

WOOD ACRES!

A Real Estate Letter from Matthew Maury of Stuart and Maury Realtors

November, 2007

Dear Wood Acres Area Resident,

Since the inception of this letter in 1980, I have committed myself to one overriding philosophy: a frank and honest discussion about what is really happening in the real estate market surrounding Wood Acres. I pride myself on not sugarcoating the truth. When interest rates were over 15% in the early '80's, I told you how hard it was to sell a house and why. When the market exploded in the mid to late '80's, I told you how fast your home was accelerating in value, and why. When prices went down a touch and then stalled for almost eight years from 1989 to 1997, I was there with explanations for what was happening around us. We shared the astounding increase in prices from 1999 to 2005 together. Throughout all these markets, up/down and sideways, I made sure that you got it straight. This is one of the more difficult letters I have had to write in years in large part because an assessment of what is going on "right now" has never been more elusive.



In large part, this letter is "fact based." So let's examine what we *know* first:

Fact #1) While the "mortgage mess"-oops, I mean "meltdown", (much more dramatic!) seeped into the public consciousness in the early Spring of 2007, it exploded on August 1, 2007. The perfect storm of slightly rising interest rates, falling prices (nationwide, not Bethesda), increased default rates on sub-prime mortgages (nationwide, not Bethesda), and a panicked credit market all aligned at once. Suddenly, homeowners in trouble paying their mortgage were facing an adjustment upward in their interest rate at the exact same time tightening credit standards made it impossible to refinance their current mortgage. These same buyers couldn't sell their home to get out from under their obligation because of the slower market. Caught between a rock and a hard place, many have defaulted on their loans, reducing confidence in the underlying banking institutions and the entire process of packaging loans into securities to be bought and sold on the open market.

It is this process which replenishes mortgage money and keeps everything moving. Is it fair to say that parts of this "process" were ill-conceived? Honest answer: an unequivocal "yes." It was just ridiculous how easy it was to borrow massive sums of money with little evidence of the ability to repay. In this sense, the tightening standards are a plus and long overdue.

Fact #2) The market HAS been slower since August 1st. By contrast in July, just two weeks before this crisis developed, I listed two homes in Wood Acres, one on Milo Dr. for \$819,000 and one on Cobalt Rd. for \$949,000. Both of these homes sold within seven days at very good prices. There was multiple interest in both of them. They were correctly

priced and met a definite need in the marketplace. We had serious buyers for them from day one.

In May of this year, a home on Welborn Dr. was listed for \$869,900. It was taken off the market on November 6th, after being for sale over 150 days. It was reduced three times and was priced at \$819,000 when it went off the market. Along the way, the owners installed a brand new master bath and repainted as well. Is this home the “canary in the mineshaft?” Is it indicative of the difficulties we face in the marketplace or are its struggles related to its own specific weaknesses? These are difficult questions with no clear answers.

Fact #3) Only two homes have come on the market in Wood Acres since my two listings in late July. Last week, the home we sold for \$955,000 on Cobalt in August was put back up for sale by the new owner for \$989,000. They are having trouble selling their previous home in Westwood on Albia Rd. In October, I also sold the home at 6209 Mass. Ave. for \$728,000, with a \$14,000 closing cost credit reducing the effective net to \$714,000. This was an excellent sale and was an encouraging development.

For the year, there have been only 11 homes sold in Wood Acres. By comparison, in 2006 there were 22 sales (twice as many). We have averaged 23 Wood Acres sales a year over the past five years. In fact, if we stay at 11 sales for 2007, it will be the lowest number of homes sold in Wood Acres since 1980

Why is this? **I would surmise that major life decisions have been put on hold.** After all, the media has had a field day telling you how bad it is, right? The headlines read, “Foreclosures Hit All Time High”. That’ll grab your eyeballs now won’t it? It’s a great story, full of villains and victims. It makes for great copy. But the media has failed miserably to put it in perspective. That job will fall to me. Read on.

Fact #4) On August 1st, 2007, the 1 year Treasury Security Index stood at 4.88%. This is the Index that, in large part, determines long term fixed rates mortgages. Today, at this mid-November writing, the Index stands at 4.22%. That’s right, interest rates have dropped, quite a bit. Rates are now about a half percent *lower* than they were when all this trouble started, and quite a bit lower than a year ago, when the Index stood at 4.78%. Be honest, did you know this? Most people don’t follow it day to day, but when the media tells you over and over again that NOW is not a good time to be in the real estate market, it would be fair to assume that interest rates must not be good right now. Actually, rates are terrific. In fact, from a rate perspective, now is about as good as it has been all year! There is actually a significant opportunity presenting itself right now: rates down, prices soft, sellers flexible. A recent area real estate newsletter pegged fixed rate Jumbo 30-year loans at 7%. This was inaccurate, the rate at this writing is now 6.625% and no points (**source: Steve Jacobs/FNMC Mortgage 202-491-7601**)

Fact #5) Jumbo mortgage money is plentiful and completely and fully available to buyers with good credit, assets and reasonable ancillary debt. People ask me, “can you even GET a Jumbo loan right now?” Jumbo money was re-priced absurdly for about 10 days in early August. Since then, sanity has returned and banking institutions have plenty of reasonably priced money to lend. If you have no income and want to lie on your application, it’s no longer easy. If you have bad credit, it’s no longer easy. If you have crushing debt commitments to other parts of your life, it’s no longer easy. Nor should it be.

