

Sorting out today's housing market: Questions & Answers

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Homes: First-timers lead growth in sales



Fredrick D. Joe/The

Oregonian Single mom Carmella Wertz took advantage of lower home prices and the \$8,000 tax credit for first-time buyers to buy a home with room for her children, Chris, 15, and Nicole, 16.

Home prices fall. Lending is tight. Foreclosures rise.

Despite the doom, there are some sparks in the Portland housing market.

First-time buyers, enticed by an \$8,000 federal tax credit, have boosted sales and helped slow the declines in home values.

Sales in July actually rose compared to a year ago and the region's median home price seems to have leveled off around \$250,000, down a record 17 percent from the all-time high in the 2007 peak.

Yet, there's still reason to be gloomy.

Home values remain too high compared to rents and household incomes. Oregon's unemployment rate ranks third-highest in the country. Buyers for high-end homes are staying put over layoff worries and rising interest rates for expensive homes. Prices, economists warn, will continue to fall into 2010.

If you're trying to sort your way through the downturn, here's the advice provided by the experts: Buyers, sellers, brokers and economists.

I know home prices are down. But how much value has my home lost?

As noted above, if your home tracks the regional average, it's lost about 17 percent of its value since the housing market peaked in summer 2007. Disclaimer: Your actual results may vary. That's what's happened with the regional median price. Each house and each neighborhood is different.



Clark County, where developers swarmed in the boom time, is worst off, down 21 percent between July 2007 and July 2009. West Portland is looking best, down 6.3 percent. If you want to know more, visit our [Front Porch](#) real estate blog for links to Web sites that estimate your home's current value.

Have prices hit bottom?

Possible, but not likely. Prices have stopped falling for now. The region's median price has hovered near \$250,000 for the past five months. Some people take that as evidence the market is at bottom. It could also be a seasonal pattern. Home prices tend to firm up in the summer when demand is highest. That summer blip is often followed by a fall dip.

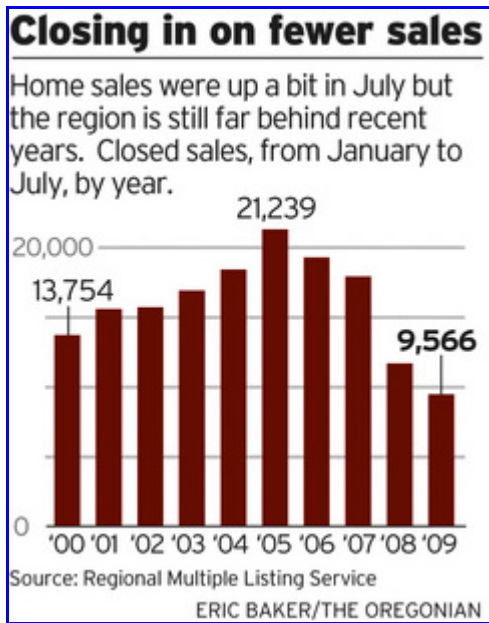
Even if we have hit bottom, that doesn't mean prices will rise again soon. People who study and build housing for a living say they expect prices to linger near the bottom for months and maybe a year or more. It's hard to see prices increasing much until Oregon's unemployment picture brightens.

IHS Global Insight, an economics firm, still labels the markets in Bend, Portland, Eugene and Salem as overvalued.

I keep reading that the economy is stabilizing. Are more people buying homes now?

There are more home sales this summer than during winter lows. But that's not saying much.

Bank cutbacks in mortgage lending and lackluster consumer confidence drove January sales figures in Portland to the lowest levels since record keeping began in 1992. Sales climbed steadily this summer and there were more sales this July than in July 2008.



The sales growth has come largely from first-time buyers and bargain-shopping investors.

Through July this year, buyers had closed on 4,700 homes under \$250,000. That's up 7 percent from a year earlier. For homes above \$250,000, the higher the price, the worse the sales performance. Sales above \$750,000 were down 55 percent. Brokers say buyers of more expensive homes are scared off by job worries and higher interest rates on big mortgages.

If I know I want to buy a house, should I do it now?

Now could be a good time to buy for first-timers who qualify for an \$8,000 federal tax credit. Prices have dropped to a more affordable level and interest rates are still relatively low.

You can find a two-bedroom, one-bathroom starter home in a decent neighborhood for \$325,000 or less. Most first-timers are buying with a Federal Housing Administration loan that requires a 3.5 percent down payment. On a \$325,000 house, you'd have to come up with about \$11,400. But two-thirds of that will come back to you with the tax credit.

If you already own a home, the answer is more complicated. You have to sell one home to buy another, and you won't qualify for the tax credit.

The math can work for people who have owned their home for five years or more and never borrowed against it. You'll lose some value on the sale but you could earn it back and then some on a new purchase.

People who bought homes with little or no down payment during the bubble years -- 2005 to 2007 -- are in trouble. Because they paid peak market prices, they are now probably underwater, meaning they owe more on their mortgage than the home is worth. About 114,500 mortgages in the Portland area were underwater as of June 30. That's about 24 percent of all mortgages. Nationally, the figure is 32 percent.

