

A Big Papi property market in Marblehead

Mid-year 2009 review

In the first two months of the baseball season David Ortiz could not buy a home run, struck out frequently, and started to hear questions about whether his career was over. Then, over the last month or so, Ortiz found his swing again and his batting returned to normal. Nevertheless, because of his poor start his batting average remains low and will do so for the rest of the season. Ortiz does not have enough at bats to overcome his slow start.

Similarly with the real estate market in Marblehead. The first quarter looked like Ortiz swinging aimlessly at strike three. But then, like Phoenix (that would be the mythical bird, not the one still slumping in Arizona) rising from the dead, Q2 saw a recovery back to 2008 levels as far as prices are concerned, with volume also picking up. But for the first half of the year as a whole, because of the slow start, the numbers show a significant decline.

Before reporting on the numbers a word of caution. The number of sales in Marblehead is always quite small, thereby reducing their significance, and this year those normally small numbers have shrunk further. Part of the reason for the small volume of sales is that we seem to like living in our houses in Marblehead and our turnover historically is about one-third the national average.

Another caveat is that the numbers in this review reflect every sale reported in the MLS without any adjustment. As explained in the February 2009 Reporter article about the assessment process, the Assessors' office makes adjustment for non arms' length transactions: those involving divorce, foreclosure, estate sales, etc.

So much for the warning label, now let's look at the numbers.

Single Family Homes

Sales in Q1 were 19 vs. 27 in 2008 (and an average of 41 from 2001-08); in Q2 they were up slightly at 46 vs. 44 (average 71 from 2001-08). Overall for the first half sales were down 8% from 71 to 65.

The median price in Q1 was \$380,000 vs. \$510,000, down 25%; in Q2 \$500,000 vs. \$474,500, up 5%. Overall for the half year, the median price was \$447,500, a 6% decline from last year's \$479,000. The median price for the whole of 2008 was \$484,500, so Q2 exceeded that level. It is hard to argue with certainty that this represents a trend or an indication that the market has bottomed, but there are certainly those who believe this to be the case.

One last number: only in 2001 in the last 9 years has Q2 seen the highest median price for the year (and in 2001 it was the highest by just \$4,000). Because of the Ortiz effect, it is unlikely that the median price for 2009 will show an increase over that for 2008. It is not impossible, however, that the second half will show an increase over last year's \$490,000, or at least come close to it.

Price range of SFHs sold

In Q1 the highest price achieved was \$565,000. By way of contrast in Q1 2008 the highest sale price was \$5.6 million. In Q2 2009 the highest sale price was \$2.4 million, compared with a high of \$2.5 million in Q2 2008.

Overall for the half year, 88% of sales were at prices below \$750,000, up from 74% in 2008.

The table below shows that the percentage of total sales below \$750,000 declined steadily from 2001 to 2006 in line with rising prices. In 2007 and 2008 the percentage increased again, as prices fell. Because of the Ortiz effect in Q1 2009, the figure for the first half of the year showed a big jump.

SFH sales below \$750,000 2001-2009

<u>Sales</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>H1 2008</u>	<u>H1 2009</u>
0-499	68%	62%	53%	40%	29%	31%	40%	51%	51%	62%
500-749	20%	22%	29%	39%	45%	37%	36%	28%	<u>23%</u>	<u>26%</u>
TOTAL	88%	84%	81%	79%	74%	68%	76%	79%	74%	88%

Supply of SFHs

At the end of June there were 130 SFHs listed for sale, a slight increase from 123 a year earlier. At the average annual sales volume of 219 for 2001-08 the supply would represent 7 months of sales, which would indicate a market in reasonable equilibrium between buyers and sellers. Based on the level of sales in 2009 so far, however, it would take 12 months of sales to clear the inventory. Homeowners wanting to sell will no doubt be sharing their realtors' wishes for more activity in the second half of the year.

Condos

In Q1 this year there were just 3 condos sold, down from 7 a year ago (and an average of 12 from 2001-08); in Q2 the number recovered to 11 vs. 13 last year (and an average of 22 from 2001-08). Overall for the half year, sales were down 30% at 14 vs. 20.

The median price in Q1 for those 3 sales was \$255,000 vs. \$325,000 a year ago, down 22%; in Q2 the median was \$255,000 vs. \$265,000, a 4% decline. For the half year the median price was \$255,000 vs. \$277,750, a decline of 8%.

The median price for the whole of 2008 was \$299,000 and for the second half of the year \$325,000, so even if David Ortiz turned into Ted Williams in the second half, it seems probable that the median price of condos will see a measurable decline in 2009.

Supply of condos

One of the few bright spots for condos is the decline in supply from last year's 66 to 49 at the end of June. That, however, still represents 10 months' supply at the average sales volume of 2001-08, but a whopping 21 months at the anemic levels of the first half of 2009. We will mention some of the special factors affecting the condo market later in this article.

