

The Oregonian

SIGNS OF HOPE: New year brings optimism for local real estate market

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By **JOHN KIRKLAND**

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New Year's Eve can be bittersweet: a mix of nostalgia for the year ending with uncertainty about the year ahead.

But can anyone feel nostalgic about what's happened in the economy -- particularly real estate and real estate lending -- over the last four months? Please, don't raise your hands all at once.

The coming year is starting to look pretty good by comparison, according to professionals in the Portland real estate sector. While no one is saying that all the sector's ills will be cured during the next 12 months, most are saying that the worst has already happened in terms of declining home prices and excessively tight credit. They're looking ahead with optimism.

Looking at the glass half full

Portland home prices have been falling since July 2007, and the consensus is they'll bottom out and start returning to an upswing sometime in 2009, perhaps in the third or fourth quarter according to Jerry Johnson of Johnson Gardner, a Portland real estate consultant. Then, prices will likely follow the 6 percent annual growth trend they were on from 1987 to 2003, and will return to the 2007 peak sometime in 2012.

Homeowners might worry about the continued slip in home prices in the first half of 2009, but State Economist Tom Potiowsky is urging Oregonians to count their blessings.

"We're not going to see the 30 percent price dips like they've had in Phoenix, Las Vegas, Miami and some of the metro areas of California," he said.

The softer landing in the Portland metro is due to a number of factors, Potiowsky said, including its urban growth boundary, which prevents sprawl and thus helps maintain home prices, and the fact that Oregon did not have the same level of subprime lending that other places did, reducing our exposure to foreclosures.

According to Johnson's figures, average Portland prices will have declined only about 12 percent from their peak by the time they bottom out next year. Also bear in mind that prices rose much faster than the local average between 2004 and 2007, so the recent decline is more of a return to normal following a boom-distorted run-up.

This return to normalcy is good news for homeowners who look at their home as a long-term investment. And that's how they should look at it, according to Eva Sanders, a principal broker with Meadows Group.

"Your home was never meant to give you a short-term return. It should keep up with inflation, and if it exceeds inflation, you're winning," she said.

Is this the best of times?

OK, but if you bought in the last couple of years when prices were high, and you want to move in 2009, you're going to take a hit, right?

Yes and no, Sanders said. You'll be selling your house for less than you would have if you had sold in 2007, but the house you'll buy in its place will also be priced down, and will appreciate as the economy recovers.

Realtor Gary Majors with RE/MAX Equity Group also is looking at current conditions and the year to come with a positive attitude. He said inventories of homes for sale are within normal ranges. He also said landlords are enjoying high occupancy rates because of the economy, and that's not likely to change much as more people begin buying their first homes. In fact, right now is an excellent time to buy, he said.

It makes sense: prices are down and interest rates are at a 40-year low. In some ways, real estate professionals are looking at this as one of the best times in the last decade to get into a new home.

"I am seeing some phenomenal deals. It truly is a buyer's market," said Karen Bailey, senior loan consultant with Equity Home Mortgage in Beaverton.

She said her phone started ringing off the hook in early December when interest rates began dropping. They have continued to drop, and as of this writing they are approaching historic lows. With stellar credit, a buyer can snag a 30-year mortgage with a rate of less than 5 percent, she said. However, Bailey cautions that lending standards have become more stringent since the fall meltdown.

"Credit scores have never been as important as they are now," she said.

Because of the low prices, low interest rates, and the fact that she deals mostly with first-time buyers, Bailey said her business activity is pretty close to what it's been like in previous years. She's bracing for a busy first quarter.

"There's a lot of pent-up demand out there, and first-time buyers are usually out in droves in January. We're going to see the flood gates open," she said.

Also sweetening the pot is the recently enacted First-Time Home Buyer Tax Credit, allowing buyers who bought their first home on or after April 9, 2008, to get as much as \$7,500. The tax credit works like an interest-free loan, and must be paid back over a 15-year period. The credit expires June 30, 2009, so buyers need to act within the next six months to take advantage of it.

Where's the bottom?

Tom Skaar, head of Pacific Western Homes, said the National Association of Home Builders is lobbying to make the tax credit a better deal than it already is. The organization wants it to apply to any home buyer, not just first-timers. He's hoping the industry could get a significant shot in the arm with the next stimulus package, is happy that rates are dropping, and is expecting the liquidity problems to start fading away.

"I'm not prepared to say we've found bottom, but we're awfully close," said Skaar, 2009 president of the Home Builders Association of Metropolitan Portland.

Several high-profile Portland-area builders declared bankruptcy or went out of business in the last six months. The challenge for the industry is to weather the current skittishness in the market and to concentrate on building the kind of product people want to buy.

"Builders will be looking to build at the under-\$400,000 level. That's the sweet spot for buyers," he said.

Homebuilding and home buying will resume at healthy levels once the public starts feeling more confident. In that sense, politics may be one of the biggest factors of all in setting the stage for a more prosperous 2009.

Said Potiowsky, to the extent that people will feel more confident under the new Obama administration, that will go a long way in getting us out of this recession."

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