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Home Prices Stabilizing

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Home prices appear to be stabilizing as demand for higher-priced homes picks up and distressed properties, still a large part of the market, are no longer changing hands at the deeply discounted prices of a year ago.

Overall, home prices declined 0.7% in the first quarter of 2010 to an average of \$166,100, the lowest first-quarter national median price since 2002, when the average was \$158,600 according to a report by the National Association of Realtors. However, there was wide variation by region, with median prices up 9% in the Northeast and down 8% in West.

And the number of metropolitan areas where median prices are rising, instead of falling, grew for the fourth consecutive time. In the latest quarter, prices gained in 91 of the 152 metropolitan areas tracked by the Realtors compared to 67 in the fourth quarter of 2009 and 30 in the third quarter.

"The general theme here is that most markets are recovering," said Lawrence Yun, chief economist at the Realtors group. In markets where prices are falling, "the declines are less severe," he said.

There were surprising gains in median home prices in the Midwest, including places in Ohio that have been badly hurt by the economy. Brokers say in some of these markets, buyers have already scooped up much of the inventory of foreclosed homes and are now buying non-distressed real estate again. And even prices of distressed properties aren't selling for the rock-bottom prices of a year ago.

"In urban Akron, you had some house prices on foreclosed properties that are \$5,000, \$14,000, \$20,000. When you have a lot of those sales versus the existing sales, it really drove the prices down," said Jim Camp, president of Cutler Real Estate of Akron, Ohio. "The first-time homebuyer [tax credit] had more impact on our market than it did elsewhere," he said, pointing out that the \$8,000 credit, ended April 30, was a bigger incentive in Akron's cheaper real estate market than in places like New York or Chicago.

Thomas Lawler, a Virginia-based housing economist, said that the wild shifts in places like Akron and Cleveland indicated that the mix of homes for sale is changing. Median prices in Akron, where 11.6% of workers were unemployed in March, fell from \$119,000 for 2007 to \$50,100 in the first quarter of 2009, only to rise 90.2% to \$95,000 for the most recent quarter.

"If you're in a market where traditional housing values just plunge, and the only sellers are motivated sellers, you can get huge swings in the median," Mr. Lawler said.

Sales of foreclosed properties and other distressed real estate remain a large part of the market overall, however, accounting for 36% of sales in the first quarter of 2010, up from 32% in the fourth quarter of last year and 30% in the third quarter.

Most of those distressed sales are in the weakest markets, where they continue to drag down prices. Orlando saw the most precipitous drop, with median prices down 15%, followed by Ocala, Fla., down 14.5%; Cumberland Md., down 14.4%; and Indianapolis, down 13.9%. Las Vegas, the metro area that has led the nation in foreclosures for much of the last year, saw an 11.8% decline in median prices, from \$155,300 to \$137,000.

Meanwhile, sales and prices in the Northeast appear to be benefiting from growing demand for more expensive homes, due in part to the availability of financing. "A year ago, the only mortgage markets that were functioning were Fannie and Freddie-financed, or FHA-financed loans," Mr. Lawler said. "Now we're beginning to see some action in the jumbo loan market," he said, referring to loans of between \$417,000 and \$725,000, depending on the market, that come with slightly higher interest rates than smaller loans.

Another bright spot in the NAR numbers is California, which had some of the most battered markets a year ago but has been mending for several months. A year ago, bank-owned foreclosures constituted nearly half of the state's sales in 2009, up from 35.6% in 2008.

In Sacramento, the median price plunged from their 2007 level of \$342,800 to \$169,300 in the first quarter of 2009, but has begun to creep back up again, adding 6% and bringing the median price to \$179,400.

Paul Kasriel, chief economist for Chicago's Northern Trust, said that going forward, the market will continue to be burdened by foreclosure inventory, speculators, and empty-nester baby boomers who want to sell their homes and downgrade to cheaper digs, but can't.

"We've made the turn, but it's going to be two steps forward and one step back, but a long time before we see home prices rise at a sustained rate," he said.

Courtesy of JB Goodwin