Fact #6) The foreclosure rate in our area of Bethesda is almost non-existent. Nationwide, about 14% of mortgages are apparently sub-prime, and about 15% to 20% of *those* loans are defaulting. This is not a hard math equation. About **2%-3%** of mortgages *nationwide* are in default. Well, would it be worth noting that **98% OF MORTGAGES ARE NOT IN DEFAULT?** And defaults are significantly lower in our area. We are in a sub-area of solid employment, superb credit, substantial reserve assets and an insulated economy that swirls around both the federal government, a burgeoning Homeland Security culture and a roaring tech sector. These factors combine to make our Bethesda/Chevy Chase region one of the safest and most protected real estate markets in the country. How many “Special Reports” have you seen from Chris Gordon of Channel 4 giving this perspective? I don’t doubt for a minute that the mortgage foreclosures are going to get worse before they get better nationwide. Whatever they were thinking in Las Vegas, it wasn’t exactly wise. Rampant new condo speculation in Miami didn’t work out too well either. And yes, some builders and remodelers in Bethesda are not going to be too happy either. However, this is still a small part of the market.

Fact #7) In **2006**, 487 homes were listed for sale in September and October in the Bethesda/Chevy Chase area. 123 of them went under contract, about 25%. In 2007, during the same time period, 393 were put up for sale and 85, or 21% went under contract. This is a pretty subtle change and an indication of two things. One, notice that 20% *fewer* homes came up for sale during this period in 2007. I would speculate that this is because homeowners believed that “now” was not a good time to try to sell. The actual absorption rate of 21% was pretty close to what it was the previous year, an indication that the market is really not all that different. It’s the perception of the public that is different.

In the 20816 zip code the numbers are even more stark. Homes put up for sale in Sept/Oct of 2007 are down to 47 from 73 in the year before, a dramatic 36% decrease in inventory. However, the number of homes that sold upon coming on the market is almost exactly the same as the previous year, with 34% (16) of the 47 homes that came on the market going under contract. This tells me that part of our market problem is a lack of inventory. Perhaps this is because a buyer is often a seller too. Maybe you locate and identify the home you would like to buy, but you are worried about getting your home sold. So you freeze and do nothing right now. This impacts the market twice, you didn’t buy and you didn’t sell. I believe that if we had more quality product to offer, we could get more buyers excited.

You might find it interesting to note that in the racehorse year of 2005, **54%** of the homes listed in Sept/Oct in the 20816 zip code went under contract during those two months.

Fact #8) There are lots of buyers out there who figure that prices are going to fall. They seem to be skilled enough to “time” the market. I have asked many of them to please give me stock advice as well, as I had always been told you can’t “time” the market but apparently, these folks think they can! No one knows where the bottom is, or if it has already past. I see buyers at open houses who are still trying to “time the market” from 2000. They never bought a house. They are still waiting for prices to

decline! The inventory numbers above indicate that we do NOT have a glut of homes for sale – not in Wood Acres, not in the 20816 zip code, and frankly, not in Bethesda. Certain sectors are overbuilt. Too many \$1,800,000+ new homes were built in the last five years. These financial escapades were hatched 18 to 24 months ago when the market was healthier. Thus, there are some very, very good buys taking place in our zip code at the top end of the market. A home built on Onondaga Rd. in High Point, originally asking \$2,400,000, sold for \$1,800,000. A home on Walhonding Rd., originally asking \$2,350,000, sold for \$1,800,000. This is the sector of the marketplace that has been weak, a classic function of supply and demand. However, I challenge you to tell me how many homes are for sale in our zip code right now that are not on a busy road and priced under a million dollars. The surprising answer is SIX. Contrasting this, there are eleven homes built in the last five years now on the market in our zip code, all of them with an asking price over \$1,649,000 in asking price.

Prices are not likely to drop when the number of available homes is low. I'll be the first to admit however that this is not what buyers are telling me. After years of being pushed around by sellers, buyers now seem to be relishing their turn in the drivers seat. They feel they are few in number and empowered. Fueled by a more than willing media, buyers are flat out tough right now. Buyers need to focus more on finding a good house at a price they can afford and a lot less on what *might* happen to the marketplace in the future. After all, purchasers should be planning to live in the house for a long time, and if they are thinking of owning a home for only a year or two, they probably shouldn't be purchasing a house.

