SUMNER
REAL ESTATE NEWS
by
Robert Jenets
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2008 Review +

As I prepare to describe the real estate market of 2008, I am struck by the remarkable similarity it bears to the market of 2007. The long view shows both years divided into very different halves, with the first half being much better than the second half. The reason for the disparity is also similar—news of a serious problem in the financial world. In 2007 it was the "credit crunch" and increasing sub-prime mortgage foreclosures. Last year it was the default of major financial institutions and the resultant fallout on Wall Street. In both cases, the ramifications of those economic woes caused a drastic change in the real estate market.

According to data taken from the MRIS (our local professional real estate multiple listing service) for detached homes in the 20816 ZIP code that sold last year, there were 101 contracts ratified during the first half of the year with an average sale price of $1,086,292. (The average sale price in 2007 was $1,071,393.) After June 30th, the number of contracts dropped to 50 and the average sale price decreased to $942,601. Admittedly, August and December tend to be slow months, so one would expect the second half of the year to show a lesser number of sales. Indeed, the number of contracts per half year is almost identical—each year shows about a 50% drop for the second half. However, the significant difference when comparing 2007 with 2008 is the drop in the average contract sale price. In 2007, the average price for the second half of the year was only down a little less than 1%. The decrease in average contract price for the second half of 2008 calculates out to be 13%. The economic troubles were clearly more serious last year and the effect has been more pronounced.

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Now let's look at the statistics for the entire year relating to single family detached homes in the 20816 zip code. The number of settled home sales in 2008 dropped to 160, down from 184 the previous year. The average price was $1,052,140 as compared with $1,071,393 in 2007, a decrease of a little less than 2%. That is a very modest decrease in light of the huge losses being reported in other areas but remember, the first half of the year was pretty good and helped the yearly average stay respectable. Prices today are certainly more than 2% lower than they were the year before.

There is one more complication—there was one home sold for $6,600,000 in Glen Echo Heights. This unusually high sale has a significant impact on the average price in the 20816 zip code. If that sale is removed from the data, the average price for the remaining 159 sales drops to $1,017,248—a decrease of a little more than 5% from 2007. Still, that is not too bad of a value adjustment and likely more representative of the actual yearly change in our area. Again I have to emphasize that the year over year statistics are what they are but the value of homes at the moment is down more than the 5% yearly adjustment.

The most significant change in the real estate market resulting from the failure of the big financial institutions, and

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NEIGHBORHOOD NEWS

Home sales in Sumner last year were consistent with the sales pattern of recent years, with 14 transactions closing during 2008. Since the years 2002—2004 when the number of sales were 21, 22 and 26, the last four years have produced 13 to 16 sales per year.

One of the important aspects of this year's review is the statistic for the number of days that it took for a home to get a contract. In 2005 the average time it took to sell a home was only nine days. That grew to 27 days in 2006 and then 47 days for a home to sell in 2007. Last year the average marketing time was 73 days. Anyone who has had to keep their home clean for months of marketing can tell you how much we miss those years of quick sales.

Here is the list of sales from 2008:

5114 Nahant St	*	3BR	1.5BA	$ 715,000
4907 Ft. Sumner Dr		4BR	3.5BA	715,000
5005 Sangamore Rd		4BR	3 BA	795,000
5128 Baltan Rd		3BR	3.5BA	840,000
5111 Westpath Ct		4BR	3 BA	850,000
5110 Lawton Dr		3BR	3 BA	860,000
5120 Westpath Way		4BR	2.5BA	901,356
5121 Baltan Rd		5BR	3.5BA	976,000
5108 Westpath Ct		4BR	4.5BA	990,000
5120 Baltan Rd	*	4BR	4 BA	1,040,000
5004 Brookeway Dr	*	3BR	2.5BA	1,118,000
5003 Nahant St		4BR	3.5BA	1,200,000
4920 Brookeway Dr		4BR	3.5BA	1,210,000
4811 Ft Sumner Dr		5BR	4.5BA	1,640,000

*** Stuart & Maury Sales**

The **average sale price** for the neighborhood last year was **$989,311** which represents a decrease of about 4% as compared with the average price in 2007. (I always feel compelled to point out that, with its low turnover rate, the data sample for home sales in Sumner is small, making it vulnerable to be skewed one way or the other, depending on how many larger or smaller homes comprise a given year's sample.) But, I am not minimizing the fact that the price of homes has declined. The last time the average price was under one million dollars was 2004, when the average price was $909,842 and the high sale was $1,175,000.

The highest average sale price ever recorded for Sumner was $1,156,027, in 2006. Last year's average price is down about 14.4% from that peak. However, to give you some perspective which you may have forgotten, the average sale price for Sumner in the year 2000 was only $610,194. So, you are still up about 50% over the last eight years, which is an average appreciation rate of 6.25% per year. When you factor in the tax deductibility of your mortgage interest (if applicable), owning Bethesda real estate is still a great investment.

As you can see from the list of sales above, there were two homes sold at the lowest price for the neighborhood. The one on Nahant was a Stuart & Maury listing of one of the smallest homes in Sumner, but cute! The other low price sale, which sold directly to a builder without ever coming on the market, was a home in disrepair that has since been razed to make way for a new home.

The high sale for the year was 4811 Fort Sumner Drive which is a five bedroom, four and a half bath New England

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in particular, the government “takeover” of Fannie Mae and Freddie Mac, has been the increased difficulty that a buyer faces in obtaining a home mortgage. Almost overnight, the programs available and the rules to qualify were adjusted by the banks to minimize any risk on their part.

