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Philadelphia

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Price Anxiety

After doubling in the past decade, local real estate prices are finally—finally!—cooling down. But just how much? One skittish seller surveys the terrain and tries to figure out The Number that will help him—and you—beat this buyer's market **By Laurence Roy Stains**

PLUS: Up-to-the-minute advice for everyone from newbies to nesters to flippers, and our expanded annual price report for more than 350 towns and neighborhoods

EDITED BY TIMOTHY HAAS **RESEARCH ASSISTANCE BY CAITLIN MURPHY AND JESSICA REMO**

Illustrations by C.J. Burton

REAL ESTATE 2006

Nothing haunts homeowners like these two words: "housing bubble." We've been hearing about it, everywhere and incessantly, for at least a year now. Most people feel it in a vague, unsettling, but still theoretical way—they will continue to sleep in their homes every night, and they'll eat breakfast in their outdated kitchens every morning. But for me, it's a very real fear. Because I want to sell my house this spring.

I've already put it up for sale once, last October. The response was ... underwhelming. A week went by, then two weeks, then three. "It shows beautifully!" my agent, Sandy McAlaine, kept telling me. By mid-November we'd had maybe six showings, and no offers. I didn't want to keep the place picture-perfect during the holidays, so on November 16th I took it off the market.

Now it's almost spring, and I want to sell again. *But at what price?* On the one hand, prices are nuts, and neighbors still roll down their car windows to tell fellow neighbors that So-and-So just got $719,000 for that teeny three-bedroom walk-to-train charmer, and all this madness has to end sometime. But on the other hand, buyers are still out there paying those prices, which could possibly get nuttier.

Allow me some anxiety about this, because it's a six-figure question. Please keep these numbers to yourself, but I was asking $825,000 for my house. I thought that was a little low. It was down from $849,000, which I'd planned on asking, and down further from $860,000, maybe $875,000, which were the figures that prospective agents dangled before me in the kissy-face days of early summer. But then it got to be October, the market was starting to soften, and somehow I came out of a two-hour meeting with Sandy clutching a copy of a listing agreement with the numbers 8-2-5 on it.

Now it's a brand-new year. I'm free to test the waters. Do I go back up to $875,000? Can I get greedy and push it to $899,000, figuring some single-digit appreciation from last spring? Or did I miss the party? Am I now looking at $799,000?

Let's pin down the spring market, shall we? We'll call on agents and economists, builders and bankers, and even a flipper or two. I'll figure out what my house is worth, and maybe you'll learn enough to

Center City's biggest price gain:
19103 ⬆ $158,725

2004 median: $442,500 2005 median: $601,225

WHAT THOSE BUCKS BUY:

A 2-bedroom, 1.5-bath condo with garage near Rittenhouse Square, listed at **$595,000**. Agent: Mark Wade, 215-521-1523.

The Main Line's biggest price gain:
Gladwyne ⬆ $158,600

2004 median: $943,750 2005 median: $1,102,350

WHAT THOSE BUCKS BUY:

A 5-bedroom with 3 full and 2 half baths on 1.17 acres, listed at **$1,049,000**. Agent: Cathy Maude, 610-520-2760.

GLADWYNE: DAVID OCENAS; CENTER CITY AND UPPER MAKEFIELD: COURTESY OF THE AGENTS do the same. Maybe you'll even decide not to sell this spring, which would be really, really sweet of you. I don't need the competition.

First, let's look back down the mountain, because it's been quite a climb. The average price of a home in the Greater Philadelphia area rose 101.7 percent between 1995 and the third quarter of 2005. The area's appreciation virtually mirrors the national rate, which was 99.5 percent in that span. And although the appreciation of the late 1990s is nothing to scoff at, the steepest growth has occurred in the past few years. After 9/11, after the stock markets tanked, we enjoyed the combination of historically low mortgage rates and a national mania for real estate. And the result? In one year alone, from the fall of 2004 to the fall of 2005, real estate prices in our region soared 21.2 percent.