Fact #9. Almost inexplicably, the community of Westmoreland Hills/Overlook has quietly posted NINE pending or settled sales in the last 60 days. Take a look at what has transpired in just the last two months in this nearby community:

	<u>Original List Price</u>	<u>Final Sales Price</u>
1) 5411 Duvall Dr.	\$1,865,000	pending
2) 5323 Carvel Rd.	\$1,725,000	\$1,600,000
3) 4502 Boxwood Rd.	\$1,450,000	pending
4) 5205 Falmouth Rd.	\$1,399,000	pending
5) 4400 Chalfont Place	\$1,375,000	\$1,355,000
6) 5212 Farrington Rd.	\$1,299,999	pending
7) 4303 Torchlight Circle+	\$1,495,000	\$1,260,000
8) 5306 Elliott Rd.	\$1,275,000	pending
9) 5103 Duvall Dr.	\$1,195,000	\$1,130,000

+ Matthew Maury listed this property.

Lest you think that nothing is selling, there are actually 19 homes in our zip code currently pending settlement. This is an impressive number in an environment in which so many assume there is nothing happening. The above list from Westmoreland Hills is encouraging in part because its price point is so clearly a “move-up” range. All seven sales have taken place since the media proclaimed a “meltdown” too. Contrasting this, there are

only two homes for sale in Sumner, one house for sale in Springfield and one house for sale in Wood Acres.

Here's the point. The 32nd President had it right, "fear" can be a powerful influence. The soaring price of oil right now is tied to fears of a potential conflict with Iran. We live in fear of terrorism, stock market fluctuations, climate change, Bird Flu, staph infections and on and on and on. I would suggest we need to get a grip. We talk in our office quite often about the "slingshot" effect. Whenever the market slows down, a pent up demand develops. Buyers delay decisions, sellers take their homes off the market or don't come on the market. But these aspirations don't disappear, they are simply delayed. I would suspect that if interest rates continue to fall or stabilize in the current 6-6.5% range, the market will recover quite nicely with the first forsythia in 2008.

Meanwhile, I will be here. I simply get up every morning and try to help people and, at the end of the year, when it's added up, my experience and commitment endure. I have been the #1 real estate agent in the 20816 zip code for 23 years in a row. I will be the #1 agent again in 2007. When the time is right for you, I will be here. As Zeppelin said, "Good times, bad times, you know I've had my share."

Let's talk about another recent development in Wood Acres. The new home at 5906 Wiltshire Dr. is nearing completion. This is the first new home to be built in Wood Acres since the Avalon Dr./Ct. homes were completed in the early '80's. The strict and vigilant covenant enforcement of Wood Acres has successfully avoided the widespread teardown phenomenon which spread like wild fire throughout Bethesda in the last 10 years. The Wiltshire case is unique in that this was an "out-lot", not a teardown. I think many of us were skeptical that a home could be built on that lot, or that it could turnout positively. I would like to give public credit to both the builder and the covenant committee, especially Joe Ruocco. Joe is a valuable community asset, tirelessly and effectively defending the application of the covenants throughout Wood Acres. It is my understanding that the builder, who bought the lot for a remarkably reasonable \$425,000, sold the lot to the new owners, who were family members of the builder, for \$535,000 and the home was then built for the new owners.

This turned out to be a positive development for Wood Acres. It allowed the covenant committee to work more closely with the builder. The mission of the covenant committee and the Wood Acres Board was to ensure that a home, reasonably in keeping with the architectural style of the community, was built. I believe they succeeded in this mission. The size of the windows, the brick exterior on three sides, and the roof lines of the home are all well in keeping with the harmony of the original Wood Acres architecture. Is it a bigger house than the original homes? Of course, that was to be expected. In fact, the original first draft proposal was a full five feet higher! But all in all, I think the Wiltshire home blends into the hill much better than many of us feared. When landscaped, it should be well in keeping with the spirit of the community.

This would have been much, much harder to achieve if the builder was building the home speculatively. Take a drive throughout Bethesda and look at new homes, they have little to do with traditional colonial style. Most builders, left to their own devices, would have built an Arts and Crafts home on this lot and it would have been jarringly incongruous with the rest of the community. Let's give credit where it is due, the hard work of Joe and his committee, the builder, and the wonderful young family set to move into the property, all worked together to make this work. Good for them.

Here's a quick look at the Wood Acres sales since my last newsletter in June:

		Original/List Price	Final Sales Price
1)	5703 Gloster Rd.^	\$1,039,000	\$1,086,150
2)	5905 Cranston Rd.*	\$989,000	\$995,000
3)	6303 Newburn Dr.^	\$875,000	\$880,000
4)	6005 Cobalt Rd.*	\$949,900	\$955,000
5)	6002 Milo Dr.*	\$819,000	\$809,000
6)	6209 Mass. Ave.*	\$749,000	\$728,000 (-14K)

*Matthew Maury/Stuart and Maury sales

^Bob Jenets/Stuart and Maury sales

(yes, we sold ALL of them)

We are headed for an all-time record average sales price in Wood Acres this year. Interest rates are drifting lower and are very attractive. It will come more clear very soon that Bethesda is not experiencing any sort of foreclosure "meltdown." Remain optimistic and keep on dreaming about the future, things will be fine.

Sincerely,

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Principal Broker
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Matthew Maury: The #1 real estate agent in the 20816 zip code, 23 years in a row