

June 2009

We are entering “The Wild West” of real estate. On May 1st the new appraisal rules went into effect and the affect of the new rules are being felt everywhere. Banks are pressing appraisals to the lower edge of the value spectrum, jumbo loans are increasingly difficult to obtain and with more stringent requirements. Anything listed under \$199,000 is a very hot commodity. Anything that can be financed through FHA is very saleable (loan limit \$403,000) and everything requiring a jumbo loan, well that is a whole other matter. Homes that are priced over \$525,000 are harder to sell. Any sales of homes over \$250 per square foot are becoming difficult to appraise successfully. Over \$325 per square foot, it may not be possible in some areas any longer for the home to appraise.

At the height of the market, homes at \$500+ per square foot were our “elite homes;” homes priced over \$400+ per square foot were our top-end luxury homes; homes priced over \$300+ per square foot were our mainstream luxury homes; homes priced over \$200+ per square foot were our average homes and anything under \$199 per square foot was the bottom. How things have change.

Today, some entry level homes are selling for under \$80 per square foot. Average is under \$140 per square foot. The mainstream quality homes are over \$150 but under \$220 per square foot. \$250-\$300 per square foot is top of the line and over \$300 to actually sell is infrequent today. For homes priced over \$400 per square foot the market is very limited and outside of cash buyers (or buyers that have the cash but prefer to use a loan) are very unlikely to be able to obtain a loan.

Three years ago as I saw the drop in the market forming I promised myself, no matter how much flak that I took or negative comments I would endure, that I would be upfront with sellers on the values they could expect from the sale of their property. Three years and countless disappointed sellers later, this has been an experience in human emotion and judgment for me. It has been my belief that in a down market realism must rule, neither pessimism nor unbridled optimism are in order. Realism, with a positive approach, will guide sellers, buyers and investors through the next 60 months.



As we move through 2009 and into 2010, I feel that what we have seen in 2008-2009 will be the norm for 2010 and I am not adding any value to the market for 2011 at this time. I see new construction coming on line by 2011, giving buyers options over the resale market. In the end, until inventory, foreclosure pressure, loan restrictions and appraisal guidelines all come together we will continue to see a slide in the overall market and we can expect to see, in four years from today, the future values of homes very close to today's values with a possible upside of 3-5%, but an equal chance of flat or down values as well.

What we will see-and maybe this is the single most important point of all-is inventory will be turning, homes will be selling and buyers, of course, will be buying. Take a look at the following graphs. Homes are selling and I expect this trend to stay with us, and hopefully sooner than later, an upturn in values will develop.

One major note of caution, it is being reported that the true number of bank-owned homes that need to be sold are not all in the market and a significant number of homes are being inventoried by the banks and have yet to be released to the market. This is of great concern to me as I try to project absorption and market values. The open pipeline of foreclosed homes that caused the negative effects, which started in 2007, may well go into 2011 as a result of these backlogged foreclosures.

All hope is not lost. Our office has been extremely busy with incoming offers and it has helped contribute to the tardiness of this month's newsletter. Let's stay focused on turning this market around one home at a time and before you know it, you'll have equity again and "short sales" will be a thing of the past.

Kind regards,

A handwritten signature in black ink that reads "David Morris". The signature is written in a cursive, flowing style.

David Morris