And who was driving prices up, up, up? Why, speculators, of course! Nameless, faceless speculators who snap up homes with agreements of sale, then sell 'em again—flip them—before final settlement. They used to be day traders before the dot-com crash, so I hear, and now they're terrorizing the real estate business. I wanted to meet one of these guys. Which is how I came to be standing on a sidewalk in Swedesboro, New Jersey, and staring at the most pathetic excuse for a house I have ever seen.

It's a menacing shack whose address, 106 Water Street, is its one pleasant attribute. It has no windows, no flooring, no plumbing, no lights, no kitchen ... no nothing. Its frame is clad, haphazardly, in old, ugly asbestos siding. Out back, among the weeds, is an abandoned wheelchair. I feel a sudden urge to choke down a handful of Prozac. But somehow the proud new owner, Eliot Hobbs, is unfazed. "If this were my first house, I'd say 'No way,'" says Hobbs. But since it's his 16th, he's very down with the fact that he paid $35,000 for this pile of Trouble with a capital T. He estimates the fix-up at $80,000. Then he'll sell it for $180,000.

(A month later, he decides to tear it down instead and build a $200,000 house on the lot.) Meanwhile, he'll be moving on to his next opportunity, which might come from a phone call in response to the signs pasted to his blue Nissan pickup truck: "WE PAY CA$H FOR HOUSES."

Hobbs is a member of the South Jersey Investors Club, which is basically a support group for speculators. At age 35, he's one of the younger members, many of whom are people nearing re-

Bucks County's biggest price gain:
Upper Makefield Twp. ⬆$216,250

2004 median: $532,500   2005 median: $748,750

WHAT THOSE BUCKS BUY:

A 3-bedroom with 2.5 baths on .67 acre in Washington Crossing, listed at **$749,900**. Agent: Jack Lacey, 215-579-0212.

tirement age who saw their nest eggs sliced and diced by the stock market. In the past few years, membership has passed 500, and members now meet in subgroups. "We got people who never considered owning property coming in," says Hobbs. "For every 10 that join, one will be here 20 years from now. But at least it's worth a look."

Real estate investing consists of two strategies: buy and hold, or buy and sell. Those who buy and hold go for multi-unit housing and small commercial space, with the goal of living off the rental income from their tenants. Hobbs is not about that; he's a buy-and-sell guy. And of course he'd love to flip properties, and not bother with the long, problematic process of renovation. Who wouldn't? That was his plan when he started doing this in 2002, he says. "But I wasn't finding sub-wholesale prices."

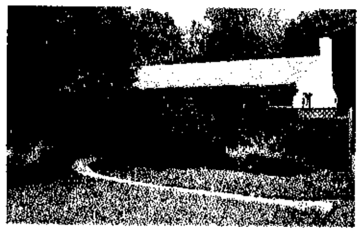
Flipping properties, it turns out, is largely a pipe dream. Every once in a great while it can happen in a wild and crazy situation, like the condo market in Miami. Then everyone reads about it, and suspects it's happening everywhere. It's not. Guys like Hobbs are not getting rich quick; they're fixing up houses that Habitat for Humanity wouldn't touch, and they ought to get a humanitarian award. In fact, if there's any feverish speculation in the Philadelphia area, it may be at the opposite end of the market—in the $1 million to $3 million price range. So let's go over the river and through the malls and not stop until we get to that confluence of Old Money and New, the Main Line.

"We have way too many tear-downs," says Barbara Deuber, an associate broker in Weichert's Wayne office. As of mid-January, there were 118 million-dollar-plus "new construction" properties listed for sale in the townships of Lower Merion, Radnor, Tredyffrin, Willistown and Easttown. Many of these are tear-downs, because the open space is long gone. Small, independent builders purchase tired post-war ranchers and Capes on decent lots for somewhere between $500,000 and $750,000, knock 'em down, then build big new mansions and charge roughly triple what they paid. The trouble is, says Deuber, "There aren't enough buyers in that price range." And even though the likely buyers are corporate transferees coming from more expensive cities, they still may balk at paying $2 million when the rest of the neighborhood is stuck in the sevens. One area builder, so I heard, is offering a $100,000 bonus to any agent who brings in a buyer. That tactic is more desperate than effective, but it's reminiscent of slow markets in the past, when listing agents were so hungry for other agents to bring in potential buyers that they'd promise cash, trips, cars and fur coats as extra incentives.

