

REAL ESTATE NEWS



Penny & John
DUMKE
Fine Homes



3rd Qtr. 2004

Penny 562 596-4461

John 562 596-4451

Fax 562 493-0235

Referral Reward Program

Every time you refer a friend or relative that sells or buys a home with us, we'll send you a check for \$250.

Market Returns to Normal

By John Dumke

Starting about 3 months ago, the real estate market started to change significantly. Inventory started to climb, albeit above abnormally low levels. Multiple offers became a thing of the past, and buyers calls dropped off significantly. One month does not make a trend, but three months later, we have the same lackluster market.

I have wracked my brain to figure out what has happened, why it has happened and what it portends for the future. So cutting right to the chase, I will give the patient the prognosis, and for any of you that want to stay for the analysis we welcome your company.

The market is due for an immediate correction from peak spring prices of possibly around 10%. We no longer have a bidding frenzy that jacked prices up faster than even the most optimistic sellers or listing agents could anticipate. The actual amount of the correction is just a guess. It could be more or less, my crystal ball only has a visionary depth of 3 -6 months.

Why am I stating a 10% drop from peak spring/early summer prices? Because the environment that started in January to create these prices, multiple offers, and very aggressive gross overbids, is no longer present. Take away the scenario of 12 buyers fighting over one listing, replace it with one buyer having 4 homes to choose from, and the resulting negotiated sales price is much different. The supply / demand ratio has changed that drastically.

Increasing inventory has clearly been an obvious concern. We all see that the number of for sale signs is increasing and no longer do the sold signs go up the very next day. During spring, the total inventory of unsold homes in Long Beach was very low at 200 homes, as of this writing is now at 700 homes. Was

this because sales were falling off the map or are there just more anxious homesellers looking to cash in?

Last week during an open house, I spoke with a loan agent whom mentioned that he was closing 7 loans that month but had nothing new in the hopper after that. This alarmed me because he is a seasoned rep with many years and has a stable business. I knew I needed to get a handle on the market and figure out what was changing.

Those who sold during the first part of the year received a 10% "Bonus". A "Bonus" brought on by a multiple offer mania.

Was there really such a sharp drop off in sales? I went back to the office and pulled up a search of all of the homes sales by month since Jan. 03, based upon when the home went into escrow.

According to the statistics, it shows that we do have a about a 10-15% drop in the number of home sales this year vs. last. These sales stats don't show the sky falling, in fact these are sales volume figures that are probably just representative of a normal market. Why does the market feel so different? There are simply a lot more home sellers looking to cash in. The big difference lies in the ratio of homes that sell each month vs. the number of unsold listings, and this has changed dramatically.

During this past spring, while inventory was around 200, there where 250 - 270 homes selling per month. This equates to about a 2-3 week supply of homes for sale. For all intensive purposes, this means that there were no homes for sale or at least that is what it felt like to most buyers. I actually had to delay the presentation of offers for a week, making sure that we had enough time on the market, so that multiple offers could build up and we could be assured our seller was getting the best price. We had no idea what the home might sell for in this frenzied market

How Much is My Home Worth?

With the massive run up in prices, your home may be worth more than you think.

Find out how much on our web site. Log on to www.LBRE.com and click on "How Much is My Home Worth".

We will do the rest. Or if you prefer, use the attached reply card.

Contact Us by E-mail

*John@LBRE.com
Penny@LBRE.com*

because there were no comparable sales to justify the prices we were getting. In almost every instance, my listings received 3-12 offers and were overbid (from an already aggressive list price) by another \$5,000 - \$50,000!

Now with 700 homes for sale in Long Beach, and 250-300 home sales per month, we finally have enough inventory to satisfy demand. Without the fear that a particular home might be worth \$50,000 more next quarter, and the adrenaline of having made 3 unsuccessful offers, why would a buyer bid \$25,000 to \$50,000 more than asking? In fact, if a buyer has 10 homes to choose from, then why would they even want to pay list price?

Now everything is relative. Is the above scenario anything drastic? No, it is just what we call a "Normal" market. The market of the last year was not normal. But sometimes people's memories can be very short. As an example, in the rare instance that it took more than 10 days to sell a home during the last year, our seller might ask "what's wrong?" The answer is nothing. Homes throughout the country (and often times even in California) can take 30, 60 or even 90 days to sell. So 700 homes for sale, and 250 - 300 sales per month is quite "Normal".