Factors affecting the market in Q1

With the sun finally shining, we are moving further away from those dismal days in February and March, a time that witnessed the height of the fear of widespread economic collapse. There was a lack of confidence in the future, resulting in a general unwillingness to spend money and an even greater reluctance to take on new debt, whether to buy a car or a house.

This was the time, of course, when lenders tightened their lending requirements, while jumbo mortgages, when available, were very expensive.

Factors affecting the market in Q2

While the sun didn't come out until after the end of the quarter (and some realtors think the constant rain in June kept potential buyers indoors), we did see a general abatement of fear, a belief that we had survived the worst. Helping to boost confidence was a 20% plus recovery in the stock market.

On the other hand, tighter underwriting standards continued, while increasing unemployment suggested that while we may have stabilized, economic recovery may not occur for a while yet.

Assessed values

It is worth repeating that the assessed value of properties for 2009 is based upon 2007 sales data. 2010 assessments will reflect sales in 2008 and 2009 sales values will not be reflected in assessments until 2011.

The second point about assessed values is that, as they do down, so the tax rate goes up. Marblehead, like other towns, is limited as to how much revenue can be collected through property taxes. That revenue number, divided by the assessed value, generates the tax rate. Thus even if assessed values go down next year, as they will on average, tax bills will still be likely to show an increase in dollar terms.

The Assessors' office calculates the ratio of the assessed value to sales prices or ASV. If the ASV is above 100%, the sales price was less than the assessed value; below 100%

reflects a sales price greater than the assessed value. For example, a house assessed at \$500,000 that sells for \$400,000 would have an ASV of 125%; a house assessed at \$400,000 that sells for \$500,000 has an ASV of 80%.

Using all reported sales, the median ASV in the first half of the year was 112.4%, meaning that the assessed value was 12.4% greater than the sales price. There were, however, some interesting variances by price range. In the up to \$499,000 bracket the median ASV was 121.4%, dropping to 112.6% if properties with ASVs over 150% are excluded (such a big number suggests other factors may have been at work).

The \$500-749,000 bracket had a median ASV of 108.8%; at \$750-\$999,000 it was 109.8%; \$1-1.5 million 80.5%, and \$2- 2.5 million 96.9%.

H1 2009

<u>Price</u>	<u>Median ASV</u>		<u>No</u> <u>of</u> <u>Sales</u>
0-499,000	121.4%		40
0-499,000	112.6%	excluding those above 150%	30
500-749,000	108.8%		17
750-999,000	109.8%		4
1,000-1,499,000	80.5%		2
2,000 - 3,000,000	96.9%		2
All sales	112.4%		
All sales	109.7%	excluding those above 150%	

Overall, higher priced properties achieved a more favorable price against assessed value than the lower priced properties.

This analysis does suggest, perhaps, that more forced selling occurred in lower priced properties than at the higher levels, or at least that prices at the lower level came under greater pressure. It is also possible that homeowners at the higher levels had greater access to other assets than did those at the lower levels.

Special factors affecting the condo market

It seems that whenever the real estate market enters a slump it is the condo market that is hardest hit. The good news is that buyers of condos in stable housing markets like Marblehead can pick up bargains. The bad news is that they may have to go through a nerve-racking process to close their purchase – may have to, but not necessarily as we shall see, if they take advantage of local knowledge.

National lenders tend to apply a template to purchases. Amongst their bugaboos now are: the percentage of units that are owner-occupied (they don't want to lend to a condo buyer in Phoenix where 50% of the units are empty); a large percentage of condo owners delinquent on paying their dues (will the condo association be able to pay its bills); a condo association without sufficient reserves. The big lenders also want to see a much larger down payment and have little or no flexibility.

Getting a loan from a major lender is also complicated by new regulations concerning the appointment of appraisers. Lenders above a certain asset size are now required to delegate appraisals to an independent appraisal selection firm (which collects part of the appraisal fee) which then allocates the appraisal to appraisers. The result is that often an appraiser is selected from out of area with little or no understanding of the local market. And, of course, after being accused of rubber stamping appraisals during the boom years, appraisers are now being very cautious.

I mentioned the advantage of local knowledge, and this applies to all types of purchases, whether single family or condo. When I moved here in the 1990s and wanted to buy a house, I was sent to National Grand, who listened to my story and gave me a loan. One day I was talking to somebody in the bank, not in the mortgage department, who knew that I was buying a certain house. This lady told me that she knew the man who had built it and that, in fact, he had built himself the same house in Nashville. Furthermore, she happened to have his telephone number, which she gave me, allowing me to call him and learn a lot of detail about the house I was buying.

The point of this story is that the local lender, the person making the loan decision, will know the property under discussion, not be relying on a computer and a template. Recently I heard a story of a man who wanted to buy a condo in Marblehead. After being turned down by several major banks, he visited one of our local banks and was given a loan commitment within 24 hours. "Shop locally" applies to mortgages as well!

