SUMNER
REAL ESTATE NEWS
by
Robert Jenets
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2009 Review +

Last year's real estate market in Bethesda was an improvement over the market of 2008, especially as compared with the second half of that difficult year. I base that statement on a set of measures (**for detached homes in the 20816 Zip Code**) that I think reflect the overall intensity of the real estate environment. It is a statement that I believe is valid in general, despite the apparent contradiction of some statistics and certain aspects of the market.

The market was better for the seller of a properly priced home because it took less time to find a buyer. While the statistical average number of days on the market in 2009 *increased* to 75 days from the prior year's 65 days, that is skewed by leftover listings from the disastrous last few months of 2008 which settled in 2009. For homes both listed and sold during 2009, the average number of days on the market *decreased* to 50 days.

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One of the contradictions to which I referred is that the average sale price last year was lower than the average price in 2008. Coming out of the financial debacle of the previous year, last year's buyers were clear that they were willing to purchase a home, but only when the price reflected a value consistent with the new fiscal reality. While no seller was happy that values had decreased, at least with an appropriate price, a home could be sold in a relatively short period of time. That was not the case in the Fall of 2008.

Those lower prices are the main reason that the market was better for potential home purchasers. As consumer confidence improved, the 2009 buying public recognized the opportunity to take advantage of these reduced prices. The average sale price decreased from $1,052,140 in 2008 to $956,290 in 2009—a 9.1% reduction. (According to the National Association of Realtors, last year's average sale price for existing homes in the United States decreased by approximately 13% from 2008 prices, although that figure would include condominium sales.) Remember too that the drop in average price reflects the fact the fewer multi-million dollar homes have been built and sold recently. Nonetheless, prices were clearly down from 2008.

The other reason that the market was better for a purchaser has to do with mortgage financing. Interest rates were good all year long and fell to record lows toward the end of the year. The quote for a 30-year fixed-rate loan of (for example) $600,000 was around 5.6% for much of the year and hit a low of about 5% in late November. Further, as banks have adjusted to doing business in this new financial climate, the process has become a little easier and there are more programs to help buyers meet their mortgage needs. The combination of these favorable factors for homebuyers resulted in 178 sales in the 20816 Zip Code last year—up from 160 in 2008.

The contradiction on the buying side was the lower inventory of available homes. Statistics seem to indicate that on average, the supply of homes at any moment in 2009 was down about 30% from 2008. That meant that it was a little harder to find a home and the competition for the most popular listings was pretty intense. For my own business, 50% of the homes I listed and/or sold were under contract within 14 days of being offered for sale.

A recap of the real estate market for 2009 has to include a mention of the first-time homebuyer credit provision of the Federal stimulus package and its effect on sales. While many of the houses and buyers in our area do not qualify to take advantage of the credit, it has fueled sales in other areas and that success in the lower end of the market may have had an indirectly positive effect on our market too. Increased sales of starter homes have helped to stabilize prices in general, and likely brought people to our area who might not

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NEIGHBORHOOD NEWS

There were 11 Sumner homes sold during 2009—down from 14 sales the year before—which is the fewest transactions in one year since 1996 when there were only 5. This decrease goes against the trend for the general area which saw an increase in the number of sales over 2008. It is no secret that the real estate market has been troubled and the low turnover is undoubtedly a symptom of some discretionary moves being deferred until better times.

While that might make sense for someone who will be selling, but not buying another home, it is not necessarily in the best interest of someone who will be buying another home, particularly a more expensive one. The market is healthier under about 1.2M dollars than it is in the higher price ranges where the drop in value appears to be greater. This is a time when the cost spread between the value of your current residence and that of the more expensive home which will satisfy your needs (normally 1.5X) can be minimized.

Here is the list of sales from 2009:

5013 Ft. Sumner Dr	5BR	3.5BA	$ 695,000
5617 Overlea Rd **	4BR	3BA	914,800
5906 Overlea Rd	5BR	3.5BA	975,000
4806 Ft. Sumner Dr	5BR	3.5BA	1,060,000
4911 Rockmere Ct	7BR	5.5BA	1,125,000
5824 Rockmere Dr	6BR	4.5BA	1,160,000
5000 Rockmere Ct **	5BR	5BA	1,170,000
4820 Ft. Sumner Dr *	5BR	5BA	1,350,000
5013 Nahant St	5BR	3.5BA	1,400,000
5805 Overlea Rd	5BR	5.5BA	1,481,250
4907 Ft. Sumner Dr	6BR	5.5BA	1,850,000

**** Robert Jenets Sales** *** Stuart & Maury Sales**

The **average sale price** for the neighborhood last year was **$1,198,277—**over 21% higher than the average price for 2008, and the *highest average price ever achieved in Sumner!* The previous record was set in 2006 with an average price of $1,156,027, a year considered to be the peak of the market. And by broader measures, it truly was the peak, causing one to ponder the significance of this new record high average price.

