

May 18, 2008

A Buyer's Market, a Seller's Pain

By [PATRICK MCGEEHAN](#)

Ridgewood

WITH a laser measuring device clipped to his belt and a reel of yellow tape tucked under one arm, Christopher Otteau roamed around a tidy house on a corner lot in Ridgewood, preparing to deliver the unwelcome news to its occupants.

They, like many other homeowners whose property Mr. Otteau has appraised lately, were hoping to hear that their special house in their special neighborhood in their special town was immune to the gravitational force that has been pulling down home prices from coast to coast. Mr. Otteau's oft-repeated response: Sorry, but we are all in this housing slump together.

These days even a well-kept house like this one, in a desirable town like Ridgewood, is likely to sell for a price that disappoints its owners. The five-bedroom ranch with a swimming pool was listed for more than \$1.1 million, but Mr. Otteau, who is usually hired by the lender holding the mortgage, was just beginning to hunt for flaws.

"In a tough market, nothing is overlooked," he said as he examined a shallow hole near the front door where a tree had been planted. "In a good market, lots of things are."

Clipboard in hand, he assessed everything from the topography of the lot ("slightly sloping") to the type of street it bordered (a "main feeder"). He gave it extra points for its curved stone walkway, which, he said, "enhances curb appeal."

He would have to find out how much other houses in the neighborhood had sold for recently before he could fix a value on the home.

But one conclusion was inescapable: On the section of the appraisal form that describes the condition of the local housing market, he would check the box for "declining."

The suburbs of New York City were late entrants in the downturn that some economists think is already a recession. The main cause of the current weakness was the bursting of the

American housing bubble, which had been pumped up by several years of hyper-aggressive lending and borrowing.

Although prices rose much faster in newly developing parts of the Sun Belt, house values doubled in the metropolitan area, rising to \$450,000 in 2005 from about \$225,000 in 2000, according to the [National Association of Realtors](#). Now, a reversal is well under way, but the concept is sinking in slowly for most residents of the area with property to sell.

Those who have owned their homes since the start of the decade became accustomed to a steady, rapid appreciation. Buyers were lining up to tour houses and waging bidding wars that drove prices well above what sellers were asking.

"In 2005, it was almost impossible to overprice a home," said Mr. Otteau, 29, who has been appraising property from northern [New Jersey](#) to Delaware for six years since joining the real estate business that his father has operated for decades.

But the tide turned more than two years ago, he said. With prices rising so much faster than people's incomes, houses started to become unaffordable and, he said, demand waned.

Since then, home values statewide have declined about 15 percent and, he estimated, they will fall an additional 5 percent over the next year. In many towns, the inventory of unsold homes has been rising.

The housing market has softened considerably in the suburbs north and east of New York City as well.

On [Long Island](#), the number of home sales in March was almost one-third lower than in March 2007, according to the Multiple Listing Service of Long Island. The median price of those homes fell to \$409,000 last month, down more than 8 percent from \$445,000 the previous year.

In Nassau County, almost a full year's supply of inventory was for sale as of March, up from a little more than eight months' worth a year ago, according to the service. In Suffolk County, it said, almost 15 months' inventory was for sale.

In Westchester County, sales of single-family homes fell more than 30 percent and sales of condos plunged almost 35 percent during the first quarter of 2008, the sharpest decline in 28 years of record-keeping by the Westchester-Putnam Multiple Listing Service. In Putnam County, however, sales dropped by 9 percent, and prices fell 5 percent, according to the service.

Westchester's real estate market is effectively on hold as prospective sellers wait for a better time to list their homes, said P. Gilbert Mercurio, chief executive of the Westchester County Board of Realtors. "You have to be aware that there are a lot of people who may want to sell property but don't have to do it at a particular time," Mr. Mercurio said.

The sooner sellers let go of their dreams of cashing out at prices they once might have gotten, the sooner the market will stabilize, Mr. Otteau said.

"If people want to sell, they've got to get real with their prices," he said. Even then, he added, "it's not going to be this everybody-rush-in market. It's going to be a cautious market."

