

SUMNER REAL ESTATE NEWS

by

Robert Jenets

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2004 Review

Here are some statistics for real estate sales during the year 2004 which will confirm that last year was a remarkable and record-breaking year. Nationally, the NAR reported approximately 7 million sales (the most, *ever*) as compared with 6.1 million during 2003. The median price of a single family home rose to \$189,000 and the *average* price was \$240,000 - up more than 10% over the previous year. Most markets in the United States showed significant appreciation figures for the year, led by Las Vegas, where prices increased almost 42%!



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Locally, we experienced a fast and competitive market, not unlike the past five years, with double-digit price gains and speedy sales. The Washington Post reported that our metropolitan area prices rose 24%, (3rd qtr. to 3rd qtr). I'm not so sure about that, but real estate was strong throughout the year, with only a couple short "breathers" in June and September, along with the usual pauses of late August and December. The shortage of inventory in the early part of the year caused the market to thrive, followed by the predictable plateau resulting from a greater supply of homes in June.

I am often asked, "Where are people getting the money to buy homes at these prices?" Obviously, it varies from case to case, but in general, the answer involves a combination of low interest rates making the mortgage affordable, large cash assets (usually, equity realized from previously owned real estate), and/or high income from the buyers' job or jobs.

One thing that has helped buyers cope with rising prices is a new loan product introduced by the lending industry last year called the **interest-only loan**. A typical loan of this type has a 30-year term, but requires no principle payments during the first five years. Since the loan is essentially a 5/1 ARM with five years at a fixed rate and then becoming a one-year adjustable in year six, the fixed rate is about 1% less than it would be for 30-year fixed-rate money. The thought pattern to justify such an arrangement assumes that

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NEIGHBORHOOD UPDATE

Sumner had four *more* home sales in 2004 than the number of sales recorded the previous year—a total of 26 closings. That was a busy year for this neighborhood, but not surprising, given the pace of the Bethesda real estate market in 2004. Only two of the homes took longer than 30 days to get a contract, and most of the homes were sold within two weeks. Of the 26 homes sold, 15 of them sold for more than the listing price, causing the average sale price to be higher than the average list price. That was the case for most, but not all, neighborhoods in the area, where, clearly, it was a very favorable year to sell a house.

The **average sale price** for a Sumner home in 2004 increased from \$817,028 the previous year, to **\$909,842**, which represents an appreciation in value of about 11%. An analysis of the home sale data reveals a few points of interest. Looking at the range of prices, we see that there were 5 sales for one million dollars or more, balanced against 5 sales under \$849,000. That leaves a solid core of 16 sales in the upper 800's and 900's.

For more specific information about any of the Sumner homes and/or sales for 2004, you may contact me by phone or email. Also, you may view, [online](#), the information for the MRIS sales, by utilizing the link I have provided later in this article.

For anyone who did not get a chance to visit **my listing at 4908 Scarsdale Road**, which I sold in the fall, you can still find a "virtual tour" of the property on my website. The information there would help you to compare it to your home, or other properties in the neighborhood, for the purpose of relative valuation.

Speaking of valuation, have you received **your new tax assessment?** As you know, the price of homes in our area has increased steadily and rapidly for the past five years. One downside of increasing values is the resultant increase in property taxes. Our area was reassessed this year and you should have received, or will be receiving soon, your new tax assessment. The new value is probably going to surprise you, not necessarily because your home is worth less than the assessed value, but simply because the increase seems so sudden. Properties are reassessed on a three year cycle, so the state is attempting to "catch-up" with this raging market. In some cases, they may have overreached.

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MARKET NEWS...