There a couple factors to consider with regard to last year's statistics. I think it is fair to say that the average price for 2008 was artificially low, an aberration resulting from a predominantly lower-end stock of homes that happened to come up for sale that year. 2008 had 3 homes in the $700's, 3 homes in the $800's and 3 homes in the $900's, overbalanced against only one sale over $1,250,000. That produced an average price of only $989,311 that was not necessarily indicative of the true value change in the neighborhood. Starting from such a low number, the mathematical 21% increase of 2009's average price is exaggeratedly large and not an appreciation rate that can be applied to Sumner homes across the board. Common sense would tell you that that cannot be the case.

Another obvious factor is the effect of the new home sale at 4907 Ft. Sumner Drive for $1,850,000. In a data sample of only 11 sales, one unusually high sale will make a significant difference. If the average price were to be calculated only using the other 10 sales, the price would drop to $1,133,105. However, it can also be argued that, aside from the one sale for $695,000, the lowest sales in 2009 are in the $900's. All of that being said, I think that last year's sales are a more accurate representation of the neighborhood than we have seen for the last few years and Sumner performed extraordinarily well in this tough market.

As a sign of the times, it is interesting to note that only <u>one</u> of the eleven sales last year was for more than the listed price. The lone exception was my listing at 5617 Overlea Drive which attracted multiple offers after the first open house and sold a little over list price.

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2008 Review + ...

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otherwise have been viable buyers, had they not been able, possibly as a result of the first-time homebuyer credit, to sell their previous homes.

The $8,000 credit was only offered to buyers whose purchases were recorded before the end of December 2009 (meaning they had to settle in early December to allow time for the sale to be recorded in the land records) and it is believed that the significantly higher sales volume of last Fall was fueled by purchasers anxious to buy before the credit expired. Since then, the credit has been extended for contracts ratified by April 30, 2010 and settled by June 30, 2010. Additionally, a potential $6,500 credit has been added to the program and is available to current homeowners who purchase a qualified home before the deadline. There are definitely people who own homes in our area who may well be eligible to take advantage of this new provision. For exact details of these stimulus programs, go to Realtor.org.

Early in the year, lenders were extremely risk averse and the mortgage process was difficult. Conforming loans (up to $417,000) were fairly easily available but the banks were afraid to make larger loans that could not be sold on the secondary market. The stimulus package made a special provision to increase the level of loans that could be backed by the government and/or sold to Fannie Mae and Freddie Mac to $729,500 through 2009 and that was an enormous help to homebuyers in our area. Fortunately, Congress extended the provision for these "Agency Jumbo" loans for the time being.

Anyone who is contemplating a home purchase in 2010 should start now by contacting a reputable *local* loan officer to determine their qualifications and learn about the financing options that will be available to them. Other than the nuisance of providing all of the required documentation, there is no reason to be intimidated by the process or to expect any undue difficulty obtaining an approval.

The real estate business became more difficult in 2009 for many reasons, one of which was a new regulation called the Home Valuation Code of Conduct (HVCC). The HVCC was imposed upon large banks and lenders as a means to curb perceived abuses in the appraisal process where it was thought that pressure from loan officers to "hit the number" (meaning to appraise the property at, or above the contract price) resulted in overvalued appraisals. This meant that loan amounts were artificially high and when property values declined and people began defaulting on their loans, there was not enough value for the bank to recoup their money. The HVCC was put in place to ensure an accurate, arms-length appraisal that would protect the lenders (who were predictably overreacting to the situation) from future losses.

The HVCC required large banks and lenders to order appraisals through an appraisal management company and disallowed any contact between the loan officer and the appraiser. In some cases, the random appraisers who were sent were unfamiliar with the area and the unfortunate result was an increase in low appraisals. This caused serious problems for many buyers and sellers and prevented some sales from closing. While it is prudent to discourage irresponsibly high appraisals, it would also seem reasonable to encourage a fair assessment of the property that recognizes the local nuances of value. The real estate market was difficult enough in 2009 without this additional obstacle being inserted into the process. But, like all new regulations, we have to be adaptable and learn how to work with the new system. I am confident that in time, this one will eventually do what it was designed to do (protect the bank) without sabotaging fair transactions along the way.

