Tuesday, April 9, 2013

THE DAILY RECORD

WESTERN NEW YORK'S SOURCE FOR LAW, REAL ESTATE, FINANCE AND GENERAL INTELLIGENCE SINCE 1908

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Trends in the 2013 Rochester housing market

In Rochester, the home buying market is gradually warming up. On March 21, Rochester appeared on the list of the National Association of Home Builders/First American Improving Markets Index. IMI tracks housing markets throughout the country that are showing signs of improving economic health. The index measures three sets of independent monthly data — employment growth (census), house price growth (Freddie Mac) and single-family housing growth (census) to identify the top improving markets.

By WILLIAM M. BUTLER
Daily Record Columnist

It appears that while the economy is stabilizing and the population is slowly growing in Rochester (1.5 percent per latest census data), there is a shortage of decent homes for sale. According to Trulia.com, national housing inventory declined 23 percent year over year in February 2013. Nationally, at the current sales pace, the inventory of homes would be depleted in 4 months.

According to information provided by the Greater Rochester Association of Realtors, the number of homes listed for sale in the Rochester area fell 6 percent during the last three months of 2012 and according to Movoto.com, local real estate trends show a lower inventory of homes for sale in March 2013 (478). This is down 4 percent from March 2012 (499) and down 23 percent from March 2011 (619). But, for the first time in over six months, the supply of homes for sale is beginning to rise.

While inventories are still down nearly 20 percent from a year ago, they did rise more than the seasonal norm in February from January, according to a new report from the National Association of Realtors. The raw number of for-sale listings rose 10 percent month-to-month, and when seasonally adjusted, they were up 2.6 percent, the biggest jump in over two years.

"Tight inventory has been a critical issue for the housing market: The limited supply of homes has fueled bidding wars and has meant that buyers have little to choose from and agents have little to sell," said Trulia.com's Jed Kolko. "Inventory has been tightening because construction levels are still low, adding little new housing stock, and homeowners are waiting to sell until they have more positive equity. This inventory spiral been especially severe since prices bottomed."

Locally, according to Robert Housel, broker/owner of Housel Realty, "Most areas still have many more buyers than sellers, especially North Winton Road, the South Wedge, and areas near Strong Hospital, where it is common to get multiple offers for any homes recently listed."

One must understand that there are two basic categories that define a homebuyer: First-time homebuyers and repeat buyers. The behavior of a first-time homebuyer is directly related to confidence in their finances, optimism in the future, and personal goals. For the first time since 1999, there is a substantial increase in the 23 to 34 year old age bracket for first-time homebuyers, signaling that all three factors are working together.

According to the latest Campbell/Inside Mortgage Finance HousingPulse Tracking Survey, first-time buyers accounted for 34.5 percent of home purchase transactions in February, based on a three-month moving average, the second monthly increase for first-time homebuyers whose share of the housing marketing hit a four-year survey low of 32.9 percent in December.

While first-time homebuyers represented the fastest growing category of home purchasers between January and February, purchases by current homeowners saw the biggest drop from 44.3 percent to 42.5 percent. That was the lowest market share for current homeowners recorded by the HousingPulse survey since last June.

The first-time homebuyer buildup is a result of an uncertain economy, decreasing disposable income, and reduced rate of savings over the last 10-15 years. "Low down payments and tightening qualifying standards have made it more difficult for first-time homebuyer to qualify for mortgages, therefore prequalification is a must," Robert Housel said.

What is happening now is that buyers are becoming confident in their finances and in the future. They are also aware

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that home prices and mortgage interest rates are relatively low, and this would make payments affordable. This can be measured by the Consumer Confidence Index increasing, as well as the Burns Home Value Index being at historical highs. As a result, first-time homebuyers are flocking into the real estate market.

Repeat buyers and first-time buyers make decisions based on similar criteria, with one exception. The repeat buyer has to know whether they have enough equity in their current home in order to buy a new home. If there is not enough equity based on research or actual time on the market, they will likely decide that staying in the home is the best option. This option has been the main cause of the shrinking inventories over the past several years.

This repeat homebuyer also holds the key to home inventory, since they need to list their own home in order to allow the influx of first-time homebuyers to have something to purchase. Without this release of inventory, there can be no cascading effect, and the market remains tight.

Does this mean that the increased demand for homes will in itself cause home prices to rise? Basic economic theory would suggest yes, but I believe it will be a delayed economic reaction. According to the Fiserv Case-Shiller forecast published January 2013 for the Rochester NY Metropolitan Statistical Area, average home prices are forecasted to increase this year 0.3 percent, but by the third quarter of 2014 home prices are forecasted to increase by 7 percent.

The latest national forecast from Fiserv Case-Shiller predicts home prices will increase by an average of 3.3 percent annually over 5 years ending September 2017.

The overdriven demand due to the high affordability will have to equalize with the supply of existing homes, as home owners regain confidence to list their homes. As of March, the CCI has improved, but at a slower rate since this time last year. As soon as confidence returns to the market, new listings which are properly valued will increase and will spur first-time buyers to make good buying decisions and start the wheels turning. What experts like Robert Housel are telling us is that there is a large pool of qualified buyers along with a smaller supply of houses to buy, surprisingly resulting in a stable price environment, but will have an effect of increasing values over time. In my opinion, the increased demand for homes that are priced well will lead prices higher, but not until the end of this year, going into the first quarter of 2014.

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