

# High-End Housing in Recovery



By Harlan Green

In February this year, sales for homes priced at \$1 million or more increased 38 percent nationwide from a year ago, according to the National Association of Realtors. The Northeast is up 49 percent alone, while the West is up nearly 35 percent. "What's creating the high end 'boom' is a trifecta of lower interest rates, bank lending and consumer confidence", says CNBC's Diana Olick.

The financing of so-called jumbo mortgages are staging a revival — \$2-3million mortgage rates have declined below 6 percent. The 5-year fixed rate ARM that becomes adjustable for the last 25 years of its term has been hovering around 5 percent of late.

"We're seeing a revival in the high-end housing market," said Lawrence Yun, chief economist at the National Association of Realtors (NAR). "It was so depressed, particularly last year, but it's really improved. There's much greater sales activity on upper end homes now."

Contracts for pending sales of previously owned homes also unexpectedly rose in February, said the NAR, a rise the group said may be attributed to home buyers taking advantage of the soon-to-expire tax credit. The Realtors said its Pending Home Sales Index, based on contracts signed in February, rose 8.2 percent to 97.6 from a downwardly revised 90.2 in January, and is up 17 percent from last February.

"We're hearing about a rise of activity in recent weeks with ongoing reports of multiple offers in more markets, so the March data could demonstrate additional improvement from buyers responding to the tax credit,"

said Lawrence Yun, NAR chief economist. First-time home buyers who sign a contract before the end of April, and close the transaction before the end of June, are eligible to receive \$8,000 from the government.

Vacation homes are also staging a comeback, thanks largely to retiring baby boomers. NAR's 2010 Investment and Home Buyers Survey, covering existing- and new-home transactions in 2009, shows vacation-home sales rose 7.9 percent to 553,000 last year from 513,000 in 2008, while investment-home sales fell 15.9 percent to 940,000 in 2009 from 1.12 million in 2008. Primary residence sales rose 7.1 percent to 4.04 million in 2009 from 3.77 million in 2008.

The NAR's Yun said, "The typical vacation-home buyer is making a lifestyle choice, with nine out of 10 saying they intend to use the property for vacations or as a family retreat," he said. "Investment buyers primarily seek rental income, with six in 10 planning to rent to others, although one in five wants a family member, friend or relative to use the home."

"Only one in four vacation-home buyers plan to rent their properties to others, while one in five investment buyers plan to use their homes for vacations or as a family retreat. However, 26 percent of vacation-home buyers and 8 percent of investment buyers intend to use the property as a primary residence in the future."

The market share of homes purchased for investment was 17 percent in 2009, down from 21 percent in 2008, while the vacation-home share rose a percentage point to 10 percent. The total share of second homes declined from 30 percent of sales in 2008 to 27 percent last year. "First-time buyers were at record levels in 2009 with fewer sales of

second homes," Yun said.

This may be because vacation home prices are holding up, whereas investment properties are not, in part because of higher rental vacancies and declining rental rates. The median transaction price of a vacation home was \$169,000 in 2009, compared

with \$150,000 in 2008. "The higher vacation home price may reflect increased sales in higher priced markets, particularly in areas of Florida and California where prices became highly attractive for buyers over the past

Continued on Page E-25

## The New Rules of Buying

In her new book "Buy, Close, Move In!" (Harper, 2010), Ilyce Glink outlines six New Rules for buying a home in today's market:

**No. 1:** Understand the relationship between income and house price

Look beyond your income when buying a house; you also have to assess the incomes of homeowners in the neighborhood of choice, which will help determine where the housing prices in the area are going.

**No. 2:** Learn to forecast your income

As a potential homeowner, you must consider all possibilities when it comes to your income. It may rise, but it also may stay flat.

**No. 3:** Buy your house as a home to be lived in, not an asset to be leveraged

Your home may not enjoy any appreciation over the next five to 10 years, so make sure when you buy your home, you'll enjoy living there.

**No. 4:** Focus on income if you want to invest in real estate

It's important to focus on how much income an investment property will generate, and not solely on price appreciation or the tax loss you'll generate from depreciation.

**No. 5:** Rethink the concept of location

Over the next few years, it may not pay to be a traditional real estate pioneer, settling in a new or regenerating neighborhood with the expectation of outsized returns at sale. Rather, pick those close-in neighborhoods that will see their return and grow more quickly.

**No. 6:** Know that all new construction is not created equal

It may not make financial sense to pay a higher price for a nearly new home rather than paying much less for an existing home that can be fixed up.

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