That sort of market lies just ahead, says Tom Kuranda, a mortgage banker with two offices on the Main Line and one in West Chester, who brokers loans in 16 states. "This spring will be just the opposite of a year ago," he predicts. "We have fewer buyers, and more sellers trying to catch the tail end of the large loot." The shortage of buyers, he says, can't really be explained by mortgage rates, which have risen less than half a percent in the past year. Regardless, he's just had his worst December in 10 years, and he's not anticipating a turnaround this spring. After four record years of home sales, he says, "We'll never have another boom after a boom. That's not possible."

He's making $825,000 sound good.

Delaware County's biggest price gain:
Chadds Ford Twp. ⬆ $86,200
2004 median: $221,000   2005 median: $307,200



WHAT THOSE BUCKS BUY:
A 3-bedroom with 1 bath on .44 acre in Pennsbury Hills, listed at **$279,000**. Agent: Shelley Mincer, 610-444-9090.

Camden County's biggest price gain:
Haddonfield ⬆ $57,750
2004 median: $339,750   2005 median: $397,500

WHAT THOSE BUCKS BUY:
A 4-bedroom with 1 bath on .2 acre, listed at **$399,900**. Agent: Ronald Woods, 856-428-9677.

On a sunny winter's day, I'm sitting in the kitchen of what used to be the suburban gold standard: a four-bedroom brick colonial with a two-car garage. This particular example, on Weadley

HADDONFIELD AND CHADDS FORD: COURTESY OF THE AGENTS

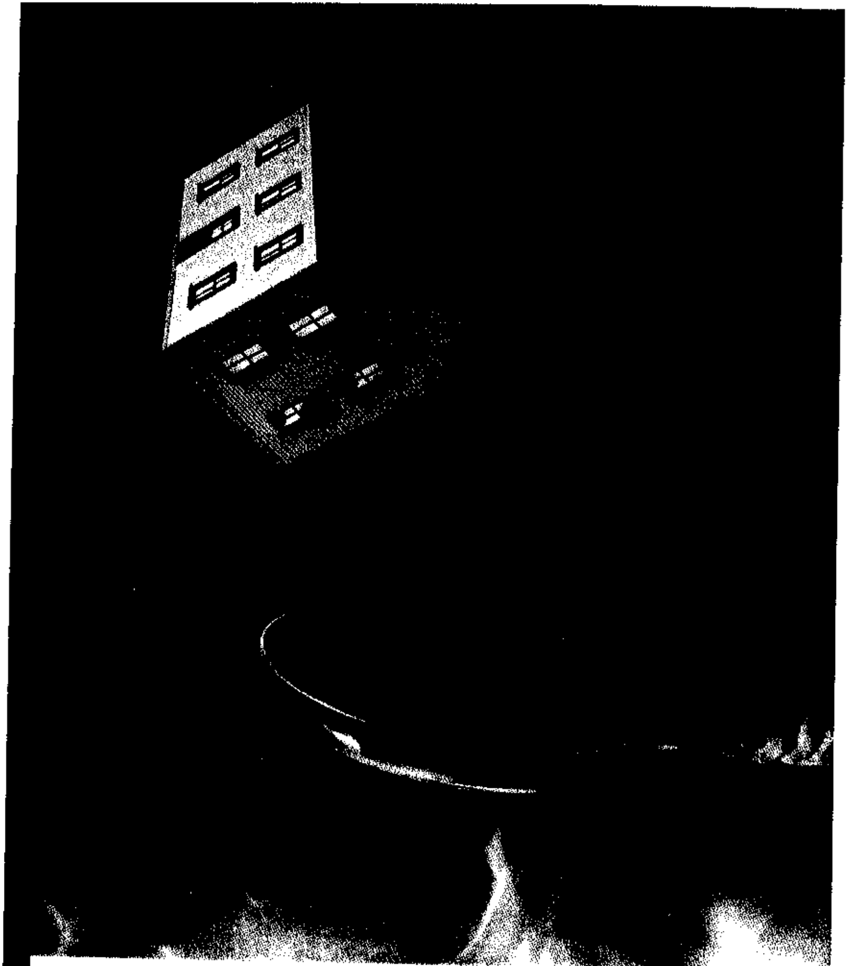
Road in Radnor, was built in 1970, and has been updated through the years. The price: $729,000. The listing agent is my agent, Sandy McAlaine, and she's holding a realtor's open house today to show it to fellow agents. I'm too late for lunch, but I do get to hear their predictions. They dismiss any fear of a housing bubble here—but they also admit that the market has changed. "It's leveled off," says Prudential agent Patti Ryan. "It's not the brisk market we had a year ago." And that spells trouble for sellers who want more than what their neighbor got last year: "The buyers recognize a slowed-down market long before the sellers do."