How hard is it to get a loan?

The days of "liar loans" and the "Can you fog a mirror?" test are over. Buyers with bad credit, no down

payment and low-wage or unstable jobs are out of the home-buying game. But you can get a loan if you have the income to support the mortgage and a credit score above 620. Interest rates have gone up a bit but are still relatively low at about 5.25 percent for a 30-year fixed loan.

The most difficult loans to get are so-called "jumbo loans" for more expensive homes. A mortgage becomes jumbo if it's for more than \$417,000. For those deals, lenders typically want at least 20 percent down and an interest rate of close to 7 percent.

Can I get that \$8,000 tax credit to buy a home?

You can if you qualify as a "first-time buyer" by the feds standards. You can't have owned a home in the past three years. You must close on the purchase on or before Dec. 1. You can receive the credit if you are a single buyer with an income of less than \$75,000 or a married couple earning less than \$150,000. As long as you live in the home for at least three years, you don't have to pay the credit back.

The nice part about this program is that it's a tax credit, not a deduction on your taxable income. So, it's just cash to your bottom line even if you owe less than \$8,000 in taxes. You can amend last year's tax returns to cash the \$8,000 check sooner. Some real estate brokers say their buyers are seeing the money 30 days after they buy.

If I'm trying to sell, how long will it take?

The average seller needs about 4 1/2 months to close the deal.

Again, your actual results may vary. With first-timers chasing the tax credit, affordable close-in neighborhoods like North Portland are selling well. With the jumbo loan troubles, sales are especially slow in expensive spots such as Oswego Lake and Dunthorpe. Just ask Rasheed Wallace. His Dunthorpe home has been on the market since 2006.

I need a new place to live. Should I buy or rent?

Buy, if you have a solid job and expect to own for five years or longer. That will help you ride out the sluggish price growth.

Rent, if you're in town for the short term or lay awake fretting about a pink slip.

Keep in mind that the cost to buy in Portland is high compared with rents. A study done for The Associated Press showed the monthly cost to own a home is \$934 more than renting. That's makes the Rose City the seventh-most overpriced market out of 45 metro areas. For more on the study, visit The Oregonian's real estate blog.

How many foreclosures are there out there?

About 14,000 Oregonians had a mortgage in foreclosure during the first quarter of 2009, according to the Mortgage Bankers Association, the most reliable source for such information. That's about 2 percent of the state's outstanding mortgages. That may not seem high, because about 98 percent aren't in foreclosure. But compared with previous downturns, we're in a serious mortgage mess.

About 7.5 percent of all borrowers were at least one month late on their mortgage in the spring. Since

record keeping began in 1979, the only quarter with a higher rate came in 1985 during another nasty recession.

I've got some extra cash. Can I find deals in foreclosures?

You can if you really know what you're doing. Foreclosure hunting is more than most people with a day job can keep up with. Why? Because you're competing with experienced investors who make their living by scouring property records for the next bargain. Unless you're right there with them, it's awfully difficult to beat them to the real deals.

I've fallen behind on my mortgage. How can I get help?

First, you're not alone. Layoffs, falling prices and risky loans forced 47,000 Oregonians to miss at least one mortgage payment this spring.

Your first step should be to find your most recent mortgage statement and call the number listed. You may be able to work with your lender to negotiate a lower monthly payment. If you have any trouble, you can find free help from a nonprofit housing counselor. For a list of resources, visit the Front Porch real estate blog.

Dozens of for-profit "foreclosure prevention" consultants advertise on telephone poles and by mail. Use extreme caution. They're often scams.

Why aren't lenders doing more to help people stay out of foreclosure?

Profit. Lenders often make more money foreclosing than renegotiating, according to a study by the Federal Reserve Bank of Boston. That doesn't mean you shouldn't try. Lenders are under growing political pressure to make more concessions to borrowers.

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First time home buyers find opportunities in Portland area housing market

Carmella Wertz wanted a place where she could plant her feet, and her own flowers, for a while.

The 50-year-old single mom and her two teenagers had grown out of their Forest Grove duplex. But Wertz figured she couldn't afford a new place on her nursing and Army Reserve income.

With a nudge from a real estate broker friend, Wertz searched and found a three-bedroom home on the fringe of Forest Grove's farm country. To her surprise, she could afford it thanks to falling prices, a no down loan from the Department of Veterans Affairs and \$8,000 cash in the form of a federal tax credit for first-time buyers.

"Even before the beds were together," she said, "I felt at home there."

Wertz is part of a wave of first-time buyers breathing life back into an otherwise lifeless Portland-area housing market.

Renewed interest from first-time buyers has slowed falling home prices and goosed sales numbers this summer. They've led some economists to signal that the worst housing decline in a generation could be easing. "We're not at the bottom but it feels like we can see a bottom coming," said Tom Potiowsky, state government's chief economist,

But is the Portland housing market really getting better?

Foreclosures are still rising, Oregon's unemployment is still third highest and that tax credit that's attracting first-timers is set to expire in December. So is this really just a false bottom?

Despite the federal government's best efforts, the evidence and experts point to more housing pain to come.

