the word got around that the market was "soft," even before there was actual evidence of decreased sales or prices. The rumor itself contributed to even more listings as owners became afraid they would miss the top. They had. Now eighteen months later it is clear that we have changed from a seller's market to a buyer's market. In our region the number of listings is almost twice what it was back then. Indeed we have to go back ten years to find this number of listings. Those were quiet days in the real estate market. So how soft - or severe - is the current market. Is it just like the bad days of 1990-95? How long will this last?

Will the market crash? We, or course, don't know and can't assuredly predict what will happen. That uncertainty is actually a great benefit to the market as a whole. Uncertainty makes the market work with a certain rhythm as buyer and seller opinions and decisions tend to balance each other out.

But with a careful look at the actual statistics of sales, prices, days on market, interest rates, mortgage availability, general economic and regional trends, we can assemble facts which will tend to point towards what is more likely to happen in the near term.

Nationwide

First lets look at the national pictures. *The Economist* reported this week that new home sales are down 17% from a year earlier (August to August), and existing home sales down 12%. The National Association of Realtors (NAR) reported in the same period that the median price of existing homes fell 1.7%. So reduced sales has not translated into comparably lower prices. NAR's up-to-date report is more optimistic.

David Lereah, NAR's chief economist, says (October 11) the housing market is showing signs of life and that sales may be leveling out. "Many potential home buyers who have been taking a wait-and-see attitude or taking their time and being methodical in the search process are being enticed by lower home prices. Given a positive economic backdrop of lower interest rates and job creation, we expect sales activity to pick up early next year." On October 2 he reported "Our sense is that home sales may have reached a low in August - the Pending Home Sales

Index shows home sales should be fairly stable over the next two months...with fewer new listings coming on the market, we should be able to draw down the inventory supply early next year to the point where home prices will rise, but at a slower pace than historic norms."

NAR further reports: "With a recent correction in the market, the national median existing-home price is likely to rise 1.6 percent to \$223,000 for all of 2006; it's anticipated prices will remain slightly below year-

ago levels before gaining positive traction in the first quarter of 2007. The median new-home price is projected to decline 0.2 percent to \$240,500 - largely the result of builder price cuts to move unsold inventory." In other words, they think the correction is over. It is interesting to note that Joe Public is just now thinking the correction has started and so it is time to hold off buying a house. If so, does this remind you of the stock market truism that when everyone thinks the market will crash is exactly when it rallies, to everyone's disbelief.

To add frosting to the cake NAR President Thomas M. Stevens said this presents a unique opportunity for buyers.



**Hey Mista Numbers, it's me, de Craven Coon.
Skip the escargot stuff, jis gib me de STATS!**

"The supply of homes on the market is the highest we've seen in over 13 years, and mortgage interest rates are experiencing an unexpected decline...the 30-year fixed rate is hovering around 6.3 percent, and sellers in most of the country are now showing a willingness to negotiate."

Statewide

"The statewide housing market remained healthy in August, showing the expected slowing of sales from last August's record level and a slight reduction in median sales price," said Charles M. Staro, NYSAR (New York State Association of Realtors) chief executive officer. "The market data continue to indicate a return to sustainable sales growth and a leveling of sales prices resulting from an increase in available inventory." Total New York state sales of existing single family homes was up 13.5% from July to August 2006, while August sales were down 10.2% from the record pace a year earlier. Median sale prices, curiously, went in the opposite direction: \$275,000 in July, \$271,350 in August, and both above August 2005 sales price of \$265,000. In New York State sales were down less than the nation, and prices were up - a healthier market even in a correction.

Regionally

According to NYSAR's monthly statistics, existing one family home sales in Albany county were higher in August (4.1%) than the year before; the same for prices (up 9.2%), denying any correction there. Rensselaer County sales for the same were up 21.4% and median prices up 9.2%.. Tech Valley's real estate is booming. Columbia and Greene counties did not report August figures as of press time. Dutchess County sales were off 13% from a year earlier, and median prices down 5.7%. Saratoga sales were off 10.2% but prices were up 8.3%.

As an aside, here are the median prices for existing single family homes last August: Albany county \$214,000, Rensselaer \$174,020, Saratoga \$249,000, Greene (July) \$177,500, Columbia (July) \$237,500, Dutchess \$348,000, Ulster \$270,825. Prices range from Allegany at \$50,000 to Westchester at \$749,500 across the state.

If we were to look at sales and prices among all the New York counties the first thing to strike us is the wide disparity among counties. We would see the same in comparison among states too. National and state-wide statistics camouflage the fact that real estate markets are so variable that for the average buyer or seller what really matters is what is happening in just their own county. For counties in the upper Hudson River Valley sales are off about 10-12%, for counties in the lower valley sales are off 22-25%. Of course the latter were the ones that had the biggest price increase during the 2001-2005 boom.

So what to do?

Mortgage rates are still historically low and funds readily available, thanks to continued low inflation. This bodes well for a healthy real estate market in the near future.

The number of houses for sale is at its highest in ten years, almost twice as many houses compared to just eighteen months ago. For the buyers, that is real opportunity; for the seller, it spells slow sales unless priced at or below the market. The prices of houses in the current (or recent) correction, however, have come down very little despite the big supply. On the other hand, waiting until next year to buy may not benefit the buyer appreciably. If mortgage rates go up a buyer may actually lose in the long term. A \$300,000 house bought for \$275,000 saves \$25,000 now. But if mortgage rates change from just 6.3% to 6.8% on a fixed 30 year mortgage, that translates into increased payments amounting to \$28,472 on a \$240,000 mortgage.

For the seller, the large supply of houses means waiting longer to sell, even if the price may not be much lower. If in a hurry, then lowering prices is the only effective way to get a sale.