Mr. Otteau may be too young to recall the ravages of the last severe housing slump in the New York metropolitan area. The median price of a home in the New York metropolitan area fell about 10 percent between 1988 and 1995, according to the National Association of Realtors. But he can fall back on the collected wisdom of his father, Jeffrey, who has been tracking New Jersey's market for decades.

Recently, Jeffrey Otteau has been the monthly bearer of bad tidings for New Jersey's builders and real estate agents. His company, Otteau Valuation Group, publishes town-by-town reports on the state of the housing market and, lately, the figures have looked progressively bleaker.

The number of home-sale contracts signed in the state in March was down 27 percent from March 2007, according to the company's latest report. Growing fears about job losses, especially the waves of cutbacks announced by Wall Street firms, are compounding the weakening demand, Jeffrey Otteau said.

"Now, everything is in a stall," he said.

To be sure, there are towns where demand is relatively strong and some houses are attracting multiple bids. But they represent a "small, small sliver" of the region, said James W. Hughes, dean of the Edward J. Bloustein School of Planning and Public Policy at Rutgers University.

Most of those pockets of stability are directly linked to New York City, which has been the "economic engine of the region for the last four years," Mr. Hughes said. Towns along the rail lines radiating from Manhattan, like Chatham and West Windsor, had some of the highest rates of home appreciation during the recent expansion, Mr. Hughes said. And those towns that have train stations and also lie near major highways, like Summit, received a double bonus, he said.

As prices have fallen, a clear pattern has emerged, Jeffrey Otteau said. The forces of supply and demand for homes have stayed in better balance in towns with high-speed transit links than elsewhere, he said.

His monthly Otteau Report measures the health of a local real estate market in terms of inventory for sale. As a rule of thumb, he said, a market is in good shape if it has no more homes available than would be expected to sell within six months. Several towns in New Jersey, including Chatham and Ridgewood, still fit that bill, according to Mr. Otteau's data, and most of them have rail links.

IN Morris County, for example, there was about nine months' inventory in March. But the prospects for home sellers varied widely within the county. In Mendham Borough and Mendham Township, there were 130 homes on the market in March, 50 more than in the first quarter of 2005, but the rate of sales had been cut nearly in half, to 8 per month from 15. At that rate, it would take 16 months to sell the 130 listed homes. Twelve miles away, in Chatham, whose station is the first stop in the county for trains leaving New York City, sales activity had held steady, leaving just five months' inventory.

In Bergen County, the market is similarly spotty. In Ridgewood, where many homes are within walking distance of a rail link to Manhattan, the pace of sales has slowed just a little since 2005, leaving about six months' inventory on the market in the first quarter.

But in the more remote towns of Saddle River and Upper Saddle River, the number of homes for sale has risen faster and the pace of sales has slowed. At the rate houses were selling in 2008's first quarter, it would take 21 months to sell all 64 homes listed in Saddle River and 15 months to sell all 116 homes listed in Upper Saddle River, according to the Otteau Report.

"It's not playing out the same way everywhere, but there is weakness everywhere because we're now at the final stages of this housing decline," Jeffrey Otteau said. "Real estate markets that are more automobile-oriented are suffering more than those that offer mass transportation."

Mr. Hughes said that even though more suburban residents throughout the region commute within the suburbs than travel back and forth to New York City, the closer-in communities have held up better because the city's economy has kept growing faster than the rest of the region's.

If the cutbacks on Wall Street turn out to be part of a short, cyclical downturn, proximity to Manhattan may continue to be a prime determinant of home values, he said. But if it is the start of a "long-term structural shift," he said, "it's possible we could see a major long-term

weakness in New York, and that would ripple through all these housing markets.”

Even traditional destinations for investment bankers and lawyers decamping from the city, like Summit, in Union County, could suffer during a protracted downturn, Jeffrey Otteau said. “The reliance on Manhattan overflow housing demand has, up until now, been a strength for Summit,” he said. “We now need to see how much weakness there will be.”

Pearl M. Kamer, chief economist for the Long Island Association, a business group, said she believes that on Long Island, “communities that have rail linkages or other forms of public transit will hold up better in terms of value than other areas that are completely auto-dependent.”