The mortgage industry is so complicated now that even the loan officers are daunted by rules and procedures that change weekly. The is no simple answer to the question, “what is the interest rate?” Rates vary sharply from program to program and from lender to lender. There are several answers to that question even for the exact same program depending on several factors. Loan officers now have a matrix for determining the available programs and rates that involves the price level, the loan to value ratio, the combined loan to value ratio (if there is a second trust involved), whether the property is subject to a declining market designation and, most importantly, the borrower’s credit profile.

Because the lenders are so incredibly risk averse at the moment, the importance placed on the borrower’s financial profile is magnified to a level we have never seen before. The interest rate and/or “points” for a particular loan are adjusted by the lender for each 20 point bracket of credit score. A borrower with a 680 score will pay more than one with a score of 700. The cost decreases again at 720 and the best (lowest cost) money is available to someone with a score of 740 or higher. However, there is probably even more benefit to a borrower with a score in the 800’s on a case by case basis.

If you are contemplating the purchase of a home in the near future, you would be well-advised to contact a loan officer and check your credit score and qualifications now, to see if they are in line with your loan needs. If necessary, there are things that you can do to increase your credit score but they are sometimes counterintuitive. For instance, I am told that calling to ask for a higher credit limit on your credit cards may initially hurt your score but that after 90 days or so, the higher limits improve your score. I don’t get it, but if you need guidance, call me and I can send you to the right sources for information on improving your credit score. Don’t try this alone—get help.

So, it is a different environment for buyers looking for a home mortgage these days and one must be prepared to provide very detailed information. But don’t get the wrong idea, one can still get a great mortgage loan to buy a house. As a matter of fact, interest rates have decreased to remarkably low levels and qualified buyers are able to capitalize on a very favorable opportunity. At this writing, a conforming 30-year fixed-rate loan can be had for less than 5%, depending on some of those factors I described earlier. Loans above the conforming limit of $417,000 and up to the super-conforming limit of $625,500 sometimes cost a little more but some lenders have them at the same price as the conforming loans—it depends on the day. A non-conforming loan (more than $625,500) typically has a higher rate, but those rates have come down from the prohibitive pricing we saw during the panic last Fall and I have seen quotes around 5.75%.

As difficult as the market is, we can still consider ourselves more fortunate than most. As investments go, the reduction in real estate value is pretty mild compared with 25%-40% losses in your 401-K. The desirability of our location and the quality of our public schools (two independent studies ranked Maryland Public Schools the best in the nation!) are major factors in preserving our property values and, while we were insulated from devaluation for a time, we certainly have now experienced a decline. Statistically, it is not as bad as 1990 and, with the excellent outlook for job growth in our area, there is every hope that our recovery will be quicker than that of the early 1990’s.

I don’t mean to paint an artificially “rosy” picture, but it is a fact that home prices are more affordable than they have been for years and mortgage interest rates are extremely favorable. The attention and effort being given to the financial system may soon improve things further; it would seem to be an opportune time to pursue your real estate desires.

Neighborhood News ...

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colonial which has a large kitchen open to the family room and an 18,000 square foot lot backing to the Crescent Trail. Originally listed in March for $1,769,000, the price was reduced to $1,699,500 and the home eventually sold for $1,640,000.

So where is the market going in 2009? There are people who say that the affordability index is still out of alignment and that, though prices have come down significantly, there is still more correcting that needs to happen. From a mathematical perspective that may be true, but it doesn’t feel like that to me.

It is understandable that many prospective buyers and sellers put their plans on hold when the turmoil in the financial industry intensified in September. Mortgage rates spiked up to crazy levels and worry of falling home prices effectively brought real estate activity to a halt. Since the new year has begun, I have seen an increase in activity and a little different attitude among the people considering a home purchase. There seems to be a recognition that home values do not plummet off the scale around here and that prices are down considerably. Add the historically low mortgage interest rates to the equation, and buyers are seeing what is undoubtedly a very special opportunity to make a smart purchase decision. That is precisely what is needed to stabilize prices and begin the process of restoring good health to our real estate market.

STATISTICS by ZIP CODE—2008

	# of Sales	Average Price	%Change from ‘07
20814	**167**	**$ 854,198**	**- 13.8%**
20815	**189**	**1,131,255**	**- 10%**
20816	**160**	**1,052,140**	**- 1.8%**
20817	**341**	**1,055,590**	**+ 1.5%**

NEW ENERGY EFFICIENCY DISCLOSURE

A law was passed in Montgomery County and took effect January 1, 2009 which requires the seller of a single family residence (including a condo where the monthly fee does <u>*not*</u> *cover utilities) to provide certain energy related information to the purchaser, prior to the purchaser signing a contract of sale. The seller must provide general educational information on energy-efficiency improvements and energy audits approved by the Department of Environmental Protection. Realtors have access to a form which provides the necessary information and a link to a website for the buyers to visit. Also, if the home is owner-occupied, the seller must provide to the buyer copies of the electric, gas and heating oil bills OR a cost and usage history for the immediately prior 12 months, or the part thereof during which the owner occupied the property. Again, Realtors can provide a form for sellers to satisfy this requirement. Sellers of non-owner occupied properties are exempt from these disclosure requirements. Call me if you would like more information about this new law.*

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