

Buyers Gain Power In Housing Market -- - As Inventories Rise, Sellers Are Forced to Bend On Price; Free Vacation for Selling a Penthouse

By Ruth Simon

1,778 words

8 September 2004

The Wall Street Journal

D1

English

(Copyright (c) 2004, Dow Jones & Company, Inc.)

THE RED-HOT housing market is showing its first signs of cooling, and the balance of power between buyers and sellers has begun to shift.

Sales of existing homes fell 2.9% in July from June's record pace, according to the National Association of Realtors, and brokers in many areas report that the number of houses on the market is beginning to rise. The result: Buyers are regaining some of their negotiating power and sellers are being forced to lower their sights after years of hefty price increases.

To be sure, home sales traditionally slow during the summer months as families turn their attention to vacations and the coming school year. But the heated spring selling season may have set the stage for a fall slowdown. "There's some indication we're in a transition period . . . from a seller's market to a buyer's market," says Tom Kunz, president of Century 21 Real Estate Corp., a unit of Cendant Corp.

And some real estate experts say the recent rise in inventories goes beyond the normal summer slowdown, with more sellers trying to cash out with big gains and more buyers nervous about overpaying at a market peak.

The apparent shift in the market's tenor follows a frenzied spring, when anxious buyers -- fearing they would get priced out by rising interest rates -- jumped into the market. The average price of a single-family home rose nearly 9.4% for the 12 months ended June 30, the largest 12-month increase since 1979, according to statistics released last week by the Office of Federal Housing Enterprise Oversight. Now buyers are getting pickier, though many sellers still expect prices to keep rising at this spring's rapid clip, real-estate agents say.

In suburban Boston, inventories of high-end homes have risen roughly 15% during recent months, and many properties are selling for 15% to 20% below their listing price, says Alan Rice, a senior vice president with Carlson GMAC Real Estate. Buyers are increasingly asking sellers to include furniture or other personal property in the deal, says Mr. Rice, or to provide an allowance for new carpeting or a fresh coat of paint.

Across the country, in Orange County, Calif., which has been one of the nation's hottest markets, the change is even more dramatic: The supply of homes on the market rose to 7.5 months in July, based on the current rate of sales, up from 0.6 month in March, according to the California Association of Realtors.

Still, home sales are expected to reach record levels in 2004 for the fourth consecutive year. And with mortgage rates again hovering just below 6%, according to HSH Associates, purchases could spurt again this fall. Indeed, some markets haven't yet seen a shift. While July was slow, "August has been a whirlwind," says Jane Powers, a broker with Ewing & Clark Inc. in Seattle.

And Chicago, where the market never quite reached fever pitch, is continuing to see steady price gains, says Stephen Baird, president of Baird & Warner.

But elsewhere, there are signs the market is changing. One Orange County broker recently offered "a bonus of \$2,500, champagne, roses, chocolates, mini vacation" plus the chance to win \$10,000 to the agent who sells a penthouse condo in San Clemente priced at \$1,225,000. The property has been listed for more than 60 days. "When something is on the market that long, you just take action to try and get it sold," says Marilyn Taylor, a broker-associate with Century 21 O.M.A., which is handling the property.

Linda Schermerhorn listed her two-bedroom townhouse in Irvine, Calif., in early June for \$439,000, only to discover within days that two dozen similar properties appeared on the market. After consulting with her broker, Ms. Schermerhorn dropped her price to \$419,000 -- slightly below recent comparable sales -- and spruced the home up with new curtains and towels. Within a week, she had two full-priced offers on the townhouse, which she had purchased as an investment.

Even Las Vegas, where prices increased by more than 52% over the past 12 months, is showing signs of cooling. The supply of homes on the market climbed to roughly four months in August, based on the current rate of sales, from a slim 1.7 months in January, says Lee Barrett, president of the Greater Las Vegas Association of Realtors. One reason for the increase in properties on the market: Owners who bought properties as an investment last year are cashing in. "Buyers now have an opportunity to look at a product without it selling in hours, and make an intelligent purchase," says Mr. Barrett.

The recent rise in inventories in some of the hottest markets could be a taste of things to come. Mortgage rates are likely to reach 6.25% by year end, says David Lereah, chief

economist of the National Association of Realtors. He expects home sales to fall about 5% next year.

The rise in inventory is good news for home buyers, who face less competition for choice properties. "You still hear of multiple offers, but they are the exception rather than the rule," says Michael Turk, managing broker at Weichert Realtors in Alexandria, Va., where one house attracted a stunning 42 offers in May. Another sign of how things are changing: More buyers are opting for a home inspection. In the spring, many passed up an inspection because it could have reduced the chance of getting their offer accepted, Mr. Turk says.

Even in markets where bidding wars persist, the odds are improving for buyers. In June, the average buyer in Newport News, Va., had to bid on three or four properties before getting an offer accepted, says Liz Moore, president of Liz Moore & Associates. Now, the typical buyer has to make just two offers.

In other areas, inventories have risen to the point where buyers can drive harder bargains. In Rancho Santa Fe, Calif., many buyers are offering 4% to 7% below the asking price, says Charles Gifford, an associate broker with Coldwell Banker. Others are bidding 10% less on high-end homes "just to see what the seller's position is," he adds.

Russ and Terry Gieselman listed their four-bedroom, two-bath waterfront home in Massapequa, N.Y., for \$785,000 in June. Just eight people showed up for the open house, including two neighbors, says their agent Gail Blumenstein, a broker-associate with Re/Max Shores in Massapequa. After several price reductions, the house now lists for \$729,900. But so far there haven't been any offers. "I'm thinking . . . it has to do with the interest rate on mortgages," says Mr. Gieselman. "They've gone up a little and that's turned people off."

The shifting climate is a plus for buyers on a budget. When Lynn and Bob Merring bid \$800,000 for a four-bedroom, three-bath home in Costa Mesa, Calif., priced at \$849,000 in May, the seller offered to lower the price by \$10,000. A few weeks later, the seller's agent suggested that the couple re-extend the offer, which was ultimately accepted.

Properties are also staying on the market longer. In Colorado Springs, Colo., listing times have climbed to 90 to 120 days "for the first time in a long time," says B.J. Burns, broker-owner of B.J. Burns Re/Max Real Estate Group there. Normally, she says, most properties sell within 60 days.

Judy Blea listed her three-bedroom, 2 1/2-bath home in Colorado Springs with Ms. Burns this spring, with an asking price of \$179,000. With no sign of an offer, Ms. Blea debated about cutting the price, then pulled the house off the market last month. "There's a lot of houses for sale here," she says.

The new dynamic is also leading brokers and mortgage companies to alter their strategies. When homes were flying off the market, many sellers and listing agents balked

at paying fees to brokers representing home buyers, says **MAXINE GOLDEN OF RE/MAX REAL ESTATE SERVICES** in Newport Beach, Calif. Now, they are offering higher commissions and even cash bonuses, she says.

Builders, meanwhile, are offering cheaper financing and training their staffs on how to best deal with pickier buyers. "We have to change from managing high demand to educating customers more," says Bill Probert, an executive vice president with builder John Laing Homes. "Buyers have more questions. They are more demanding. Every week it seems like there's more inventory."