

The question is not if, but when will the residential real estate sector recover?

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The question is not whether this dreadful downturn in real estate will ever end, but how long we have to wait until there is some normalcy and balance in local markets. Not if, but when.

No one is asking when prices or unit sales will resume to the frenetic levels that appeared earlier this millennium, and no one should be. Yet given the flurry of positive news emerging in the local media with anecdotes of multiple offers and well priced properties selling in a matter of days, we are seeing some definite signs that a recovery is beginning.

The challenges such as employment woes, restrictive borrowing standards and continuing mortgage defaults are not lessening, but there is light at the end of this dark tunnel. A flickering light, but we will take it!

What the residential market is experiencing is the reintroduction of some healthy market basics like supply and demand, consumers' perception of value, and shelter decisions driven by life changes more so than lifestyle choices. As sellers have been forced to realign their expectations on what their home is worth, buyers' sense of value is finally piqued and they have moved off the Internet and into open houses, from circling to pouncing.

Though high net worth individuals may have suffered some deterioration in assets, real estate and otherwise, there is still interest in the market. A burst in high end sales in the past 45 days in the more pricey suburbs likely indicate that homeowners in the high end have been watching asking prices closely, and their sense of value is finally proving too provocative. According to MLSPIN, in the first three months of 2009, there were 41 closed sales in the towns of Weston and Wellesley combined, with a median price of \$770,000. Since April 1st, in the same two towns there are 82 properties "under agreement" with a median sales price of \$1.199 million.

Savvy investors are jumping on board as well. This reality is evidenced in the number of multifamily sales within the past six months. As values deteriorated with waning confidence, uncertainty and mounting foreclosures, savvy investors moved in by purchasing multi-families where the rents actually support a modest return with a real down payment.

Of course the first time buyer is finally in the driver's seat. Unfazed by not having lived through two or three real estate cycles, young buyers are fueling entry level homes sales, driven by life changes like job or family growth.

An additional factor pushing new people into the market is the cost of renting versus buying. Vacancy rates have been shrinking since 2001 as the cost of home ownership priced many into a holding pattern. Today with mortgage rates low and rents up, it makes more financial sense for some to buy versus rent.

It still remains to be seen just how much the \$8,000 first time buyer tax credit contributed towards getting buyers off the sidelines. Now that it is a genuine credit and not a government loan, and it

may be used as a down payment rather than a post-closing benefit, it has become a tipping point for many, generating buying decisions and making down payments go further.

We still need to add more fuel however to ensure that this spark of activity in the market continues to build.

Loan standards for first time buyers can still be a huge hurdle in getting them into the market. An extension of any stimulus, a rethinking of credit standards, and additional programs should be considered by the government and lenders.

The disconnect is nowhere more evident than what we have seen between the Feds rolling out a modest tax credit with great results, while the FNMA cripple condo projects by imposing a 70% sold and closed rule.

This may have the double whammy of preventing the sale of thousands of units in existing and new projects, and discouraging developers from going forward with any new or planned projects.

Low inventory helps market propulsion, but inventory stagnation sends prices back up. If current condo projects cannot sell, they will flood the market with empty units. Think Florida or Las Vegas, both backdrops for mass auctions and developers looking for steady paying jobs.

First time buyers and entry level buyers are the key to this recovery. This "bottom up" market chain has many interconnected links, and entry level and condo buyers, whether first time buyers or not, are crucial in freeing up those homeowners looking to buy their next bigger house.

These buyers will then enable the owners in a luxury building to purchase a more luxurious unit down the block, or the empty nester in the suburbs can finally sell and move to the city. This real estate chain cannot be complete without the pollination at the first link.

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