Fewer sales is a result of fewer current buyers (brokers can tell you that the number of inquiries is less than in prior years). This means the ratio of listings to buyers has grown large, encouraging buyers to be slow in making decisions, making lower offers, and avoiding negotiations. They are not experiencing the buyer competition of a year or more ago. If they are finicky about the big issues (road noise, lack of views, house condition, sub-par neighborhoods, low ceilings, small rooms, etc) they will pass by almost all houses to find the ideal house - and that is where they will have competition, even in this market. For these buyers, being first, and assertive, pays.

The last time we had a correction in the market (1990-95) in our region prices did not change much, but the number of sales dropped off as much as a third and the time it took to sell a house averaged a year (it is less than half that now). With a healthier economy (lower gas prices, higher average salaries - up 8% in 2 years, and low interest rates) it would appear we are not going to experience that kind of market. If the NAR and NYSAR pundits are to be believed, we could be on the upswing, however slowly, early next year.

My favorite prognosticator is "nothing will be as bad as you fear, nor as good as you hope;" or it's more hard-boiled version: "If you have expectations, you'll have disappointments." Barring a catastrophic recession-inducing event (somehow we managed to get through a couple wars, a huge national debt, sky-high gas prices and Katrina all at the same time without a recession), the only fear we should have is fear itself. If you fall in love with someone would you let the economy stop your marriage? Well, we fall in love with homes too.

October 25, 2006: latest update from the National Association of Realtors.

September Existing-Home Sales Ease, Setting State for Stable Market

Existing-home sales eased last month, as did the number of homes available for sale – indicating the housing market is stabilizing, according to the National Association of Realtors®.

Total existing-home sales – including single-family, townhomes, condominiums and co-ops – dipped 1.9 percent to a seasonally adjusted annual rate¹ of 6.18 million units in September from a level of 6.30 million in August, and were 14.2 percent below the 7.20 million-unit pace in September 2005, which was the third strongest month on record.

David Lereah, NAR's chief economist, said stabilizing sales should build confidence in the housing market. "Considering that existing-home sales are based on closed transactions, this is a lagging indicator and the worst is behind us as far as a market correction – this is likely the trough for sales," he said. "When consumers recognize that home sales are stabilizing, we'll see the buyers who've been on the sidelines get back into the market, and sales will be at more normal levels in the wake of the unsustainable boom that we saw last year." He noted sales already are improving in some areas.

Total housing inventory levels fell 2.4 percent at the end of September to 3.75 million existing homes available for sale, which represents a 7.3-month supply at the current sales pace.

NAR President Thomas M. Stevens from Vienna, Va., said the industry is encouraged that the number of homes on the market is starting to decline. "It appears we have passed a cyclical peak in terms of the number of homes on the market," said Stevens, senior vice president of NRT Inc. "The good news is that fewer new listings are coming online. A stable sales pace is expected to draw down the number of listings to a supply balance that will support positive price growth within a few months. Taking the long view is always the best way to approach housing decisions, and right now, buyers are in a very favorable market."

With the market in transition, the national median existing-home price² for all housing types was \$220,000 in September, which is 2.2 percent below September 2005 when the median was \$225,000. The median is a typical market price where half of the homes sold for more and half sold for less.

According to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage was 6.40 percent in September, down from 6.52 percent in August; the rate was 5.77 percent in September 2005.

Single-family home sales slipped 1.6 percent to a seasonally adjusted annual rate of 5.42 million in September from a pace of 5.51 million August, and were 13.8 percent below the 6.29 million-unit level in September 2005, which was the second highest month on record. The median existing single-family home price was \$219,800 in September, down 2.5 percent from a year ear-

lier.

Existing condominium and cooperative housing sales fell 3.2 percent to a seasonally adjusted annual rate of 763,000 units in September from 788,000 in August, and were 16.0 percent less than the 908,000-unit pace in September 2005. The median existing condo price³ was \$219,800 in September, which is 2.8 percent lower than a year ago.

Regionally, existing-home sales in the South rose 0.4 percent to an annual sales rate of 2.52 million in September, but were 9.0 percent below September 2005. The median price in the South was \$184,000, down 1.6 percent from a year ago.

Existing-home sales in the Midwest eased 2.8 percent in September to a level of 1.39 million, and were 13.7 percent lower than a year ago. The median price in the Midwest was \$169,000, which is 2.3 percent below September 2005.

In the West, existing-home sales declined 3.1 percent to an annual pace of 1.25 million in September, and were 23.8 percent lower than a year earlier. The median price in the West was \$332,000, down 4.3 percent from September 2005.

Existing-home sales in the Northeast fell 3.7 percent to a level of 1.03 million in September, and were 13.4 percent below September 2005. The median existing-home price in the Northeast was \$259,000, down 5.1 percent from a year earlier.

The National Association of Realtors®, "The Voice for Real Estate," is America's largest trade association, representing more than 1.3 million members involved in all aspects of the residential and commercial real estate industries.

The annual rate for a particular month represents what the total number of actual sales for a year would be if the relative pace for that month were maintained for 12 consecutive months. Seasonally adjusted annual rates are used in reporting monthly data to factor out seasonal variations in resale activity. For example, home sales volume is normally higher in the summer than in the winter, primarily because of differences in the weather and family buying patterns.

Existing-home sales, which include single-family, townhomes, condominiums and co-ops, are based on transaction closings. This differs from the U.S. Census Bureau's series on new single-family home sales, which are based on contracts or the acceptance of a deposit. Because of these differences, it is not uncommon for each series to move in different directions in the same month. In addition, existing-home sales, which generally account for 85 percent of total home sales, are based on a much larger sample – nearly 40 percent of multiple listing service data each month – and typically are not subject to large prior-month revisions.