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appreciation will do more to increase equity than the small principle portion of a 30-year amortized loan payment. The impact on the monthly payment is dramatic, as shown in the following example:

Price: \$1,000,000	Price: \$1,000,000
Loan: \$800,000(6% amortized)	Loan: \$800,000(5% int.-only)
Monthly: \$4,800*	Monthly: \$3,300*

*Rounded to the nearest \$100

While it is true that beginning with year six the loan becomes a one-year adjustable, a savings of \$1,500 per month over five years amounts to \$90,000! That is quite a sum to hedge whatever risk may materialize five years down the road. Many people will have refinanced before the loan becomes an adjustable.

Another feature worth noting about interest-only loans is the borrower's ability to make principle payments at any time and have the monthly payment be recalculated to reflect the lower principle balance. It does not work that way with a traditional, fully-amortized loan, where the monthly principle and interest payment remains constant throughout the entire term of the loan. This is an important feature for a buyer who needs to settle on their new home BEFORE selling their present home. Not only is it easier to qualify for the new mortgage under the interest-only program, but when the equity from the sale of their present home is applied, the monthly payment on the new loan is significantly reduced. Certainly, there are many loan programs available, with varying advantages and disadvantages, but, for many people, this one has become very useful.

BETHESDA STATISTICS

Let's look at the sales statistics for the three main zip codes that comprise Bethesda. There were 279 recorded sales in **20816** last year (compared with 236 the year before) with an **average sale price of \$822,471**. Doing the math shows that average price to be 7% higher than the average price in 2003.

The MRIS shows 241 sales in the **20814** zip code at an average price of **\$755,282**—more than a 14% increase over 2003. These figures include a “tear-down” in Parkwood that listed for \$287,500 and sold for \$363,500 contrasted with a couple sales in Edgemoor for 2.65 and 2.7 million dollars.

The MRIS shows 515 sales in the **20817** zip code at an average price of **\$878,320**—a 14% increase over the previous year. The high sale was a fabulous new home on Country Club Drive near Congressional Country Club for 3.9 million dollars.

Taken in perspective, one must remember that this increase in value is compounded onto the significant increases that Bethesda real estate has enjoyed every year for at least the past five years. One could argue that it is remarkable that it went up, at all! From an investment standpoint, Bethesda real estate is unquestionably advantageous, but, more than that, it is also a wonderful place to live.

Neighborhood Update...

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Remember, though, the simple fact that your assessment increased greatly is not reason enough on which to base an appeal. The appeal instructions indicate that you must show that the assessor made an error, or provide information that speaks to your *value*. For your convenience, I have created a link to the MLS website that will give you a picture and the property details for all the 2004 Sumner sales through the MRIS system. You can access the information by going to your internet explorer and carefully typing into the web address area: **http://matrix.mris.com/Matrix/Public/Email.aspx?ID=4389342659**, or you may contact me. In any case, most of us are protected by a 10% per year cap in the actual property tax that you pay, provided that you qualify for the county homestead credit.

What should we expect from real estate in 2005? It seems to me that every January for the past five years or so, I report what a great year it was, but that the experts expect the real estate market to cool off in the coming year. They say that it cannot possibly keep going at this pace and that we should expect modest gains of 4 or 5%. Then, we have another amazing year, and the cycle repeats itself. So, this year I am going to cite numerous analyses of the economic indicators, the fact that the Washington area is adding 75,000 new jobs, that mortgage rates are still very low and that consumer confidence is improving, and I am going to say that there is every indication that 2005 will be another incredible year.

I acknowledge that it is unreasonable to expect the kind of appreciation we have seen during the past five years to continue indefinitely and I know that eventually, the market will change. I just do not see any indication that this will be the year. It will be important for sellers to be realistic in their price expectations during the coming year, yet secure in the knowledge that they will be rewarded with the best that this excellent market has to offer.

You are welcome to visit my website for useful and interesting information about real estate in our area. The address is:

www.robertjenets.com

If you have a question or need some information about real estate, you can email me at:

robert@robertjenets.com

Specifically, you may want to discuss your new tax assessment. I will be happy to provide whatever information may be helpful.

I remain dedicated to serving the real estate interests of this community and its residents.

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