Oregon's housing troubles are a blip compared to the four worst states that account for about half of the

nation's foreclosures: Arizona, California, Florida and Nevada.

But the numbers aren't good here either. The Portland region's median home price is down a record 17 percent from the 2007 peak.

Mark McMullen, a Moody's Economy.com director, says the Portland region has probably seen the bottom for new home construction and sales numbers. That should be a boost for construction workers and escrow agents in need of work.

But home owners shouldn't get too excited. McMullen, along with national studies and other economists, point to further price drops into 2010. Homes here remain overpriced compared to incomes and rents. Growing foreclosures will lead to discounted sales prices and will tamp down prices.

Potiowsky said home prices could drop anywhere from another 3 percentage points to 8 points. Tim Duy, a University of Oregon economist, is less optimistic. He predicts deeper declines of 10 percentage points to 20 points. McMullen says his models show prices should fall another 9 percentage points to 10 points.

"The story is there's still a way to go," McMullen said.

State of market now

Just off North Portland's bustling Killingsworth Street, principal real estate broker Lenore LaTour wasn't sure how the three-bedroom home would do when she put it on the market in June.

The house needed a bit of work and the street was often overwhelmed by students from a nearby high school. One of the owners worked from home and had two children, making visits difficult for potential buyers.

She priced it to sell at just \$229,000.

Within two days, she collected 13 offers. Eleven were first-time buyers chasing the tax credit. "They were all going for the hip location," said LaTour, a broker with Windermere Cronin & Caplan Realty Group, Inc. She spent so much time fielding calls that her cell phone battery died twice.

The bargain price produced a bidding war that drove up the final sales price to \$276,000, 21 percent more than she asked for it.

The sale allowed the young couple to cash out eight years of home equity and buy a bigger home with better schools in Southwest Portland.

In general, the housing market stinks but there are still buyers out there -- for the right price. "If it's priced well and prepared for the market, it's selling," LaTour said.

That's especially true for homes priced at \$300,000 and below, the first-time buyer sweet spot. First-time buyers accounted for one-third of all sales in the second quarter of 2009, according to the National Association of Realtors.

In the Portland region, 4,700 homes sold under \$250,000 sold in the first seven months of the year.

That's up 7 percent from a year ago. But above \$250,000, sales are off by 35 percent from a year ago.

"The tax credit is absolutely working," LaTour said.

But what will happen to the housing market when the tax credit expires in December?

Steve Emory, senior mortgage banker Pacific Residential Mortgage, said first-timers are virtually all his business these days and that worries him. The full weight of federal policymakers is leaning on the housing market and it's still sputtering.

"We're probably seeing the same number of first-time buyers as we did three years ago," Emory said. "The difference now is that they are the whole market. There are no trade up buyers. And there is no one from Massachusetts coming here for a new job."

Those trade-up buyers carry worries about layoffs, stock market losses and nose-diving 401(k) accounts. The supply of high-end homes on the market is rising just as the pool of potential buyers is shrinking. That puts more pressure on prices to fall further.

After a slow winter, real estate broker Craig Reger, who specializes in westside homes, said he's seen more interest this summer from buyers seeking homes \$500,000 and above.

But Kathy MacNaughton, a Portland real estate broker for 30 years, says the only buyers she sees for homes over \$450,000 are doctors. "They know they're on the path they thought they'd be on," MacNaughton said.

Looking forward

Despite encouraging signs among starter homes, some analysts believe Portland's still overvalued -- even after losing 17 percent from the peak.

The Portland housing market peaked in 2007 far later than the hardest-hitting markets in Sun Belt states. The median home prices in Las Vegas and Phoenix have dropped more than 30 percent and bargain-hunting buyers are back in the market.

In short, there are signs the recession has wrung out the inflated values in some Sun Belt cities. Economics firm IHS Global Insight now labels some markets in California and Florida as undervalued.

But Oregon -- along with most of the Northwest -- hasn't reached that point yet.

Bend, Portland, Eugene and Salem are still among 22 markets labeled as overvalued in the quarterly rankings from economics firm IHS Global Insight. The rankings are based on interest rates, household incomes and population, among other factors.

Another study by Marcus & Millichap Real Estate Investment Services for the Associated Press showed that Portland housing is overvalued compared to rental rates. The spread between rents and home values provides a benchmark because it signals whether homes are priced low enough to entice profit-seeking investors.

Those investors then help drive new demand and price growth.

The Associated Press study found home buyers on average pay \$934 a month more than renters. The study assume the buyer had a 10 percent down payment, a 30-year fixed loan at 5.15 percent and taxes and insurance that amounted to 1.5 percent of the purchase price. The study used home prices from the first quarter of 2009.

That puts Portland seventh among the most overpriced markets. Seattle was fifth.

Jobs, though, remain a key driver of the housing market.

Potiowsky says Oregon's unemployment -- the country's third highest at 12.2 percent -- could crest above 13 percent.

Until jobs growth again, analysts say, the housing market will be spinning its wheels.

Emory, the mortgage broker, said: "Most people, when they are afraid of losing their jobs and there's 12 percent unemployment, aren't going to go out and buy a home."

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