And it has slowed, that's for certain. In our 11-county region, more and more houses were languishing as 2005 progressed. In 2004, the average number of days on market was 22; last year it rose to 25, and the December average was 38—a week longer than the December '04 figure. Don't blame it on a lack of buyers—the number of SOLD signs going up matched seasonal norms throughout the year. Rather, it was the number of houses for sale that changed the equation. Active listings exceeded 40,000 every month from August through November, and by last New Year's Eve, there were 8,000 more properties for sale than in the previous December—a 27 percent increase.

That has resulted in a huge psychological shift. Buyers know they have the upper hand. They're taking their sweet time. Even if your house is priced right in this market, says Sandy, "It could be on for 30 days, 60 days. It could be. But not 90—it shouldn't sit for 90 days."

At that rate, we won't know whether Weadley Road is priced right until April. I do know, however, that it wasn't priced right for Dale Nelson. Nelson is a local contractor who buys houses on the side—if he can see an upside. He whizzes in and looks around, but sees no way to make improvements here and then tack on enough to make a 20 percent profit for himself. "I can't do anything with this," he says on his way out. "This should be $650,000."

"At the right price, every house sells," Sandy tells me. *(continued on page 134)*



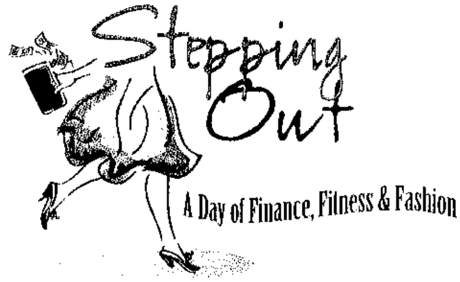
Where Do You Go From Here?

In this season of uncertainty, we asked financial, economic and property pros to tackle a bunch of real-world real estate scenarios. Their advice for everyone from nervous new owners to antsy empty nesters could help you protect your investment, too **By Kathleen Fifield**

Empty Nesters

Big house. Kids finally out of it. Prices still high. Is it time to cash in—even if we're not really ready for retirement?

Experts agree that selling the family homestead without having your next move mapped out isn't the ideal way to kick off retirement. As Glenn Meyer, a certified financial planner in Jenkintown, puts it, "This is a major lifestyle decision that requires significant research, including visiting possible retirement locations for extended periods. A terrible scenario would be if you sell your current residence, purchase your retirement home, and discover 18 months later that you made a mistake." Besides, you could be wrong about what the market will do. "Pundits don't know any more than the rest of us," Meyer says. "Don't base any real estate decision on what you read." Steven Savitz, owner of APM Real Estate in Center City, notes that *(continued on page 139)*