This leads us full circle to my original conclusion. When you take away the multiple offers, anxious frenzied buyers, and no inventory factor we had from January through June, you take away the price increases we saw during those times. This is not only my prediction, but it is already happening. Currently, to determine a homeowner's anticipated sales price, I will now give more credit to a closed sale from January than one occurring in May with 5 offers and overbids. This is the exact opposite pricing strategy during the spring, where we would look at the comparable sales, add \$25,000 and then receive overbids \$25,000 above our already aggressive list price.

Why is this happening? The phrase "easy come easy go" certainly applies. In investment circles, if gains are easily gotten, then they are less stable. In my last newsletter, I wrote about the crazy spring we had, and at that time I had noted that LA County had seen a 29% price increase March/03 to March/04. That is a huge gain over such a short period. If this 29% gain had taken 5 years to achieve they would be hard fought and more likely to stick. But 29% in one year! As the market turns from frenzied to "Normal", it is very realistic for some of these gains to be given back.

Second, we are in an increasing rate environment, analogous to sailing into a headwind. Rates bottomed at 5.25% and are now at about 6%, not a huge difference, but enough (as I break out my financial calculator) to make a home cost about 10% more (A \$600,000 home financed at 5.25% has the same payment as a \$550,000 home at 6.0%). Rates dropping certainly helped price increases on the way up, and they are likely to hurt as the fed implements its "Mettered Rate Increases".

Where the market heads after this 10% adjustment is anybody's guess. The fact that sales this summer ran at about 85-90% of peak values from last year says that activity is still quite good. I just checked the MLS and August's activity posted a big 326 number.

The good news about everything I have stated is that most agents and or home sellers are not acknowledging this adjustment. So while there are now 700 homes on the market, a good majority of them are priced significantly above where they will sell. Be it ignorance of the slowdown, greed, or simply a lack of desire to sell, the majority of homes that are on the market today have not made the adjustment to a "Normal" market, they are still hoping for that Spring "pop" to reappear. In many instances, the average list prices are still significantly higher than the average sales prices for the year. This means that most home sellers are still waiting for another "pop".

This greatly benefits the serious home seller, as they can sneak in under the overpriced inventory, price their homes realistically, and be the one to attract the buyer.

I would like to stress how good this scenario is because it is not indicative of decreasing prices. When prices were decreasing aggressively during 92/93, list prices would be BELOW the recent sales, creating a certain future drop. Even though inventory has picked up, most homeowners are still striving for an extra \$50,000 that buyers don't have to ante up.

Some home owners that I have spoken to feel as if they have missed the boat. While hindsight is 20/20, I think it is foolish to feel this way. Prices are great right now, and many homeowners are taking advantage of this. Many are considering this a good time for retirement or relocation out of California to more affordable locations. Should you be considering a move, don't consider that you've missed the boat. My wife put it accurately by saying that those who sold during the first half of the year received a bonus. A bonus brought on by a multiple offer mania. Now that bonus, of about 10%, is gone but there is still a huge amount of appreciation that has occurred since 1997 to present. Homes during this period have at least doubled or almost tripled in value. To be melancholy about not getting your 10% bonus is simply being greedy and upset that the glass is only full to the rim and not overflowing.

Home sellers, especially ones able to take advantage of cheaper areas of the country, have it pretty darn good. The average home in LA County appreciated more in the last 2 years than the average total cost of a home in the US. Or said another way, LA County home owners made in 2 years what most homeowners throughout the country work 30 years to pay off. Not so shabby!

The irony in life is that sometimes it's the people that have it all that are least satisfied while those who have little are appreciative of what little they might have. We L.A. County homeowners are certainly a very lucky bunch and I chose to see our glass as full and am grateful for the great housing market we have. One that is now "Normal".

Market Activity

The following information is from the Multiple Listing Service as of 9/03/2004.

