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State of Real Estate

Slow, steady, even as expectations lean hard on the spring market

BY MICHAEL DINAN

PHOTOGRAPH BY MICHAEL PARTENIO

In August 2006 Melanie Smith, a thirty-one-year veteran of real estate in the Westport area, helped sell a 1904 farmhouse on 2.2 acres for \$1.65 million. Its new owners put \$700,000 into the home and put it back on the market recently. Were we still in a 2006-like market, Smith says, those same owners could expect to fetch the full \$2.35 million they had invested.

But it's no longer that strong sellers' market, and sensing that the property required aggressive pricing to garner interest, Smith encouraged the owners to list at \$1.99 million. The strategy worked, as the home sold at nearly \$1.99 million following a price-reduction negotiation with the seller and a new mind-set for buyers that speaks to the area's dramatically changed real estate market. "It's much more difficult to price a home now, there's no question about it," Smith says from a conference room here in Prudential Connecticut Realty's Southport branch. "It never was an exact science, and now it's even more complex because there are so many factors that enter into it. Some sellers are resisting what's going on. They're saying, 'Well, I've got this in it and I can't possibly sell for such-and-such.' Well, guess what? You're not the one who makes that decision. It's only worth what the buyer thinks it's worth."

As the traditional spring market begins in earnest this week, Realtors in Westport say they are cautiously optimistic that with "more realistic" pricing, leveling home values, federal tax credits and low interest rates, prospective buyers in 2010 will start spending money and revive the residential market.

Unknowns such as consumer confidence and bonuses paid to financial services professionals—amounts as well as whether they are paid in cash or stock—are critical factors, agents say. It also is unclear how long interest rates will remain low and how long buyers wait to see whether prices continue dipping.

Even so, data from late 2009 points to a recovery in Westport, says Bill Raveis, president and CEO of town-based William Raveis Real Estate. He is calling for a 10 to 15 percent year-over-year increase in units sold and has budgeted his company for that rise. "We did take a huge hit in 2009 because of the panic, but I think that's behind us and people are feeling cautiously good," he says. "So the market is going to go up. But does it zoom up or just climb up gradually?" Slow and steady, analysts say.

Because Fairfield County is heavily tied to New York City's financial services industry, especially the private equity market, real estate here was hit especially hard by the financial crisis, explains Marc Louargand, codirector of the University of Connecticut

School of Business's Center for Real Estate and Urban Economic Studies. Compared with the rest of the state, real estate activity in Fairfield County will be weak for an extended period, but the ingredients for growth are in place for 2010, says Louargand, who holds MBA and Ph.D. degrees from the Anderson School at UCLA and has worked both as an academic professor of finance and real estate economics, and a chief investment strategist for an institutional investment company. "If we see some recovery here this year and see employment start up again, then we'll see some activity in the single-family home market. I'm expecting to see job growth through 2010. We just have a long way to go to get back to December 2007 levels."

Peter Gioia, vice president and economist for the Connecticut Business and Industry Association, an advocacy group with about 10,000 members, says there has already been an uptick in lower-priced units across the state, including Fairfield County. "I think that for existing homes, we'll see some pick-up because we've seen so little construction," Gioia says. "There have been no real new housing starts, with new homes at 35 to 45 percent of what we would see in a normal year, so that means there will be absorption of existing housing stock."

And there are plenty of people, such as New Yorkers with young children, feeling pent-up demand because they have been waiting for several months through the tumultuous 2009 real estate market to buy into towns such as Westport, asserts Ed Strauss, a sales associate at the Westport office of Halstead Properties. "Buyers are waiting for the spring inventory, so if prices come in based on what they sold for in the fall, we'll have a busy spring market with buyers purchasing good inventory, and then a normalized market through the rest of the year," Strauss says.

Within Fairfield County's so-called "Gold Coast," Westport has withstood the economic downturn-fueled real estate slowdown better than some other towns because its buying population is spread across industries such as the arts as well as financial services, says Justine Lieberman, an agent at The Riverside Realty Group. "That's why we were half-hit compared with New Canaan or Greenwich," she says.

Karen Parrella of Prudential's Westport office says she believes the local market is gradually stabilizing, though there likely will be volatility when federal tax credits end and the U.S. Department of The Treasury stops buying mortgage-backed securities. "I also think that the interest rates are going to start climbing, and they may be up-down-up-down-up-down, but that the tendency will be toward going up, so I think that's an issue," she says.

Because the Treasury Department repeatedly forced interest rates to drop last year—a periodic intervention that must end at some point—the first half of 2010 is the time to buy, according to Michael Daversa, president and founder of Atlantic Residential Mortgage. "You are crazy if you're on the fence right now and you don't buy," Daversa says. "This is it. If you wait six months, the rates won't be there, the tax credit won't be there and the housing market may start going up."

That would mark a significant change in the housing prices—a notoriously difficult statistic to measure. That's because data such as median sale prices can only be based on houses that have actually sold—and not everyone is forced to sell. The figures really don't help compare prices in a weak market—where those who don't have to sell simply won't list—to a strong one, where people are willing to pay more money for the same property. Median sales prices "are often not reflecting the same sample," Louargand says.

To address the discrepancy, the UConn Real Estate Center developed a way to measure constant quality through quarter-over-quarter estimates on what houses with specific characteristics would sell for if sold repeatedly, once per quarter.

According to the center's housing price indices for a "mid-tier" single-family home in Westport (a forty-two-year-old home with 2,232 square feet), the unit price in town has fallen each quarter, on a year-over-year basis, since early 2008, with losses ranging between 3.5 percent and 22 percent. That includes year-over-year first-quarter declines for mid-tier home prices, from a high of \$1.32 million in 2007, to \$1.30 million in 2008 and \$1.06 million in 2009.

Yet for the first time since mid-2007, the number of overall home sales in Westport last quarter picked up on a year-over-year basis. Total transactions increased from 46 to 56 from the fourth quarter of 2008 to 2009, according to the real estate center.

Says Pat Prenderville of Nicholas H. Fingelly Real Estate, that momentum has carried into the first quarter of 2010; traditionally, the first quarter is a slow time.

"All the thinking in the past is out the window and people have been shopping, I think, because they have waited," she says. "They have waited to see how far down prices will go and if the worst is past and if their jobs are secure and if they'll get a bonus." Nobody can yet answer those questions with certainty. They're all critical in the real estate market, which is sensitive to the psychology of the buyer.

According to Michelle Genovesi, who deals primarily in the \$2 million-plus market as the owner of Michelle & Company, William Raveis Exceptional Properties, high-end Westport buyers in 2010 are more likely to weigh what they need, not what they may want, in a home. "As far as finances, they don't look at what they're paying for the house, they're looking at how much the house is going to cost them for a month," Genovesi says.

The real estate market changed dramatically last year. When the numbers are reviewed from a pulled back perspective, though, 2009 is seen for what it was: one year in a long history of terrific news. This, in and of itself, should be reassuring to anyone watching and waiting for proof that the landscape has settled and is ready for greener days ahead.