

SPRINGFIELD!

Westwood/Beacon Hill

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

November, 2007

Dear Springfield/Westwood 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 the Springfield area. 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. The current environment is not clear. There can be no black and white definition at this November '07 writing. It's all a murky, cloudy gray.



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 late July, just two weeks before this crisis developed, I listed three homes. One in Springfield on

Jordan Rd. and two in Wood Acres. There was multiple interest in all three houses . They were correctly priced and met a definite need in the marketplace. We had serious buyers for them from day one. Two of these homes sold **OVER** the asking price, the third, in Wood Acres sold for 10K off the price. All three were under contract within seven days.

In September of this year, a home on Kirkwood. was listed by Stuart & Maury Realtors for \$900,000. The home is in an estate and was painted completely inside, the floors were refinished and new carpeting installed prior to coming on the market. It shows extremely nicely and is priced in line with past sales. It has been reduced to \$875,000 and remains unsold. 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) Very few homes have come up for sale in our community this fall. Most of the sales listed below were transacted in the Spring and Summer of this year. Let’s review a number of sales that have taken place or settled since my last newsletter in June:

		Original/List Price	Final Sales Price
1)	5606 Parkston Rd. **	\$2,695,000	\$2,400,000
2)	5626 Newington Ct. *	\$2,295,000	\$2,000,000
3)	5517 Pollard Rd.	\$1,798,500	\$1,692,310
4)	5956 Searl Terrace ^	\$1,250,000	\$1,292,500
5)	5705 Newington Rd. *^#	\$1,095,000	\$1,095,000
6)	5217 Ridgefield Rd. *+	\$1,295,000	\$1,225,000
7)	5505 Christy Dr. * #	\$960,000	\$960,000
8)	5809 Wiltshire Dr. * #	\$949,000	\$950,000
9)	5603 Cromwell Dr. *	\$879,000	\$900,000
10)	5707 Kirkwood Dr. *+ #	\$869,000	\$869,000
11)	5607 Jordan Rd. *	\$849,000	\$855,000
12)	5508 Cromwell Dr. * #	\$895,000	\$840,000
13)	5602 Parkston Rd. #	unknown	\$830,000
14)	5408 Kirkwood Dr. * #	\$849,000	\$825,000

* Matthew Maury sales

** Stuart & Maury Sale

+ Matthew Maury sold property listed with another company

Never “on the market”

^ Sold by Bob Jenets of Stuart and Maury

Take note, if you will please, that I was involved in 10 of the 14 above transactions and Stuart and Maury was involved in 12 of the 14 sales. It’s interesting to note as well that seven of these above transactions were never “on the market” and that only three of sales have contracted since August 1st. The home at 5508 Cromwell was in an estate and I sold it to an investor for \$840,000. It was a four bedroom colonial in need of full scale renovation. The home sold at 5956 Searl Terrace was the home of lifelong residents Griff and Mabel Holland. Griff and Mabel are fellow Realtors and have been wonderful assets to our community for many years. They will be missed. Their home was sold by Bob Jenets of Stuart and Maury. It was sold to a Wood Acres couple planning a

renovation and addition. The home received two offers the first weekend and sold for \$42,500 over the asking price. This is an illustration that the market is not necessarily “weak” if the offering is special and Searl Terrace consistently commands this kind of interest!

I sold the home of long time residents Bill and Linda Silva on Newington Rd. in the late summer. This wonderful 5-level split with a Home Stretchers late ‘80’s addition sold for the asking price of \$1,095,000 without coming on the market. Bill and Linda have headed off to the Eastern Shore and are happy as a lark in their new waterfront home. They too will be missed. Linda was a Stuart and Maury agent for many years in the nineties.

