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As speculators go, so goes area housing market

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The future of metropolitan Phoenix's housing market comes down to investors. Again.

These speculative home buyers hyperinflated prices in 2005 by at least 25 percent with their purchasing sprees, new research shows. And what they do this year will determine whether the Valley's housing market sags, keeps climbing or stabilizes.

Forecasts call for everything from a 10 percent increase in Valley home prices to a 10 to 15 percent drop.

"In a normal housing market without the froth that investors brought, Valley home prices wouldn't have climbed nearly as high," said Jay Butler, director of the Arizona Real Estate Center at Arizona State University Polytechnic. His research indicates that the median price for an existing home would have likely hit a high of \$205,000 last year, rather than the \$263,000 it peaked at in September.

Population and job growth have been the key indicators of metro Phoenix's economic growth in the past, but this year, what home investors do will be another important trend. Because housing is the Valley's biggest industry, the area's economic growth will slow if housing does.

"Phoenix is going to burn off some investors during the first half of this year," said John Burns, a national real estate consultant. "We will see how many investors can't hang on and need to sell. As long as a bunch don't start dumping, the market will be all right."

Investors accounted for at least 25 percent of all Valley home buyers last year, according to property records and real estate agent reports.

But some economists think the figure is even higher. Frank Nothaft, chief economist for mortgage giant Freddie Mac, said investors accounted for 30 to 35 percent of all home sales in metro Phoenix last year. Nationally, the rate was 23 percent. Las Vegas, where investors have started to pull out and cause home prices to dip in some new neighborhoods, had a higher rate than the Valley.

If investors slash home prices to sell, there will be pressure on all Valley home prices. A glut of houses on the market also will cut into demand for new homes, which will affect building and construction jobs.

As home prices have flattened, many investors have tried to find renters instead of buyers for their properties. If people keep moving to the Valley as projected, most investors should be able to find people to lease their homes.

A slowdown in home-price increases isn't necessarily bad because it keeps metro Phoenix from following California cities such as San Diego and San Francisco, which are losing jobs and residents because of high housing costs.

Most market watchers believe the most-speculative investors have already cashed

out of metro Phoenix's housing market, moving on in search of the next big deal. The number of home buyers acknowledging that they are buying houses as investments fell in December. The percentage of new homes selling to investors dropped from a high of 11 percent last January to 5 percent at the end of the year, according to the Information Market, a Phoenix-based data firm. About 18 percent of all used homes were selling to investors in December, compared with a high of 20 percent in September.

Last spring, at the peak of the investor frenzy in the Valley, home sellers were getting multiple offers, and many were above appraised values. First-time buyers, fearing prices would keep climbing, jumped in and used all types of creative mortgages to afford a home. Homes priced right were selling in days.

Then, late last summer, the frenzy started to subside as investors began to sell. Deals for overpriced homes began to fall through as some investors started looking to other regions for affordable homes with big appreciation potential or they abandoned real estate altogether in favor of the stock market.

Valley home listings have climbed from a low of about 6,000 in February to 30,000 now. Prices dipped in some areas late last year as the number of homes for sale rose. Now, it's taking at least 10 days longer for houses to sell than it did a year ago.

As investors cash out of the housing market, it could slow even more, according to a forecast this month at the National Association of Home Builders conference in Orlando.

Not all investors are the stereotypical out-of-state buyer purchasing three or four Valley homes with small down payments all at once, often without even seeing them. Many locals tapped equity in their own homes to buy others, often using interest-only or other adjustable-rate mortgages. Other investors bought one home to live in but counted on the property to appreciate quickly so they could sell.

"Speculators bid up home prices beyond economic fundamentals," said Marshall Vest, an economist and director with the Economic and Business Research Center at the University of Arizona's Eller College of Management. "Long-term investors don't bring that type of problem because their purchases aren't as volatile."

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