

LOS ANGELES BUSINESS JOURNAL

August 7 - 13, 2006

Buyers Biding Time as Home Sales Plummet

By DEBORAH CROWE

Los Angeles County's once soaring housing market continued its descent in July toward what appears to be a bumpier landing than many had predicted. Sales volume took its biggest plunge yet this year and the median price dipped back to May's level.

The number of home sales fell 34 percent to 6,146 – the lowest number for July in at least three years. The figure was even 15 percent below January, typically a slow month due to the holidays, according to data provided to the Business Journal by HomeData Corp., a Melville, N. Y. company that tracks housing prices nationwide.

At the same time, the countywide median price of homes that sold – though 6.8 percent higher than a year ago – fell to \$550,000 from \$555,000 in June. Real estate agents say rising interest rates and lackluster appreciation not only are making prospective buyers cautious, but many now appear to be holding out for bargains, anticipating that nervous sellers may be ready to slash asking prices.

"Nobody wants to make a wrong decision," said **Syd Leibovitch, president of Rodeo Realty.** "But while the market is flattening, it's certainly not going down." Some real estate professionals anticipate sales will pick up later in the year, once the mortgage market absorbs the impact of successive Federal Reserve rate hikes, and if buyers on the sidelines come to believe that homes are unlikely to see the depreciations of the 1990s recession.

Of course, July's price drop from the previous month could be temporary – such dips in the median price have been seen at least twice in the last 12 months. However, other data suggest the slowdown may not relent.

Slowdown Spreads

Until July, monthly sales volume this year had ranged 17 to 24 percent lower than 2005's historic levels. But compared to earlier months with scattered pockets of sales declines, parts of nearly every corner of the county saw sales drop by a third or more.

Even one of the county's most desirable suburbs, Calabasas, saw July sales drop 67 percent to 22 homes, with the median price down 7 percent to \$1.2 million. Longtime Calabasas Realtor Heidi Adams, who had open houses at two \$1 million-plus homes on the last Sunday of the month, said interest rate worries and decreased affordability have amplified her area's chronically tight inventory to depress sales volume.

Adams, a Coldwell Banker Realtors agent, said a tougher sales market elsewhere in the county also is having an impact. Most of her buyers come from the East San Fernando Valley or the Westside, and when it becomes harder to sell their current home in a more competitive market, it complicates a new purchase in her city.

At the other end of the transaction, Adams increasingly has serious talks with clients who have unrealistic expectations about what their properties can sell for in this market.

"If the house is really emotional, with a great yard and a great view, it will sell for the asking price in 30 days," she said. "But for some properties I give it 30 days – 45 tops – and then I say, 'Guys, you've got to get real.'"

The California Association of Realtors estimates that as of June, homes in L.A. County were

staying on the market a median 35.9 days, compared to 22.4 days a year ago. That has had the effect of building up inventory levels to 6.4 months in the county in June, compared to just over two months a year ago. Six months is generally considered a balanced market for both buyers and sellers.

The slowdown appears especially acute in communities that saw healthy sales volume last year. In the north end of the county, July sales were down 80 percent in Newhall from a year ago, 77 percent in Santa Clarita's 91390 ZIP code, and 40 percent in Palmdale's 93550 ZIP code.

In the East San Fernando Valley, Studio City was down 52 percent and Van Nuys' 91401 ZIP code 65 percent. On the Westside, Brentwood was down 72 percent and West L.A. 62 percent.

Sales in five of Long Beach's 11 ZIPs were down more than 50 percent. Redondo Beach's 90278 ZIP code was off nearly 48 percent. San Pedro ZIP codes were down 46 to 50 percent.

Continued low affordability, along with the interest rate situation, are feeding a wait-and-see attitude, said Steven Thomas, president of Re/Max Real Estate Service's Southern California operations. The national average on a 30-year fixed-rate mortgage stood at 6.72 percent at the end of July, compared to 5.7 percent a year earlier. That hasn't helped a growing affordability problem that at the end of 2005 saw only 14 percent of households in the county able to buy a median price home of \$529,000, according to the state Realtor's association.

"First-time homebuyers may sit on the sidelines waiting for that big price drop, but that's just not in the tea leaves with the supply and demand situation here," Thomas said. "Homeowners looking to move up are in a different situation. They may be sitting on a mountain of equity, but what's holding them back is the realization that their new payments, and taxes, are going to be higher."

High End Rises, Low End Shrinks

Indeed, 37 ZIP codes in the county now have median prices above \$1 million, compared to 31 a year ago. At the low end of the market only 23 of the 268 ZIP codes in the county still have medians less than \$450,000, generally either in the inner city or the rural north, such as \$420,000 in Watts' 90002 and \$336,000 in Palmdale's 93550.

And in prime markets, prices seem to have their own logic. In Beverly Hills, fewer but pricier closings catapulted the iconic 90210 ZIP code to a median of \$2.85 million, a 76 percent increase and the county's highest median. The 10 homes sold were 63 percent fewer than a year ago.

Same story in Malibu, where the nine homes sold represented a 74 percent drop in volume but a 24 percent jump in median price to \$2.2 million.

Still, fewer sales don't always translate into higher prices. Los Feliz's trendy 90027 ZIP fell out of the million-dollar club last month, with its median falling 24 percent to \$895,000 on 19 sales, 37 percent fewer than a year ago.

"At the high end, most people have holding power," said Rodeo's Leibovitch. "They're not desperate. People may read that the bottom's fallen out of the market and make offers that are really low, but then they don't get the house."