

## What A Disappointing Year!!

By John Ellsworth

Last year we called it a Tumultuous Year. This year, it is just plain disappointing. In fact, the past two years have been just plain disappointing.

Why? 2008 started out pretty well. It then turned really bad in mid-September, coincident with the financial crisis. Along with the rest of the world, MetroWest can no more escape the magnitude of this crisis than anywhere else. It may not cut as deeply in MetroWest, but it has impacted us negatively.

If you look solely at the blaring headlines, it would seem as if everyone's investment in their home has evaporated into thin air. *Yet if you look at the numbers for the towns I am covering here, Ashland, Hopkinton, Holliston and Framingham, they emerge in reasonable shape.* That shape varies, of course, from town to town, and

from type of house to type of house, but decent shape nonetheless. Even prices in Framingham, a town which has seen a seriously sharp drop in sales volume since 2005, have firmed.

What about that Bubble talked about in the press?? Well it really didn't happen in a big way here in MetroWest. Builders, investors, and realtors, learned back in the early 1990's that building on speculation, and over-building was not really a good idea. As a result, the number of houses sitting empty in this part of the world is pretty low. However, you can go to California, Florida and Nevada and walk past hundreds of new houses and condos in developments, which are just sitting there vacant. Those were the bubble states.

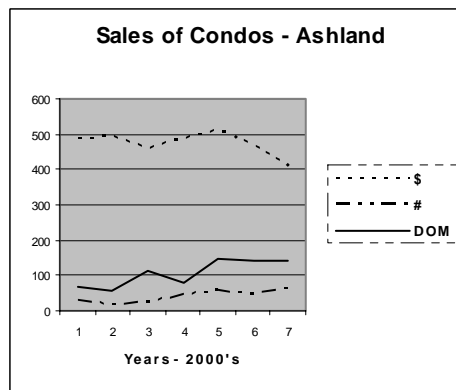
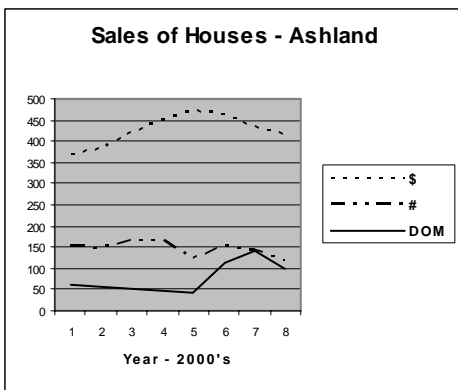
Has MetroWest escaped untouched? No! If you look at the graphs for Ashland below, there is close coincidence between the "housing bubble" of Florida, Nevada, and California bursting and

the slow-down here in Ashland. The average number of houses and condos sold in Ashland peaked in 2004; average prices peaked the following year in 2005. Prices continued to climb during 2005, even as demand was falling off. When a slowdown begins, this is a typical phenomenon. "Our" slowdown actually began that year, 2005.

Another way of at looking at what our slowdown looks like is Inventory. If you look at the Table for Ashland on page 2, the inventory for both houses and condos reached their lowest point in 2003/4; houses and condos were selling like hot cakes. From that point on, inventory of houses and condos available for sale continued to rise, (a negative indicator) until 2008 for houses and until 2007 for condos. With that rise. Days on the Market (DOM) also rose. The longer DOM and the greater number of houses for sale meant more and more house listed on the market.

But, if we didn't over-build homes which wound up empty, where did all our inventory come from? It came from mortgage failures—bank controlled short sales, foreclosures, etc., and it came from the slower sales rates that began in 2005.

While we may not have had have a bubble herein MetroWest, the Financial Crisis is not an imaginary problem for us! It's just not as bad here as in other parts



DOM = # of Days On Market

of the U.S.!

Slowly things are coming under control; the new administration in DC is laying out the plans for improvement. If you tune out the political posturing and listen to what middle of the road financial adviser types say, there is a high degree of agreement among them about what has to be done. This seems to be true whether they are talking from the left or the right.

Am I an economist? No. Do I read a lot? Yes—It is important to being in real estate. I can offer no forecast. The crystal ball is too murky and it is beyond my skills to forecast the National, or even the State scene.

However, what has happened in our local market is pretty clear. From that we can extrapolate 2009. So, let's look at the numbers. (See the tables below and on page three for details.)

