

Valley Homeowners May have to Settle into Homes

Selling home is no longer a quick buck, experts say

PHOENIX (By Glen Creno, Arizona Republic) July 17, 2006 — It may sound quaint, but once upon a time, back in the early 2000s, people bought houses in the Valley because they liked the layout and the amenities. Or the neighborhood. Or the convenient drive to work, shopping or recreation.

Metropolitan Phoenix's housing boom radically changed all that.

The 50 percent rise in home prices last year had people buying and selling houses like dot-com stocks, thinking strictly about profits. They stopped looking at their houses as homes and started seeing them as a way to build a retirement nest egg, pay college tuition, underwrite a fancy vacation.

This year, with the market slowing, houses lingering on the market and many owners settling for less than their asking prices, a return to the retro days may not seem like such a bad idea.

"Buyers have to look at a house now as something that they're going to move into and live for a while instead of something that they will hold for a few months and sell for a \$100,000 profit," said Neil Brooks, an agent with Century 21 Arizona-Foothills. "People now have to look at their house as a home, not as an ATM."

Homeowners used to have to wait three years to earn enough equity to make a move profitable. But that rule changed last year, when prices jumped.

The Phoenix housing market began to slow in September. Prices plateaued and have been eroding in some parts of the city. People who bought around that time essentially got in at the market top. If they sell now, there's a chance they could lose money.

"If you are selling that quickly, you're probably going to have a hard time covering your costs," said Jay Butler, head of the Arizona Real Estate Center at Arizona State University Polytechnic. "The question is, why would you want to do it?"

The answer was easy last year. There wasn't one Valley ZIP code where the combined measure of the value of new and resale homes failed to gain from 2004 to 2005. Increases in the 30 and 40 percent range were common.

Investors accounted for as many as 35 percent of the home sales in the Valley last year, and many of them were speculators looking for a quick increase in value and a fast sale. They had the mindset that a house was a tradable commodity, a profit machine.

What changed was the attitude of more typical buyers. Not everyone turned into a house flipper, but agents and other real estate experts



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say they saw more people thinking profit first and "place to live" second.

Phoenix's housing market had the frenzied feel of the dot-com craze. It made home investing appear easy when it was not. The business of buying and selling houses is easily as difficult as sizing up stocks for investment and much more difficult when it's time to sell, since housing is not an instantly liquid asset.

"Don't count on this market to be your bank," said Brett Barry, a Realty Executives agent in the northeast Valley. "What's the saying? Past performance may not be indicative of future gains."

Americans spend a median of 5.2 years in their homes before moving, according to the U.S. Census Bureau. The agency says that 16.7 percent of the population moves every year but also notes that a similar number, 15.3 percent, has lived in the same house for more than 20 years.

The fast-money speculators who helped drive those price increases have taken their money and run. That leaves the pool of Valley buyers dominated by rank-and-file consumers and long-term investors who will hold the property for its rental income. It also means that the wild bidding that drove home values higher has disappeared.

That's the pattern Las Vegas saw. The Vegas market has undergone some painful gyrations since the speculators left and the housing market struggled to regain its balance. The median price of new homes there is up 12 percent through May compared with the same time last year. The resale median is up 12 percent. That's in a city that, like Phoenix, led the country in price appreciation not long ago.

"We've got normalized conditions here," said Linda Rheinberger, president of the Greater Las Vegas Association of Realtors. "People need to be more patient and not treat housing as a stock."

It's already happening. Richard Stern, a financial adviser with Stellar Capital Management in Phoenix said people have learned some hard lessons from both the financial and real estate markets.

"People are much more realistic about securities investments and real estate investment than they were five years ago," he said. "They lost money. They learned about the downside."

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