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Ronald E. Roel

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Buyers & Cellars

Are They Blowing Up or Blowing Over?

House prices keep rising, as buyers try to read their future in a simmering market

September 19, 2003

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Double, double toil and trouble;

Fire burn, and cauldron bubble.

- Witches' incantation

from William Shakespeare's

"Macbeth," Act IV, Scene 1, line 10

Like a witches' brew, home prices often seem to emerge from an exotic concoction - only instead of "eye of newt and toe of frog, wool of bat and tongue of dog," economists throw in interest rates, employment growth, housing inventory and demographic trends.

Whatever the specific results, it's clear the cauldron of price appreciation has continued bubbling up this year, despite concerns from several experts that the bubble would burst, like the heady stock market of a few years ago.

Earlier this week, the Multiple Listing Service of Long Island reported that median sale prices of existing homes in the Long Island- Queens region rose 12 percent last month, compared to a year ago.

The median price in Suffolk in August was $320,000, up 14.2 percent from the same period a year ago while the median price in Nassau was $405,000, up 9.5 percent. In Queens, the median price climbed to $318,500, up 21.5 percent from a year ago.

Even at the lower end, these appreciation rates are pretty healthy, considering that home values traditionally increase a few points over the annual inflation rate, probably between 2 and 3 percent overall now, if you factor in rising energy prices.

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"We don't feel there is a bubble," says Camille Giardina, a sales associate at Coldwell Banker Surf based in Oceanside.The market has been "phenomenal" in the last five years, but prices appeared to have spiked in the summer of 2002, Giardina adds. "Now they've leveled off, even before interest rates began to increase."

Living In: East Norwich

According to MLS figures, the year-over-year price appreciation has generally declined since the end of last year, when appreciation was 30 percent for homes in Suffolk, 20 percent in Nassau and 24 percent in Queens. Furthermore, the supply of available homes for sale, which had been tightening for years, has loosened up - it is now up almost 38 percent to about 15,300, from August 2002.

"Anecdotally, brokers will tell you it [the housing market] is not like it was over the last few years," Joseph Mottola, chief executive of the Long Island Board of Realtors, said this week. "There are more open houses. Listings are expiring [without a sale being made]. There is less bidding up over the list price. The market has been gradually changing - it may be coming into balance."

Like many observers, Mottola notes that the slowdown is "more pronounced" for higher-priced homes. In fact, whatever local market you're in - whether modest Brentwood or the lofty Brookvilles - it's the higher-end homes in the area where prices soften first.

Still, median sale prices of houses in contract are still rising, and by some accounts, the local market remains overheated.

Real estate economist Michael Sklarz, who perennially analyzes local markets nationwide, ranks Nassau- Suffolk as more than 27 percent overvalued - No. 5 among his list of almost 300 overpriced markets - while New York City ranks 76th.

Sklarz, the chief valuation officer for Fidelity National Information Solutions, a Santa Barbara, Calif.-based real estate research and consulting company, arrives at his rankings through a formula that examines the median home price of an area in comparison to median household income and local employment data. Then he arrives at an "intrinsic value model" that establishes an affordable benchmark price for homeowners in that locality.

Employment and income are the two driving variables affecting intrinsic home values, "but each area has its own way of working," Sklarz told me in a telephone interview from Honolulu.

Many experts point to economic downturns, including substantial job losses, as a key factor in driving down housing prices. But the stagnant local economy and rising mortgage rates - which have inched up about a point - have not been enough to dampen the housing market, leaving frustrated buyers looking for "the next bad thing": What, if anything, will cool the bubbling price cauldron?

Over the short term, don't look for substantially higher interest rates to do the job, says Peter Marino, broker-owner of Green Street Financial, a mortgage broker in Huntington.

Sure, the higher rates have doused the refinancing market, but "the recent move in interest rates has had zero impact on the purchase of homes," Marino says. Mortgage rates generally are still at historic lows, says Marino, who recalls rates of 18 percent in the late 1970s and early '80s.

Within the next six months, 30-year fixed mortgage rates are likely to fluctuate within a range of 5.75 percent to 6.5 percent, Marino predicts, depending upon how the long-term bond market, which largely determines mortgage rates, reacts to unemployment rates and other critical economic barometers. "Things are stable," Marino says. "It's not as much of a sellers' market anymore, but the first-time home buyer market is still strong."

Indeed.

At the Millennium Hills affordable housing complex in Melville, there are about 1,350 applications for 44 units, ranging from $103,000 to $',000, according to Peter Elkowitz, executive vice president of The Long Island Housing Partnership, the Hauppauge-based group that is administering the application process. The partnership will hold a lottery in October for the pool of qualifying applicants. The price of units will vary, depending upon whether applicants earn less than 50 percent or less than 80 percent of the area's median income, which, for a family of four, is $83,700. When the economy improves, would-be first-time buyers such as the Millennium applicants often "get off the fence," Elkowitz says. But even a better economy "won't be good enough to assist these individuals. Their salaries aren't going up enough."