Ashland (since 2001):

- Volumes and Prices peaked in 2004/5, respectively.
- 2008 house sales volume is off 19% over the previous seven year average; house prices have fallen an average of 12.7% since 2005, the peak year, and are at 2003 levels—see the table on pg. 3.

- 2008 condo sales volume is off 31% over the previous seven year average; condo prices have fallen an average of 21.2% since 2005, the peak year, and are at 2002 levels—see the table on pg. 3.
- Inventory of Houses is at 63 units (an increase-not good) and condo inventory is at 31 (a steep decrease from 2006—very good).

The significant drop in sales volume for Ashland this year mirrors the financial crisis. In the previous seven years, Ashland volume was stable and the rough average sales volume for both houses and condos was about 140 units. 2008 was way off of those numbers—117 (houses) and 101 (condos).

What happened? The year 2008 began with promise; buyer interest and sales were high through March, April, May, and June. In mid-September, the crisis hit, telephones in offices everywhere stopped ringing, and the traffic of buyers on the web looking for homes fell to dramatically low levels. In the case of the most visible of the nine web sites (www.homesconnection.com) which we own, visitor traffic fell to

5% in early October over what it had been mid-August; traffic to the other sites fell to ~25%. It scared the heck out of me.

Things have improved; phones calls are increasing, people are listing, and traffic on the web is back to those solid July/August levels.

We expect 2009 to be a better year. Some of the reasons are:

- the new Obama administration will be in place and things historically improve after a new administration takes office;
- financial investments are being made by the government, shoring up banking and other operations; and,
- mortgage interest rates are at unprecedented low levels.

What is needed now is for buyer confidence to return. It is going to take time to overcome levels of uncertainty, but it is going to happen.

Notwithstanding the US's financial problems, foreign investors are investing in the U.S. Our economy is a safe place, compared to others. Those funds will help get the engine of the US economy fueled up again.

**Ashland RE Sales Data 2001 thru 2008 (Year-end):**

Source—Multiple Listing Service

Houses				Condos		
Year	#	Prc(\$k)	Days on Mkt	#	Prc(\$k)	Days on Mkt
2001	153	366	59	133	280	39
2002	146	383	58	137	291	51
2003	166	421	53	138	313	39
2004	166	446	45	233	340	41
2005	124	474	43	163	364	49
2006	140	460	111	143	315	101
2007	142	435	142	132	310	132
2008	117	414	112	101	287	111

**Inventory:**

Houses			Condos			
Date	#	\$k	DOM	#	\$k	DOM
1/1/03	31	485	67	11	331	55
2/5/04	17	495	56	24	379	31
1/1/05	20	460	115	17	353	52
1/5/06	47	485	79	55	367	81
1/5/07	57	512	147	54	344	148
1/15/08	46	467	141	41	309	153
1/11/09	63	405	143	31	315	181

Sales in Other towns:

To this point, I have talked about how Ashland was negatively struck by the financial crisis. How have neighboring towns fared?

- Sales volumes of houses in Framingham have firmed since 2005.
- Framingham house prices are down 26% over the 2005 peak and 15% over the 2004 to 2007 average;

see the table below.

- Framingham condos have fallen far below 2004/5 volumes and prices—down 30% and 44% respectively. Those numbers show that increasing foreclosures and bank sales have driven prices very low; see the table below.
- Numbers of house sales in Hopkinton and Holliston have fallen substantially from their 2004 to 2007 averages, by greater than 30%;

see the table below.

- Inventory, which is an inverse reflection of demand, has climbed in all towns except Hopkinton, where it has been flat for the past two years and down from 2006 highs.
- Only Hopkinton (of the four towns covered in this report) has seen its average house price stay essentially flat—off 5%—over the five year period.