Address	Br/Bth	Sq Ft	Lot Size	List Price
Alamitos Heights				
380 Ultimo	3/3	1691	3250	649,000
660 Ultimo	2/2	1413	6500	695,000
695 Havana	3/2.75	2263	7150	695,000
339 Flint	3/2.5	2242	3250	699,999
398 Ultimo	3/2.5	1672	3250	794,000
394 Ultimo	3/2.5	1691	3250	848,000
705 Terraine	3/2	1629	9100	869,000
631 Los Altos	3/1.75	1610	6500	875,000
309 Flint Ave	3/2.5	2588		899,900
550 Havana	3/3	2430	9110	999,000
318 Manila	3/3.5	2916	4138	999,900
308 Flint	4/3	2948		1,200,000
933 Terraine	4/4	2300	5460	1,269,700
672 Santiago	4/3	4546	8100	1,475,000
342 Manila	4/3.5	2948	9209	1,550,000
621 Havana	4/4.5	6419	9750	2,495,000
La Marina Estates				
6530 Driscoll	4/2	1698	6740	659,000
1410 Iroquois	4/1.75	1780	7150	640,000
6440 El Jardin	2/2	2264	9310	725,000
Los Altos (S. Fwy)				
5330 Abbeyfield	2/1	1133	5775	449,900
2384 Stearnlee	3/2	1250	6099	475,000
2610 Vuelta Grande	3/1.5	1075	6400	465,000
6062 Spring	3/1.75	1221	6000	475,000
1850 Litchfield	3/1	1156	5775	499,900
5211 Daggett	2/2	1478	5775	525,000
6400 Fairbrook	3/2	1198	5665	529,000
2109 Rutgers	2/1	1351	5775	530,000
2221 Gondar	4/2	2017	6000	559,000
2441 Chatwin	4/2	1922	7180	569,900
1408 Vuelta Grande	3/2	1462	5580	578,000
2261 Ocana	3/2	1498	6028	580,000
1932 Montair	3/2	1662	5940	585,000
2248 Montair	4/2	1830	6090	599,000
1840 Tevis	3/2	1158	6090	599,000
1869 Litchfield	3/2	1608	6970	619,900
2308 Stearnlee	4/2	2184	6090	645,000
5816 Garford	3/2	1740	6840	645,000
2032 Fidler	3/3	2019	7350	649,900
5434 Garford	3/2	1786	6300	669,000
5901 Garford	4/2.75	1832	6090	699,000
2178 Albury	4/2.5	1945	6200	699,900
1802 Ashbrook	4/2	1900	9920	710,000
University Park Estates / College Park				
872 Stevely	3/2	1517	9290	629,000
845 Lees	3/1.75	1517	6270	639,000
6850 Lees Way	3/1.75	1517	5985	675,000
430 Margo	4/2	1688	6380	699,900
381 Laurinda	3/3	1534	6380	719,000
6861 Roxanne	4/2	2064	6470	725,000
6841 Lees Way	3/3	1899	5985	739,900
6219 5th St	3/3	2301	6450	749,000
6312 Vermont	4/3	2149	6380	749,900
461 Laurinda	3/1.75	2124	7290	779,000
Park Estates				
5576 Oleta	3/2	1777	8183	759,500
5464 Oleta	3/2	1970	8450	779,900
5211 Los Flores	3/2		7420	785,000
1411 Greenbrier	3/2.5	2562	6900	749,000-799,000
5330 Las Lomas	2/2.5	1695	7940	799,000
5320 Las Lomas	3/1.5	1600	7805	825,000
5210 Vista Hermosa	3/3	2005	7246	859,000
1251 Bryant	2/2.5	2465	10060	989,000
5550 El Parque	3/2	2210	10240	1,250,000

Home Price Stats

Alamitos Heights

Active Listings 11

Ave \$1,198,300

Ave SF 2,844

Pending Sales 5

Ave \$776,599

Ave SF 2,004

La Marina

Active Listings 1

Ave \$725,000

Ave SF 2,264

Pending Sales 2

Ave \$664,500

Ave SF 1,739

Los Altos

Active Listings 18

Ave \$585,000

Ave SF 1,603

Pending Sales 5

Ave \$562,380

Ave SF 1,515

Univ/College Park

Active Listings 10

Ave \$710,470

Ave SF 1,831

Pending Sales 0

Park Estates

Active Listings 7

Ave \$830,057

Ave SF 2,011

Pending Sales 2

Ave \$1017,500

Ave SF 2,210

This month we included stats for the listings on the left which include both active listings and properties in escrow.

The stats show the number of homes still for sale and how many have sold. Also listed are the corresponding average list price and square footage for each category.

PRRST STD
U.S. POSTAGE
PAID
LONG BEACH, CA
PERMIT NO. 1186

3rd Qtr. 2004

Inside

Market Returns to Normal.

How Much is My Home Worth?

Home Price Stats.

*Market Activity:
What's happening in your neighborhood?*

Market Returns to Normal

Everything is relative and Real Estate is no exception. While the Spring saw a multiple offer mania, unlike anything I had seen in 15 years, the last 3 months has cooled to what would be considered normal. It is such a stark contrast that it really takes quite an emotional and strategic shift.

What does a normal market look like? With inventory to choose from, currently about a 3-6 month supply, gone are the multiple offers and in their place are price reductions and negotiations.

This shift in the marketplace does require new pricing strategies. Inside we get down to the nitty-gritty of what this market will look like in the next several months.

