

Hot Homes Get Cold

In Once-Booming Markets
Such as the Florida Coast,
Housing Sales Languish

By MICHAEL CORKERY

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MIAMI -- Todd Linsley, a 37-year-old investor, bought a three-bedroom house in Stuart, Fla., for about \$318,000 in late 2005. His original plan was to quickly flip the property -- which is in a new housing development about 40 miles north of West Palm Beach -- by selling it for as high as \$425,000. But when he saw that the market was turning, he decided list the home for \$379,900. It's been on the market since early January with no takers.

Mr. Linsley says home builders keep discounting unsold houses in the neighborhood -- sometimes axing as much as \$100,000 off the original asking price. He says he can't afford to go that low. "If I got in a jam I would have to drop the price, but I am not at that point," he says.

So now he's renting his investment house out for \$1,000 a month, while paying a \$2,045 monthly mortgage and a \$108 monthly homeowner's association fee. "My Plan B was always to rent it out. I am not going to lose my shirt," says Mr. Linsley, a salesman for a medical-products company.

Mr. Linsley is far from the only housing-market investor who has been forced to go to Plan B in recent months. Many cities that experienced fast run-ups in home prices during the past five years are now seeing sales cool the fastest.

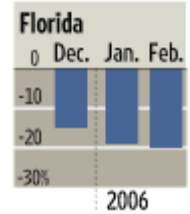
Homes that just last year were selling so rapidly that they stayed on the market for just days or even hours -- condominiums on the Florida coastline, desert haciendas in California and Arizona, town houses in Washington, D.C. -- are now languishing without buyers or even prospects. Many once-booming markets are seeing double-digit declines in sales.

Home sales have been slowing for several months, but real-estate agents in some of these formerly red-hot markets have been surprised at how suddenly market conditions have deteriorated in the past few months. The Florida Association of Realtors reported recently that sales of existing single-family homes were down about 20% in February when compared to the same month a year ago -- and they were off as much as 47% in Naples. In California, sales dropped 15% in February compared with last year, led by a 30% decline in Sacramento, according to the California Association of Realtors. February

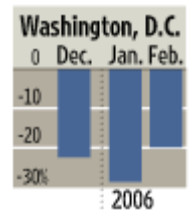
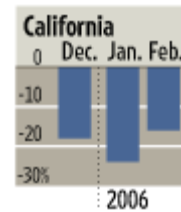
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Hot Spots

Changes in the number of homes sold from same period last year



April



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sales were off year over year by about 19% in Washington, D.C., and down about 25% in and around Phoenix.

Nationally, housing sales are a mixed picture. While nationwide sales of existing homes increased 5.2% from January to February on a seasonably adjusted basis, new-home sales dropped 10.5%. Right now, economists say the housing market will have only a modest negative impact on the overall economy, which has been robust. They note that while sales are slackening, they aren't collapsing -- they are, in many cases, simply settling into a normal market pace. Inventories are rising but they haven't reached an alarming amount. And while demand for homes is easing off in markets that previously sizzled, they are posting gains in cities where prices are still considered bargains, including Indianapolis, Albuquerque, N.M., and Houston.

But for cities like Fort Lauderdale, Fla., Phoenix and San Diego, the dropoff in sales and rising supply of homes on the market could soon put downward pressure on prices.

"In some places prices might fall. In others, price gains will slow," says David Berson, chief economist at Fannie Mae, the mortgage-finance company. The price gains over the past five years, which caused home values to double in many of the hottest markets, "were not sustainable," he says.

The current slowdown reflects three broad trends, according to real-estate agents and economists. One of the most important is that many speculators have started to dump homes that were purchased as investments. In addition, high prices and rising interest rates have reduced affordability for middle-class families. Finally, the intensity of recent hurricanes has prompted potential buyers of second homes to pull back in places like Florida. Some even blame media coverage that has warned of a possible downturn for triggering a real downturn.

Nowhere are these trends more vivid than in Florida. There were more building permits issued for single-family and multi-family homes in Florida last year than in any other state, according to the National Association of Home Builders. Five of the 10 metropolitan areas with the strongest one-year price appreciation last year were in Florida, the Office of Federal Housing Enterprise Oversight reports.

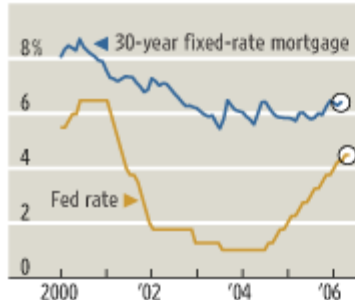
"You could consider Florida to be ground zero for the housing market," says Mark Zandi, chief economist at Moody's Economy.com, an economic consulting firm in West Chester, Pa. He says the factors that caused the housing market to overheat nationwide -- such as "creative financing" offered to credit-risky buyers -- were exacerbated in Florida. "There were more lenders, more realtors, more foreign investors," than anyplace else, he says.