**RE Sales Data 2004 thru 2008 (Year-end):**

Source—Multiple Listing Service

For Ashland, Framingham, Holliston and Hopkinton

**Inventory:**

Houses							Condos							Houses			Condos		
Year	#	Prc(\$k) Avg	Days on Mkt	#	Prc(\$k) Avg	Days on Mkt	Date	#	\$k	DOM	#	\$k	DOM						
<b>Ashland</b>																			
2004	166	446	45	233	340	41	1/1/05	20	460	115	17	353	52						
2005	124	474	43	163	364	49	1/5/06	47	485	79	55	367	81						
2006	140	460	111	143	315	101	1/5/07	57	512	147	54	344	148						
2007	142	435	142	132	310	132	1/15/08	46	467	141	41	309	153						
2008	117	414	112	101	287	111	1/11/09	63	405	143	31	315	181						
Percnt*	-19%	-12.7%		-31%	-21.2%														
<b>Framingham</b>																			
2004	655	409	51	264	188	34	1/1/05	94	498	101	58	208	73						
2005	618	425	60	304	222	46	1/1/06	155	500	118	124	273	100						
2006	497	408	98	185	204	85	1/1/07	180	460	151	188	277	180						
2007	498	403	104	134	208	113	1/15/08	235	414	163	161	179	172						
2008	468	351	117	154	124	140	1/11/09	203	469	171	145	121	165						
Percnt*	-26%	-17.5%		-30%	-44.2%														
<b>Holliston</b>																			
2004	154	478	90	26	141	59	1/1/05	37	619	124	4	122	62						
2005	132	518	82	21	146	59	1/1/06	65	591	138	10	167	138						
2006	135	482	132	19	291	57	1/1/07	76	528	195	14	276	163						
2007	179	474	135	33	286	184	1/15/08	44	511	218	13	280	180						
2008	103	399	108	23	248	110	1/11/09	63	470	168	24	293	278						
Percnt*	-32%	-23%																	
<b>Hopkinton</b>																			
2004	207	601	72	29	379	32	1/1/05	54	805	180	17	457	55						
2005	212	630	89	37	379	79	1/1/06	73	815	170	21	386	59						
2006	194	629	117	32	356	117	1/1/07	93	735	166	27	416	191						
2007	196	635	196	40	367	134	1/15/08	51	765	173	34	349	211						
2008	129	597	131	30	370	152	1/11/09	51	623	169	30	404	255						
Percnt*	-36%	-5.3%																	

\* - The Percentage change in Sales Volume is measured against the average of the years 2004 thru 2007. The Percentage change in Price is calculated from the 2008 price against the peak price of 2005. The Holliston and Hopkinton, condo base is too small.

- There are not enough condos in Holliston or Hopkinton to merit tracking their numbers.

House prices in these four towns have fallen from their 2005 peak years to—Hopkinton=5.3%; Ashland=12.7%; Holliston=23%, and Framingham=26%. The Framingham number reflects a high incidence of foreclosures, which has forced prices down; the Holliston number is probably a single year aberration.

These numbers are not terrible, even the Framingham and Holliston ones, especially when compared to the numbers from California, Florida, and other parts of the nation. Also, these numbers are an average number and thus they are subject to changes in the mix of houses being sold. It is pretty clear that the houses, which have been selling in 2008, have been smaller houses. The fact that the mix of houses trends toward the smaller sizes will depress average prices below those of previous years; this may explain the low Holliston average price for 2008, as an example.

There are ways of looking at the data other than making comparisons against “peak years” (which I have done here). After all, most of us did not purchase our home at peak prices. Thus, making comparisons with the peak prices is actually looking at “unrealized gains”, not losses. By using the graphs and tables, you can calculate what has been the actual impact on your property. Want help? Feel free to call!

#### **Local Economic Factors**

So, why has our area not been as

heavily impacted as the rest of the nation? Massachusetts has a vibrant bio-tech sector; it still has a strong hi-tech industry; our financial community, while humbled, remains strong; and, we have perhaps the strongest healthcare institutions in the world. All of this has helped to mitigate the impacts on our economy and our real estate. They have not been totally inured from downward pressures for sure, but they have been largely protected from the huge negativity in the press.

Unfortunately, we can't ignore the counter to our strong economy—foreclosures/short sales.

A reasonable percent of the sales shown in the tables are for houses being sold under conditions of duress. Either a homeowner is having trouble carrying the mortgage (thus maintenance falls off), or the bank has taken the house back and doesn't maintain it at all (often the case).

Two things result:

1—prices are depressed because the house is in poor condition (plus, auction prices drive down all prices), and

2—houses are on the market for a longer time (no sales at the opening prices—they are too high—causing buyer disinterest).

Notwithstanding the reality of foreclosure and bank regulated short sales, houses in Ashland, which are well priced and well cared for, sell quickly. Their Days on the Market (DOM) are short.

If you look at the table on page 3 and compare “houses sold” to “houses in inventory”, the DOM for houses that have sold is a lot less than the DOM for houses still

in inventory.