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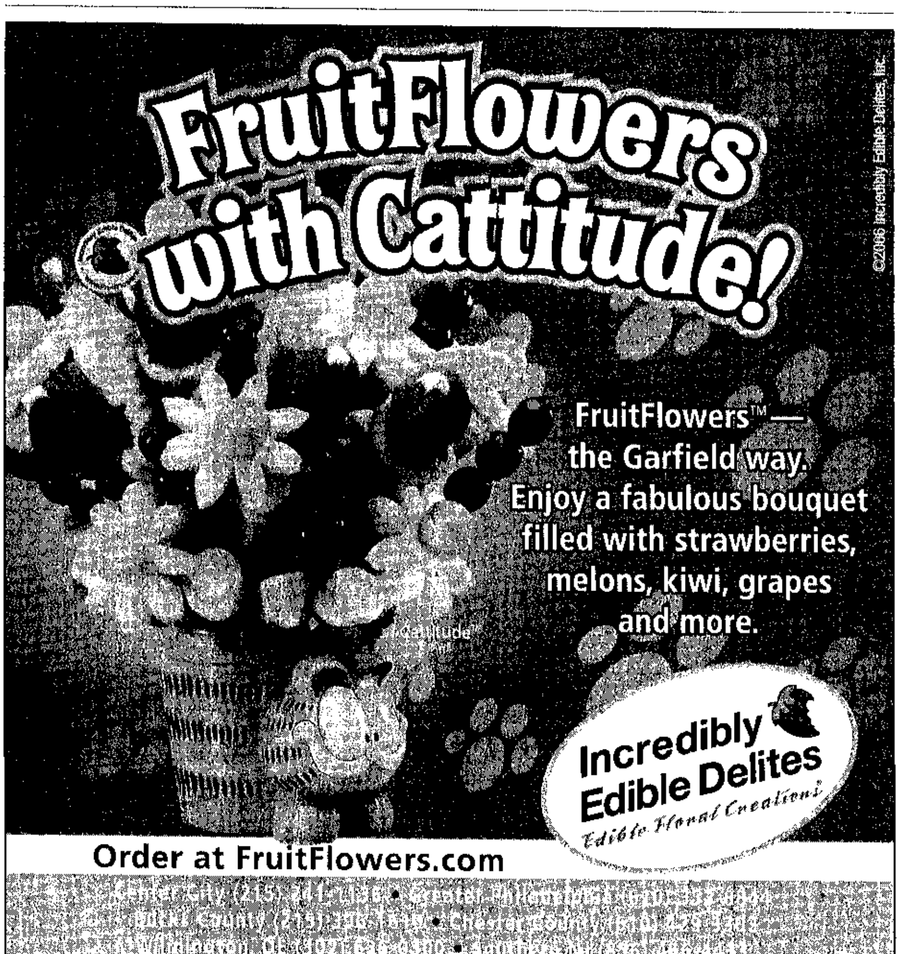

Price Anxiety

(continued from page 91)

In fact, she thinks you can't underprice your house: "As long as you multiple-list to the entire world, you'll get multiple bids," bringing it up to market value. The limit to her theory: She's assuming you have a desirable house in a desirable area, which is, frankly, all that she sells. But surely the greater danger in a buyer's market is overpricing your house. "If you start too high, you will lose in the end," she says. "If it sits on the market too long, people will think there's something wrong with it." You'll drop the price, and drop it again—and only low-ballers will stop by.

I watched a terrific house go down that path last fall. A standard four-bedroom colonial on Waterloo Road in Easttown, it had been lavishly remodeled with a new master bedroom suite and a stunning kitchen/great room. I lusted after that house. But it was $1,085,000. At least, that's where it started, at the end of June. It dropped to $939,000, then to $899,900, before finally selling at that price.

Similar fates may await many sellers who still have houses on the market this winter. In my area, there's a four-bedroom 1980s colonial on Ringneck Lane in Radnor that went on the market for $859,000 last July—and was still on in January for $739,000. On Llanelly Lane in Berwyn, the same kind of house started at $809,000 in October, and sat there at $779,000 in January. Also in Berwyn, a big six-year-old colonial in the Greens at Waynesborough was listed for $929,000 last June, and was still listed, but for $849,000, in January.

"A million dollars is still a million dollars," says RE/MAX agent John Collins. He thinks sellers this spring need to assume zero percent appreciation over the last comparable sale in the neighborhood. Zero is a good number. "The market isn't coming to you anymore," he says. "The smart people will price their house accordingly and get on with life." He mentions his listing on Weadley Road, an older home that started at $719,000 last summer. He convinced the sellers to drop the price to $699,000; showings "increased dramatically," he says. They went down to $674,000 before finally selling at $660,000. Ouch. "But you know what?" says Collins. "Those people are now in Michigan, enjoying their retirement."