How investors react will have a big impact on how Florida's correction will unfold. According to San Francisco-based LoanPerformance, which tracks mortgages nationwide, 15% of Florida homes last year were purchased by investors, the most of any state. Investors are also critical, economists say, because in a slowing market they could be quicker to drop their prices to cut their losses than typical homeowners.

A Window Into the Housing Market

As interest rates rise...

Average rate for a 30-year mortgage vs. the federal funds target rate



Buyers think twice...

Existing-home sales, seasonally adjusted at an annual rate



Supply rises...

Number of homes on the market, seasonally adjusted



And prices start to level off

The median price of a single-family home, in 2006 dollars



Sources: National Association of Realtors; HSH Associates; Economy.com; Thomson Financial; Labor Department

Speculative buying helped drive up prices in many Florida cities and shut out many nonspeculative buyers. Recent upticks in interest rates have put homeownership even further out of reach.

To be sure, the slowing in Florida could prove to be temporary. The state remains one of the fastest growing in the nation. It's growing, on average, by 1,000 people a day. Florida's economy is relatively strong and it continues to create new jobs. And while many Florida cities are seeing declines in sales, a smaller group of Florida markets is holding steady. Sales in Jacksonville were essentially unchanged in February year over year, and they were up in Tallahassee. But in many other parts of the state "things have slowed to a crawl," says Mike Morgan, a broker in Stuart, Fla.

Another factor that may be affecting

sales is the appearance of some investor-dominated housing developments, some of which were built with minimal landscaping next to highways, cemeteries and mobile-home parks. Several of the housing developments snapped up by investors now look like ghost towns, with "For Sale" or "For Rent" signs in many windows. In some cases, the builders "were building for investors, not for homeowners," says Mr. Morgan, who is trying to resell several investor-owned homes with mixed success.

About a year ago, when the market was stronger, Mr. Morgan sold homes to several out-of-state investors, who never saw the property in person. "It's really no different from the dot-com [bust]," Mr. Morgan says. "The people who bought the [low-quality homes] got clobbered." He says he refused to sell poor-quality homes to his clients. "If I didn't have any ethics, I could have made a million dollars last year."

The swelling supply of condominiums is also causing concern. In Miami-Dade County alone, there are roughly 70,000 new condos either under construction or nearing construction, and an additional 25,000 units that have been announced but don't have final approval, says Michael Cannon, managing director at Integra Realty Resources-south Florida, which analyzes the local market.

"We believe that the condo market is more distressed," says Hank Fishkind, principal at Orlando-based Fishkind & Associates, an economic and financial consultant. "We are seeing a mismatch in timing. The projects started two years ago -- the delivery is accelerating, while closings are slowing."

Adding to that supply are the rental apartments that have been converted into condominiums. Mr. Cannon says roughly 150,000 rental apartments in South Florida have been converted or have begun to be converted to condos in recent years. Typically, the condo converter buys the rental unit, renovates it and then sells it to an individual, often an investor.

Paul Zani, an investor, is trying to resell two converted units he purchased in Orlando. He bought one condo unit in November for \$137,000 and had it listed for \$185,000; he bought the other for \$147,000 and it was listed for \$195,000. But he's been unable to resell either one. "We will probably come down on the price," says Mr. Zani, who lives in Nashville, Tenn. Some pockets of the condo market may fare better than others. Mr. Cannon says parts of Miami's downtown business district and the area north of downtown, which aren't directly on the ocean, "have the signs of being overbuilt. The jury is still out. We have to wait until they are completed," he says. Meantime, John Warsing, a broker of high-end Miami-area condos at Turnberry International Realty in Aventura, Fla., says "anything oceanfront is going to be fine," in part because well-heeled consumers from across the world are attracted to buying oceanfront property.

Other problems are rattling Florida's market. Home-insurance costs are rising, after the active hurricane season of the past few years. And real-estate agents say some homeowners are spooked by the storms themselves.

"A lot of people have that view of New Orleans in their minds and they are getting nervous. They are putting houses on the market," says Melissa Watkins, a sales agent with Michael Saunders & Co., near Sarasota. "They are not living here full time and [their home] is an investment. They want to pull their money out and hold on it."

Ms. Watkins says sales are slow, inventory is rising and listing prices are being reduced slightly. She says one recent deal almost fell through at the last minute when the buyer balked at the insurance premiums on a high-end, waterfront home.

Some Floridians blame the media and even Wall Street for scaring people away. Mr. Linsley recalled a headline in a local paper declaring that the local housing market was overvalued. The headline type was so bold that it looked as if the nation had just declared war. "The media is killing the investors," Mr. Linsley says.

Despite the current turmoil, some Floridians remain bullish, including Stuart Miller, the chief executive officer of Miami-based Lennar, one of the largest home builders in the U.S. But Mr. Morgan, the broker, says for him the market has slowed considerably. He wrote in an email late last week that "we went three days this week with not a single showing. That's incredible. I have 35 listings. We usually get 2-6 showings a day....I

received more desperate calls from sellers than ever. One lady broke down into tears. Her husband bought two investment properties, and they are now going to lose their 'life savings' if they sell the homes in today's market."