In summary, Bethesda homeowners were not without their share of difficulties last year, but an overview of the 2009 real estate market is generally positive. There was a strong demand for housing and, despite all of the challenges, more homes were sold than during the prior year. Sellers were able to get their homes sold and buyers were able to buy a reasonably priced home with a remarkably low interest mortgage. Considering the abundance of financial turmoil that dominated the year's headlines, it is a tribute to the vibrancy of this area that our real estate market performed as well as it did.

I guess this is where I am supposed to break out the crystal ball and forecast the sales climate for 2010. The first half of the year is likely to be fairly robust. At least in the short term, the Fed is scheduled to continue propping up the mortgage-backed securities market to keep interest rates low. Historically, demand is strong during the first part of the year and with the added motivation of the homebuyer credits, we should see a high level of real estate activity for several months. There is some concern that when the Fed pulls out of the mortgage-backed securities market, it could impede the flow of money available for housing loans. Inflation is another concern which could cause rates to rise and hurt housing sales. But I think we have seen the worst of it and made it through rather well. As for these other concerns, we'll cross each bridge when we come to it. Have faith!

Neighborhood News ...

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This occurred in the middle of October when the market was absolutely "on fire". Real estate activity had picked up surprisingly in August (which is when I represented the buyers of 5000 Rockmere Court) and grew in intensity into November.

As a group, last year's home sales in Sumner brought about 90% of the *original* asking price. Six of the eleven had at least one price reduction prior to getting a contract. Final selling prices were approximately 94% of the listed price at the time of contract.

Things are starting off quietly here in 2010. At this writing, there are no Sumner homes under contract pending settlement and there is not one home on the market for sale. I am sure by the time this goes to print, something will come up because I am seeing many new listings in other neighborhoods and the feeling "on the street" is that real estate activity is going to be brisk during the first quarter of the year.

I think the single most compelling factor driving the real estate market at this time is an awareness that interest rates cannot stay this low forever. The Fed is scheduled to back out of the mortgage-backed securities market in March which has people concerned about the effect that will have on rates. There is talk of inflation being inevitable as a result of the climbing national debt which is not a favorable pressure on interest rates. It remains to be seen whether these concerns will actually produce the feared outcome, but at present there seems to be agreement among people with imminent real estate needs/desires that sooner is going to be better than later to act upon them.

We have become so accustomed to remarkably low interest rates for so long now that when they begin to rise, it will be important to keep a larger perspective in mind. There were many years when my clients were ecstatic to get a loan at 7.5%, because that was down from 8.5%! In much the same way that sellers today may look back at the market of 2000-2006 as the "good old days" gone by, if rates do rise, buyers in the future will look back with longing at this very special period of low rates and think, if only…

I am confident that we will have a good year in Bethesda real estate and I look forward to promoting the many favorable qualities that make Sumner one of the most desirable neighborhoods in the area.

STATISTICS by ZIP CODE—2009

	# of Sales	Average Price	%Change from '08
20814	**183**	**$ 886,019**	**+ 3.73%**
20815	**212**	**1,088,199**	**- 3.96%**
20816	**178**	**956,290**	**- 9.89%**
20817	**353**	**929,165**	**- 13.6%**

There was a recent study published in the National Association of Realtors magazine which charted the cost of a variety of common home improvements and how much of that cost one could expect to recoup upon resale. The most productive item in their chart is the replacement of the main entry door with a new 20-gauge steel door. They estimate the cost to install the door to be $1,065 with an expected increase in the selling price of the home of $1,562—a return of 146.8%! For traditional older homes such as Sumner's, I am not sure that a new steel door is the way to go but it does point out the value of making a good impression of the home's overall maintenance, right there at the front door. I often recommend for people to freshly paint the front door before coming on the market. Another cost-effective renovation is the replacement of old exterior siding which returns about 80% of its cost, depending on the replacement material.

The point is that certain repairs or improvements will have more of a positive effect on the resale price and one should do some research or get advice before proceeding. I routinely consult with soon-to-be sellers to offer guidance from my experience as to which improvements will be most effective in the selling process. Feel free to ask.

As a local professional Realtor for over 25 years, I am dedicated to representing the best real estate interests of this fine community and its wonderful residents.

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