As markets continue to return to normal, so more lenders are likely to increase the range of their lending. More lenders mean more buyers – and probably in due course higher prices.

Marblehead prices compared with other markets

As noted in prior reports, Marblehead did not participate in the speculative boom experienced elsewhere. No large condo developments were built; no large volume of liar loans offered. Marblehead prices did not soar like those in Miami or Las Vegas or Phoenix. Similarly, while prices have undoubtedly come down, the decline has neither been of the magnitude seen in the boom-to-bust cities, nor have areas of blight developed. While pain has been felt, it has not been widespread.

Overall, median prices are back to 2002 levels for single family homes and 2001 levels for condos. These prices reflect the first half of 2009 and as we have seen SFH prices at least recovered strongly in the second quarter. Numbers for the full year will

give a better perspective on the market and a clearer idea as to whether in fact the bottom was reached earlier this year.

Foreclosures

Foreclosures were rare in Marblehead for a long time, with no more than 1 in any year from 2001 to 2006. There was a jump to 10 in 2007 and again to 13 in 2008 (figures are for SFHs; in 2008 there was also one condo that was foreclosed). In the first half of 2009 there were just 3 foreclosure deeds issued.

The crystal ball

In the summer of 2008, Marblehead's property market seemed to be starting to show signs of recovery after the collapse of Bear Stearns earlier in the year. Then came Lehman and several months of near panic. As this is written, signs of stability are appearing again, but few people care to predict the future after last year's experiences.

So here's my prediction: the Red Sox to sweep the World Series with David Ortiz MVP, and those smart people who bought in the first half of 2009 will be raising a pennant to celebrate their well-timed purchase. And if neither of these things occurs? I'll blame it on Ortiz. .

Quotes from Realtors and Others

How would you describe the current market?

"The entry level is active and the upper end slowly gaining momentum" – Meg Andrews of Coldwell Banker

"The spring market was slow this year with new properties coming to market later than in the past. On the other hand buyers are still actively looking when in the past things tended to quiet a bit after Jul 4. A lot of buyers are looking for the right deal" – Wendy Webber of Sagan Realtors

"We have continued to see strong activity below \$600,000, driven by first time home buyer stimulus money and low interest rates. The residual effect of these sales is beginning to chip away at some of the inventory over \$600,000. Price and condition still rule the day. Today's buyer is very particular and wants everything just right but does not want to do the work to get there. Many are content with what they have and will wait for the perfect match." – Jack Attridge of William Raveis

"The average list price for SFHs is almost \$1 million. Today there are 136 active SF listings and 41 of these are in the \$900,000 and above range. So it's a great time to "upsized" since you can sell your lower end property fairly easily and get a great buy on a higher end property" - Carole Cressy of Re/MAX

How difficult is it to get a mortgage?

“Mortgages are available but they are taking a bit longer to approve” – Meg Andrews

“Now more than ever it is critical to be pre-approved before starting a search. We are seeing a flight to local banks. Bigger banks are employing cookie-cutter guidelines which can push people out if they don’t conform, whereas a local lender can be more flexible” – Jack Attridge

“We are recommending that all of our clients go with local financing, to cut through the red tape, have better communication and accountability, for better service, speed and understanding of the local market” – Carole Cressy

What is happening in the jumbo market?

“Mortgages are available but rates are still much higher” – Meg Andrews

“Local banks and private institutions see the opportunity here and are lending” – Jack Attridge

“Many jumbo borrowers are still paying higher interest rates and facing tougher underwriting standards than in the past” – Carole Cressy

“In Essex County, the jumbo limit is \$523,750. These rates are about ½ % higher than for conforming mortgages, but much lower than for larger jumbo loans” – Conrad Rousseau of Stepstone Mortgage

What is the supply of properties looking like?

“We don’t have a lot of inventory in the \$800,000 - \$1 million range, but overall the supply is about the same as it was last year” – Meg Andrews

“Generally plenty to choose from” – Wendy Webber

Has the increase in mortgage rates from record lows affected buying interest?

“Buyers still appreciate that rates are at historic lows and the recent spike is not holding them back. This is especially true for buyers who qualify for the \$8,000 tax credit” – Meg Andrews

“I think they are getting the picture that rates are still at all time lows” – Wendy Webber

“Falling rates instill complacency. It is when rates rise that people feel they might miss out and we see increased lending activity.” – Jack Attridge

“Rates are still at historical lows. With the tax credit ending December 1, I expect a good season in the fall “ – Conrad Rousseau

Any advice for first-time buyers?

“There really could not be a better time for qualified first time buyers to enter into homeownership” – Jack Attridge

Special thanks to Rich Cooper of Re/MAX for access to MLS statistics.