The percentage of houses in inventory, which are not in good condition, is relatively high. As well, many of these houses/condos are over-priced. They do not sell readily and significant price drops are typically required until they finally sell. If they are in poor shape, they often go at very low prices to tradesmen who are able to renovate them. If they are priced above the market, they may never sell.

#### **Buyer/Seller Views of Prices:**

The coincidence of numerous houses in poor shape with buyers disinterested in paying prices they feel are too high has resulted in a significant change in both buyer and seller mentality. A level of caution is now prevalent that has not been seen since the late 1980's/early 1990's. People are really cautious and the headlines don't help.

Because of the poor condition of a few houses, many buyers extrapolate that into “all houses are over-priced”. They look for big price reductions, a “deal”, every time.

On the other hand, sellers often feel that their houses are underappreciated, and are worth more than the current market.

Buyers who show up with a “low-ball offer” will inevitably wind up insulting some owners with their low price offer, even when the house is clearly priced too high for today's market.

Buyers and sellers must learn to differentiate the good from the less good, the well maintained from the poorly maintained. Most of all, they need to understand what proper pricing and proper offers are all about.

Differences between buyer and seller expectations notwithstanding, it looks like prices have stabilized,

even as volume has fallen. Problem mortgages, one of the big reasons for downward price pressures, are being cleared out through short sales or foreclosure auctions. Expect their numbers to be reduced 2009. 2009 looks to be the beginning of a more stable real estate market.

### **Sales take longer!**

A—This is no longer the “new” news that it was in 2006/7, but it continues to disrupt sellers’ lives. It is the most significant change in real estate in many years.

B—Days On the Market (DOM) looks as if it may be starting to fall. DOM for single family houses and condos that sell is now approaching 100 days in Ashland. That’s down from 142 days in 2007. Why do I say “Houses That Sell”? Because if they are not properly priced, they are never going to sell! But, and this is a very good “but”, while that DOM number of 100 may sound high, it is 20% less than what it was on average in 2007.

And, just like during the frenetic sales levels of 2004/5, the number of multiple offers on houses which are well priced, well maintained, and present themselves well is increasing. This, and the large difference between the DOM for homes which have sold versus the DOM for those in inventory, lends credence to the observation that the current listing inventory is replete with problem listings.

C—55-plus Communities in area towns outside of Framingham have been, and still are, highly dependent on the Framingham single family home sales market. As a consequence, 55+ sales

have been slow.

Why? A significant number of people looking to move to 55-plus communities are present-day Framingham home owners. To move, they must sell their house.

Sales of Framingham houses has been slow for three years. Framingham sales are now showing signs of firming up. With that change, it can be expected that sales of 55-plus homes in area towns will firm up, too.

### **Closing Observations:**

1—The current economic climate leaves everyone uneasy.

2—Ashland’s 2008 prices are off 12.7% for houses and 21.2% for condos, down from the peaks of 2005.

3—There has been a correction. Do I wish that we were still at 2005 price levels. Of course! But, we are not and won’t be for some while yet.

4—Sellers have to plan further in advance of their moves. Houses must be staged to show well. Houses need to be maintained well. And most important, houses have to be priced according to today’s prices, not 2005 prices.

5—Buyers need to understand that, while there are low-priced houses, they are usually low priced for a very good reason. In similar fashion there are well priced houses, which are well priced for very good reasons, too.

6—Buyers and Sellers both need to recognize that sales simply take a lot more time than they once took.

7—2008 was a slow year, one that started out well but closed very poorly. The financial crisis shook everyone. Until general con-

fidence in our economy is restored, the real estate market will be restrained; not dead, restrained.

8—The first half of each year nearly always is stronger than the second half. Late winter and spring is when people are looking for homes into which they can move during the summer. This gives their children time to settle into neighborhoods and time to get ready for school in the fall. Winters are when people are busy on holidays, not out looking at houses. If you are planning to sell, listing now makes sense.

### **Conclusion:**

The signs are that sales levels are recovering. I expect the first half of the 2009 to be one of improvement. Web traffic to our sites is back to mid-2008 levels. Phone calls are strong. People are listing houses. 2009, while restrained, promises to be a year of sales volume recovery and of firming prices from 2008 levels.

If you would like to discuss house and/or condo sales in greater detail, call us at 508-231-4566. We’d be pleased to share our thoughts with you.

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