There are several interesting stories in the list of sales on the previous page. Note that the speculative new homes built on Parkston and Pollard weave an interesting tale. The Parkston home sold for \$295,000 less than its original ambitious asking price of \$2,695,000, but it was still the highest sale in the history of our community and sold very quickly, in just 17 days. The builder bought the house on that lot for \$779,000 in 2006. He built an 8000 sq. ft. home and sold it almost exactly a year later.

The home on Pollard was listed originally for \$1,798,500, was for sale for a bit more than three months, and sold for \$1,692,310. The builder bought that lot in December of 2005 for \$725,000. They built a home with about 5500 square feet of finished space and sold it just shy of two years later.

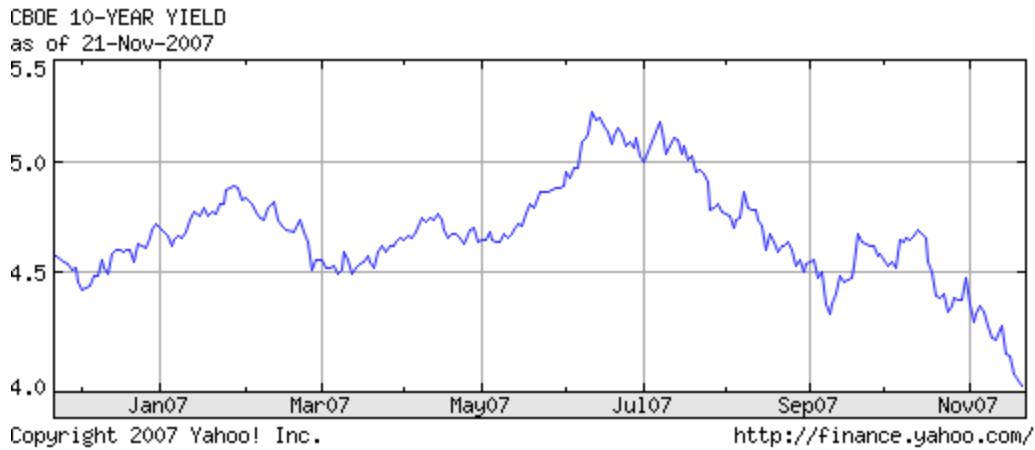
The SIX sales I made, that were not on the market, are examples of matching buyers and sellers to the benefit of all involved. The Cromwell home was an estate, Wiltshire and one of the Kirkwood homes were rentals, and the other Kirkwood sale was a home where I “heard” it might be coming up for sale, stuck a card in the front door and asked them to call me, *or have their agent call me*; their agent did call and we put the deal together. This kind of creativity and initiative is going to be critical in the coming months as we struggle with the current marketplace.

For the year, there have been 25 sales in our community, but only a few since August 1st. We have averaged 26 Springfield sales a year over the past five years. In neighboring Wood Acres, where more sales take place related to purchasing a larger home, only 11 sales took place this year, about half as many as the previous 5-year average.

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 late-November writing, the Index has plummeted to 3.97%, the lowest in years. 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 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 6.50% and no points (**source: Steve Jacobs/FNMC Mortgage 202-491-7601**). Below is the 1-yr. Treasury yield over the past 12 months. It doesn't take a rocket scientist to see where rates have gone lately.



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 **97%-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 the Springfield/Westwood area, 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.

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. All nine sales were over \$1,000,000, with the high being a home on Duvall for \$1,865,000 and the low being a home on Duvall for \$1,130,000. This is encouraging in that the price range of the Westmoreland community would be considered a "move-up" range. Expressed another way, most of the buyers probably came from a smaller home nearby.

Lest you think that nothing is selling, there are actually 15 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, two homes for sale in Springfield, and one 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.

We are headed for an all-time record average sales price in Springfield/Westwood this year. Interest rates are drifting lower and are very attractive. The gains in appreciation and equity in the past few years have been remarkable. A slight step back in value would still leave us way ahead of the game. 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,

Matthew Maury
301-928-8686-24 hours
Principal Broker
Stuart & Maury Inc. Realtors

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