Are such would-be buyers frustrated?

"Absolutely," says Eileen Anderson, vice president of Community Development Corp., a nonprofit housing and counseling group with offices in Centereach and Freeport.

"Our orientation classes are full," says Anderson, who runs the group's home ownership center. "We're seeing people in the past who didn't used to come in, but their frustration with the housing market has made them seek out help."

Real estate agent Giardina says she now sees more first-timers turning to co-ops and condos, rather than trying to land single-family houses. And the supply in her area, which includes southwest Nassau County, is slowly increasing, in part because more "snowbirds" - older residents who spend winters in Florida - are selling their homes. Many of these older homeowners, Giardina says, have lost a lot of their investments in the stock market and have decided to sell their Long Island properties and stay in Florida.

For buyers who can wait, Sklarz predicts that price appreciation in the Long Island and New York City area will largely fizzle within the next two years, if interest rates rise to between 6 percent and 7 percent - his "best estimate." Next year, appreciation will decline to between 4 percent and 6 percent, and in 2005 it will slump from 0 to 4 percent. "Prices will basically be flat to slightly down for the next four to five years, "This is typical of real estate markets which have had big moves - that is, prices move sideways for an extended period of time which allow fundamentals [such as median income growth] a chance to catch up. It doesn't support the crashing bubble scenario."

In the meantime, "this is the time to get your ducks in a row to make sure you're ready" when the market becomes more affordable, Anderson says. Free home buyer education programs offered by the Community Development Corp. and other nonprofit groups are for everyone, regardless of income, she says. This kind of education is even more necessary for first-time buyers trying to break into tough markets. "When people decide, 'I want a house and I'll do anything to get it,' that's not healthy home ownership," Anderson says.

One Web site, www.neigh borhoodscout.com, launched last fall, has developed a new feature that may help buyers in developing their strategy. The site was originally designed to help consumers find neighborhoods and communities nationwide that match their criteria and needs. Now it offers a search function that - for a $9.95 subscriber fee - allows users to look at changes in median prices since 1990 by census tracks, says Andrew Schiller, president of Worcester, Mass.-based Location Inc. and a geography professor and demographics expert at Clark University.

"Look for places that have staying power," says Schiller, a Northport native. "Look for high appreciation rates but at a more modest price range. ... You can find neighborhoods that recaptured losses of the early 1990s' [real estate slump], places that lose ground but came back strong."

One pattern he noted: While there are exceptions, communities north of the Long Island Expressway tend to appreciate more over the long term than those south of the LIE.

Anderson advises that distraught buyers use this market as an opportunity to question what's available to them.

"What's out of reach?" she says. "This is your first home, not your last. Sometimes the first area of choice is out of reach and people need to re-evaluate what their housing needs are." Sometimes they need to be aware of housing programs or mortgages they may be eligible for, Anderson says, and other times it's just a question of helping them expand where they're willing to look for a home.

In Shakespearean terms, maybe we need to add something different to the bubbling cauldron - say, scale of dragon or lizard's leg.

The Nation's Top 25 'Overpriced' Markets

Based upon an area's median household income and employment statistics, real estate expert Michael Sklarz of Fidelity National Information Solutions calculates the "intrinsic median value" of the area's homes. He then compares the intrinsic value to the actual median value to determine whether homes are generally overvalued or undervalued.

Metropolitan Third Quarter Percentage

Statistical Area 2003 Estimated Overvalued

Median Price (000's)

1. Portland, Maine 178.04 34.06%

2. Denver 236.79 30.01

3. Miami 200.21 28.45

4. Burlington, Vt. 245.10 28.41

5. Nassau-Suffolk 321.89 27.47

6. Orange County, Calif. 435.95 26.37

7. Vallejo-Fairfield- Napa, Calif. 336.25 25.87

8. Sacramento, Calif. 218.52 25.33

9. Seattle-Bellevue- Everett, Wash. 265.74 25.19

10. San Diego, Calif. 375.08 23.95

11. Monmouth-Ocean,

N.J. 265.26 22.96

12. Tampa- St. Petersburg- Clearwater, Fla. 139.44 22.34

13. Fort Lauderdale 205.48 22.04

14. Santa Cruz- Watsonville, Calif. 466.70 21.48

15. Salem, Ore. 196.11 20.65

16. Santa Rosa, Calif. 418.41 20.21

17. Bremerton, Wash. 222.25 19.99

18. Visalia-Tulare- Porterville, Calif. 160.22 19.97

19. Fresno, Calif. 179.61 19.73

20. Yakima, Wash. 152.91 19.50

21. Salinas, Calif. 449.63 19.31

22. Medford-Ashland,

Ore. 214.92 19.08

23. Redding, Calif. 240.20 18.47

24. Fort Collins- Loveland, Colo. 197.28 18.42

25. Greeley, Colo. 165.05 18.27

75. Los Angeles- Long Beach, Calif. 288.66 11.84

76. New York City 306.13 11.79

SOURCE: Fidelity National Information Solutions

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