

Spring Real Estate Market has Sprung

Multiple offers! Escalation clauses! Is this 2011 or 2004?

By David M. Taube, CFA, CFP®

Multiple offers, escalation clauses, and contingency waivers -- all signs of a hot real estate market. But wait, is this 2011 or 2004? If you answered 2004 you would, of course, be accurate. However, if you answered both, you would also be correct.

Despite a real estate market known recently for record mortgage delinquencies, short sales and foreclosures, homes that are appropriately priced and in good condition are moving very quickly in the Washington metro area. Relatively low inventory and interest rates have buyers once again competing with one another.

Last month, S&P/Case-Shiller reported that Washington was the top-performing market in its 20-city composite home-price index, with 3.6% year-over-year price growth in January.

Although strong job growth among private and government employers, combined with low inventory, is driving the Washington area market, declines elsewhere are raising concerns about the possibility of a double-dip recession in the national housing market.

The National Association of Realtors (NAR) reported last month that the number of existing-home sales in February sank 9.6% from January and 2.8% from February 2010.

Recent activity on the local level tells a much different story with tight supply and strong demand. From the inner city to the beltway and beyond, properly priced homes in good condition, and generally within financial reach of a non-jumbo borrower, are quickly obtaining multiple offers.

Ray Gernhart, an agent with RE/MAX Allegiance, thinks inventory is significantly down from previous years because prices have not risen. Potential sellers, many who may owe more on their mortgage than the value of the home, are holding their properties off the market. "If they could sell, they would, but they are trapped," says Gernhart.

Evers & Co. agent Denny Horner agrees: "Sellers who may have bought during the peak years either don't want to lose money or bring money to the table."

Jenn Smira, an agent with Lindsay Reishman Real Estate, added that the "low inventory is partially due to the limited number of new, larger for-sale buildings recently coming on the market, with mostly smaller, boutique buildings selling quickly."

All agents said their most recent listings were under contract within days of coming on the market. Homes lingering on the market are either priced too high or not desirable.

Employment growth, as well as scheduled and potential

changes to the mortgage market, are generating buyer interest.

Smira sees an influx of new purchasers, especially first-time buyers. Employment growth from an expanding federal workforce is also generating new private-sector jobs, as new government rules create the need for consultants and contractors.

"Buyers are out in full force, knowing that historically low interest rates will not last forever," says Gernhart. "They have concluded that they need to jump on the bandwagon or miss the boat."

Smira agrees: in addition to the historically low interest rates, "speculation that the 30-year fixed rate mortgage may all but disappear have created a sense of buyer urgency."

The "non-jumbo" mortgage limit of \$729,750 is due to expire at the end of September, falling back to \$625,500. This is likely to raise interest rates for buyers of high-end homes. And as lawmakers discuss how to overhaul the mortgage system, there is talk of requiring buyers to increase down payments to 20%.

Are there any bargains remaining? Gernhart says deals are still available for those with the patience to work on short sales and foreclosures, mostly in the eastern parts of the metro area, including sections of Northeast and Southeast DC. Smira sees a slower pace in Southwest, which may provide buyers a "ground-floor" opportunity to get in ahead of the proposed development on the waterfront. Horner offered that, in most areas, prices are still lower than the height of the market, while Petworth provides "good bang for the buck for those looking for a single-family home."

What should sellers and buyers do to be successful in this market? "Sellers should optimize their sale price by making the property shine for move-in condition," says Horner.

For buyers, Gernhart's advice: in addition to the usual pre-qualification letter from a lender, "work with a well-connected agent who knows which properties are coming on the market. Many properties sell before they ever hit the market."

Smira provides similar guidance: "hire an agent who has been successful with multiple-offer situations and has the ability to strategize how to make your offer rise to the top."

"This is not a market in which you can think about a property over a weekend," advises Horner. "See the property as soon as you can and put forth your best offer."

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