

## Buyers, Sellers Need To Be Realistic

By Kenneth R. Harney

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The spring real estate season is about to get underway, and anybody who expects to take part -- as a seller or a buyer -- needs to start putting together a strategy, an action plan.

But what a confusing time to try to figure out a strategy! The real estate market is sending very strange, mixed messages. On the one hand, inventories of unsold listings are up and sales are sagging in most areas. In Massachusetts, for years one of the hottest states in the country for home value appreciation, sales were down 21 percent in January. Unsold inventories are billowing in Florida, California, Arizona, New York, Washington and other large markets as well.

Nationwide, according to the National Association of Realtors, the inventory of unsold houses on the market is at its highest level in seven years -- more than a five-month supply. The number of unsold houses listed for sale has swollen to 2.8 million, up 580,000 in the last 12 months.

It seems like a tough time to be a seller. But here's where things get confusing. The latest federal and private-sector statistical reports suggest that price inflation in dozens of metropolitan areas is still chugging along at a double-digit clip.

The Office of Federal Housing Enterprise Oversight found average home values rose by nearly 13 percent from the fourth quarter of 2004 through the same period of 2005. The National Association of Realtors found that a record 72 metropolitan areas saw double-digit annual increases in median resale home prices in the final quarter of 2005.

Some of the price gains measured by federal researchers were stunningly high. Arizona had an average house price inflation rate of 35 percent from the end of 2004 through December 2005, according to OFHEO. Florida's statewide average was nearly 27 percent, the District 22 percent, Maryland 21.5 percent and California 21 percent.

Yet these markets are simultaneously experiencing rising inventories, slower sales and reports of asking-price reductions. How can all of this be going on at the same time? If markets are cooling -- and just about everybody agrees that's the case -- then why isn't that being reflected in prices, nationally and locally?

Here are a couple of thoughts that might help you with your spring strategy:

The recent statistical measures of prices may be misleading for would-be sellers and buyers. Even David Lereah, the chief economist of the National Association of Realtors, hinted that fourth-quarter national and local median price changes may have reflected tighter inventories coming off the summer months that "still favored sellers." But "the good news," he says, "is that the supply of homes on the market has been trending up" -- opening the door to more "balanced" bargaining strategies for buyers.

Lawrence Yun, the association's senior forecast economist, puts it even more bluntly: Looking ahead in 2006, he says, "double-digit price appreciation mostly is history. Home sellers will have to adjust their expectations and sell at more competitive prices."

Put another way: The breathless fourth-quarter 2005 price appreciation numbers are not necessarily a smart guide to pricing your real estate this spring. If you're selling in one of the 72

markets that saw median prices jump by double digits, don't expect to add on a double-digit increase over what you might have commanded last spring.

Divide by three. Maybe four.

"Rather than putting a home on the market at a 15 percent higher price than last year," said Yun, try "for 5 percent" more this spring.

On the flip side, buyers shouldn't expect to negotiate prices that are far below 2005 levels, unless the property they want is in an area that has been affected by heavy employment layoffs or excessive supply in a niche segment such as investor condos.

Equally important: Keep your eye on interest rates. As long as 30-year mortgages hover near the 6 percent range -- cheap money by any historical measure -- home prices are not going to budge much.

In setting your strategy, talk to multiple experts on the front lines -- top real estate agents, appraisers, locally based loan officers -- to find out where prices are trending.

If you're a seller, don't be a hog. The more out of touch your price, the longer it will take to sell your house. If you're a buyer, bargain hard. But don't expect miracles.

Kenneth R. Harney's e-mail address is [KenHarney@earthlink.net](mailto:KenHarney@earthlink.net)