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Some Home Prices See First Dip

May statistics may signal a return to more rational state

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For months, real estate pundits have been talking about the next sure sign that the real estate market is giving back ground from the phenomenal run-ups of the last few years: an erosion of pricing.

In May, in Southwest Florida, it happened.

Prices in the Charlotte County-North Port market dropped 2 percent when compared with the same month in 2005. It might be the first drop in pricing since the early 1990s, long-term market observers said.

The May median sales price was \$211,500, down from \$216,200 during the same month last year.

While Sarasota-Bradenton did not experience a drop, the market's prices rose only 2 percent, another likely sign that it, too, is returning to more normal values.

Condominium sales in the market, however, posted their first drop in recent memory, albeit a decline of only 1 percent.

People in the real estate industry hope that pricing continues to behave like it has: a slowly leaking balloon rather than anything resembling a popping sound.

"We are getting back to a more rational market," said Lynn Robbins, director of business development for Coldwell Banker Residential Real Estate.

Buyers are seeking and often getting 3 to 6 percent discounts from list prices on average. "Interest is increasing, it's better," Robbins said.

One reason might be that there is a lot to look at these days.

In the Sarasota Multiple Listing Service, for example, there are now 7,304 houses available for sale, three and a half times the level of a year ago. The average weekly sales rate is now 97, down 38 percent from a year ago.

The number of weeks worth of inventory on hand is 75.4, an improvement from the 92-week supply of March 31, but still six times lengthier than a year ago.

"It's a price-sensitive market now. There's a lot more inventory," said Nick Figlow, president of Re/Max Gulfstream Realty in Bradenton. The momentum has "swung to the buyers; they dictate prices."

Sue Louis, senior vice president for Coldwell's Sarasota Bay division, said developers and investors are expressing an interest in returning to Southwest Florida.

She also has a theory about why prices have softened: The average median price went down because of activity in the \$250,000-and-under market.

"This increase in activity is partially attributable to first-time homebuyers making the decision to buy before interest rates rise."

Observers say that continued low interest rates, strong employment numbers and healthy corporate profits have kept the landing in the housing market soft.

In congressional testimony on Tuesday, Mickey Levy, Bank of America's chief economist, said that the negative impact that slower housing activity will have on consumer spending is overstated.

In comments likely to soothe the frayed nerves of real estate agents and builders, Levy said that although "housing activity and prices will flatten" they will "not fall materially."

As for factors supporting the real estate market, Levy expects consumer spending to rise "at a more moderate pace" and corporate profits, already at "all-time highs," to continue rising but at a slower pace.

The fact that consumer spending has not yet dropped precipitously, despite rising interest rates and weaker housing activity and prices, leads some to the conclusion that the economy's resilience might have been under-appreciated.

No similar boost

Existing home sales did not experience the May improvement seen nationally in new home construction and then, as reported earlier this week, in sales of new houses.

Nationally, sales in May fell for the third time in five months.

The National Association of Realtors reported that sales of previously owned homes dropped by 1.2 percent in May to a seasonally adjusted annual rate of 6.67 million units. The median price of the homes sold in May rose to \$230,000 in May, up 6 percent from the same month a year ago.

Statewide, sales dropped 24 percent during May while the median sales price rose 11 percent to \$256,400 when compared with the same month a year ago.

That 24 percent drop for May matched the 24 percent decline for the first five months of 2006, noted David Scott, executive director of the Orlando-based Dr. Phillips Institute for the Study of the American Business Activity.

"Unfortunately for Realtors, the one-month data is not an aberration. It is a reflection of the five-month data," Scott said.

Single-family home sales dropped 32 percent in Sarasota-Bradenton while the median sales price crept up from \$316,600 in May 2005 to \$322,600 last month.

Condos sold for a median price of \$274,200, or 1 percent less than a year ago, at \$275,800. Sales were off by 42 percent, continuing a steady decline from fast-paced 2005.

Many market observers, however, still expect that 2006 will be the third-best year ever if current trends hold.

Speed bumps ahead?

Not all market watchers foresee the real estate market making a smooth transition to normalcy.

While disagreeing on the severity of the potential decline, economist David Scott and market analyst Peter Schiff agreed that the market has switched gears considerably from a year ago.

"The rate of deterioration has accelerated," Scott said. "For every house that was available for sale last year at this time, there are four or five times as many now."

At the same time, the combination of the rising price of both money and gasoline is putting a strain on household budgets, while wages are just barely keeping up with stated price inflation of 3.6 percent a year, Scott added.

Nationally, mortgage rates are running more than a percentage point ahead of a year ago at 6.71 percent, compared with 5.63 percent a year ago. That trend is still upwards, meaning rates stand a good chance of soon reaching the 7 percent level, considered a tipping point for mortgage activity.

In that light, "realistic concerns about short-term pullbacks in real estate values are certainly on the table and are predictable," Scott said.

He is not worried, however, about the long-term future of Florida real estate, given what he calls its "general attractiveness."

But Schiff, an acknowledged long-time real estate bear who runs an investment firm called Euro Pacific Capital, said home prices are at the beginning stage of a fairly lengthy decline that will leave many homeowners, investors and lenders hurting.

"The market has topped. We haven't had the bursting yet. There is still complacency out there, and denial," he said.

"There are probably people in Florida right now who think they are going to be rich in a few years. And they are just going to have their dreams shattered."

Statistics on existing home sales show the market is absorbing 15 percent of the available supply, Schiff said. He figures that by the end of the year, less than 10 percent of the houses now for sale will sell, leaving record-high supply.

"If you figure prices started getting out of control three or four years ago, prices are going to fall back below what they were when the whole thing started."