Chester County's biggest price gain:

Newlin Twp.
↑ $192,678

2004 median: $622,675
2005 median: $815,353

Burlington County's biggest price gain:

Shamong Twp. ⬆ $101,164

2004 median: $303,725 2005 median: $404,889

WHAT THOSE BUCKS BUY:

A 4-bedroom with 2.5 baths on .71 acre in Deywood Lakes, listed at **$399,999**. Agent: Mike Carr, 856-596-0008.

I tell Collins about my six-week skinny-dip in the market last fall. If it had lots of showings but no offers, that means something was wrong with the house, he says. But what if nobody's even walking in the door?

"Listen to the silence," Collins tells me. "It means you're overpriced, pal."

Okay, okay. Note to self: Make it $799,000.

The fact that I live in a house that's worth so much is only a little embarrassing. For one thing, I've literally been waiting a lifetime for a moment like this. I bought my first house back in 1980: a brick twin in Allentown. I reluctantly paid $50,500, and rented out the bottom floor to help make the mortgage payments. I kept on buying and selling, mostly in what seemed like nice areas to live, and here I am. Let that be a lesson to all you young whippersnappers out there.

Secondly, it doesn't feel real. It feels like play money. Really, most of it is the bank's money that I get to play with. It isn't worth very much when I look at other houses, which are worth even more in play money. And none of it is real money unless I stop living in houses and decide to live in a cabin, which at this point is still a distant dream.

Actually, I'm sort of proud of the fact that my house is worth what it is. When I bought it, I thought, "There's an opportunity here," as my agent at the time put it. The place was ... let's just say it needed work. Furthermore, it had sold for nearly $500,000 when it was brand-new, back in 1991, but for a variety of boring reasons the housing appreciation of the 1990s pretty much bypassed its development, Sunwood Farm. In early 2003 I paid $600,000 for it, after a 12-hour settlement during which lawyers were called, and I won't dispute the allegation that I threw a pen at the wall. Now, after three years, tens of thousands of dollars in improvements, and weekends devoted to sweat equity, I want to move on.

Back in 2002, when I first started house-shopping just off the Main Line, I found that 600 grand could get a lot more house in places like East Pikeland and Westtown. A *lot* more house. The deck on this thing is bigger than some houses I've lived in. It's just a mile on the other side of Valley Forge National Historical Park. For the purposes of a real estate listing, I live in "Historic Valley Forge!" Actually, I live in Schuylkill Township, and my post office is Phoenixville.

Now, here's a conundrum of human nature. What delighted me as a buyer today makes me indignant as a seller. Why *can't* I get a Main Line price for this baby?

If I wait long enough, maybe I can. Fifteen years ago, Schuylkill Township was on the fringe of civilization. In 2006, the huge wave of development in the western suburbs has swept far beyond here, and is busy supplanting cornfields with housing tracts in townships that border Lancaster and Berks counties. For me, that's a good thing. I'm more in the thick of it. In the words of my Platinum Circle agent, Sandy: "Phoenixville used to be off the beaten track. And now it's part of the beaten track."

Phoenixville itself was a forgotten little borough for nearly a century. Suddenly it's showing signs of becoming cool. On the main drag, Bridge Street, the Colonial Theatre (where *The Blob* was filmed) is now a nonprofit art house. Our new local BYOB, Majolica, has a two-month wait for a Saturday-night reservation; an Iron Hill brewpub is coming this summer. Michael Ramondo is selling Harmonyville Blue for $18.99 a pound in his new shop, Cheese! Last June, the *Philadelphia Business Journal* ran the headline "From Steel to Steal," and made us sound like the Next Manayunk.

If that's the case, my house is worth $849,000, easy.

Montgomery County's biggest price gain:

Salford Twp. ⬆ $83,015

2004 median: $357,735
2005 median: $440,750

Price Anxiety

But before I get too greedy, let me find out, once and for all, whether there is indeed a housing bubble in Philly. As it so happens, one of the major data factories that can supply the answer is in West Chester. It's called Moody's Economy.com. Its staff compiles an Affordability Index for every metropolitan area in America. I call the company's housing economist, Celia Chen, to find out where Philly stands. Our index, as of last fall: 146. Translated: Those earning the median income hereabouts can afford 46 percent more than the median-priced home.

"Philadelphia is not an overpriced market," Celia tells me. It's nowhere near the overheated status of places like Los Angeles, New York, D.C. and, most of all, Florida. That said, our affordability is falling—but she's predicting a "very controlled slowing" of the local real estate market, with prices of existing homes NOT falling, oh no, but actually *growing* through 2008, at annual rates of eight percent, 2.4 percent and one percent going forward. This year's growth is deceivingly high, she says, "because a slowing in prices always lags behind a slowing in sales." Sellers need several months to get with the program.

Gloucester County's biggest price gain:

South Harrison Twp. ⬆ $94,225

2004 median: $295,294
2005 median: $389,519

That was comforting, but I wanted to hear it from her boss. Mark Zandi, Economy.com's chief economist, is one of the most-quoted real estate experts in America. The media can always count on him for a gloomy forecast. In a recent issue of *Fortune*, he utters the final mordant comment in the magazine's "Fear of Falling" real estate outlook: "Your house isn't worth as much as you think it is."

Fortunately, that doesn't apply to us. "Philadelphia hasn't been a through-the-roof market," Zandi says. He anticipates low-single-digit growth in prices over the next couple of years. He doesn't expect prices here to fall: "On some measures, Philadelphia is still undervalued." His one caveat: None of this applies to the Jersey Shore. "That market *is* through the roof," he says. "That *will* correct."

I still don't understand the major run-up in prices over the past few years.

"The price growth can be explained by good underpinnings," he says. Notably:

- Low mortgage rates.
- Favorable demographic trends that included high-octane household formation and immigration-fueled population growth (the U.S. will hit 300 million this year).
- Solid job growth and income growth.
- Housing prices that lagged behind that growth for nearly two decades.
- Lower transaction costs of homeownership—the fees tacked onto mortgages amounted to 2.5 percent of the loan 20 years ago, and now they're down to half a percent.
- Some "rational nesting," as he puts it, after 9/11, along with shifting of assets out of bank CDs and stocks.

Nationally, the markets that rose the most were being goosed by aggressive lenders, who were handing out interest-only loans like candy. But in the Philadelphia area, 95 percent of all mortgages are still good old-fashioned fixed-rate loans.

So if I buy that place in Willistown, where Zandi himself lives, and I pay in the low eights, I'll be okay?

"You'll do fine."

Ahhhh. I mention that I have to first sell a house in Phoenixville.

"I have a relative investing in Phoenixville. She's pretty astute."

Remind me again: Why am I moving?

Maybe I can't lose. If I can't sell my house this spring, I'll be investing in Greater Phoenixville—if only by default. And if I can sell, I'm back in the game again. So I think I'm going to shoot for $839,000. That is, if Sandy will let me.

In the end, I'll listen to Sandy. She sold $20 million last year. She's my Warrior Princess. I love her. And for God's sake, keep *that* to yourself. Just as soon as she gets back from Florida, we'll have a quiet chat.

Meanwhile, I'd better start looking at some of those places with tired decorating that are still on the market. I can still tackle that stuff. It keeps me humble. When I'm busy ripping out lavender toilets, I'm less likely to feel smug. You know, my 75 million fellow homeowners in this great country got $2.5 *trillion* richer on paper last year, and we are quite full of ourselves. If we have another couple of years like that, we'll be insufferable! We'll talk about nothing but real estate! So please pray for a thoroughly ho-hum spring market. That's right, a dull, dull season—for everybody but me.

Laurence Roy Stains, who directs the magazine sequence at Temple University's Department of Journalism, has been writing about real estate for *Philadelphia* magazine since 1986. (Though if he really gets $839,000, he might finally stop.) E-mail: mail@phillymag.com