Beyond the data he collects and analyzes, Jeffrey Otteau has several sets of eyes scrutinizing the market, house by house and building by building. One pair belongs to his son, Christopher, who logs more than 40,000 miles a year on his Lexus hybrid as he traverses the region appraising property.

In a soft market, like the current one, sellers can improve their prospects by dressing up their homes, Christopher Otteau said. Uncluttered houses are much more appealing, he said. “We always recommend getting a storage unit and getting all that stuff out of the way.”

He said that “updated kitchens and updated bathrooms definitely add value,” but added that owners could go too far in upgrading an entry-level home. Installing expensive cabinetry, appliances and marble tile in a smaller house is often a mistake, he said. “In entry level, it’s called overimprovement or superadequacy,” he said, using appraisers’ language for spending money that is unlikely to be recouped.

One thing owners routinely place too much value on is having a larger-than-average lot, Christopher Otteau said. “If it’s not buildable, it’s just excess acreage.”

Just after dawn one day this spring, in Bernards Township, he hiked to the top of a hill on a 10-acre lot near Basking Ridge whose owner had scrapped plans to build a house and had put it up for sale for \$1.2 million. The property, with a creek running through it, was “one of the most beautiful lots I’ve ever seen,” he said. “In 2005, it probably would have sold in a heartbeat.”

An hour later, he was touring a house in Mendham, then he was on to another in Long Hill.

Each property had its own strengths and weaknesses, and, ultimately, the selling price of each would be determined by how many potential buyers it attracted and what they were willing to

pay. Christopher Otteau said he could not discuss the particulars of his valuation of any of them. But in each case, he said, they would probably sell for less than they would have a few years ago, and less than their owners had hoped to collect.

When he breaks that news to them, he tries to do it "nicely," he said, and they seem to find his candor "refreshing." Often, the response he hears these days, he said, is "At least you're honest."

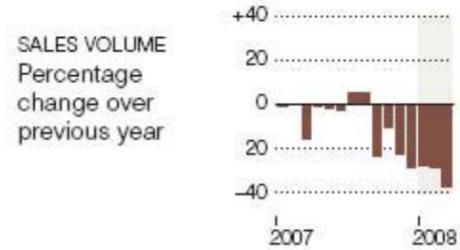
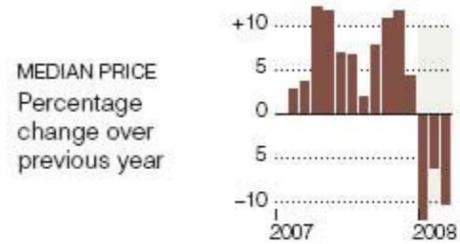
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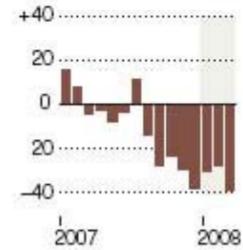
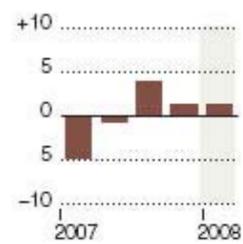
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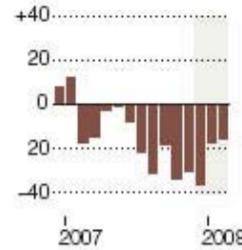
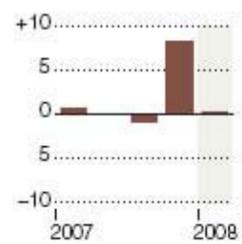
After a brief uptick in the summer, sales volume in Fairfield County nosedived in 2008. The median price also declined in the first quarter of 2008.

NEW JERSEY

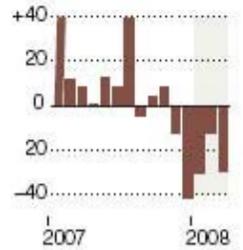
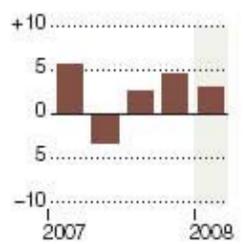
Bergen



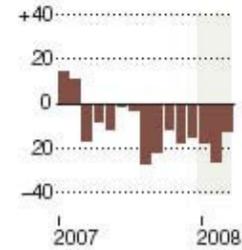
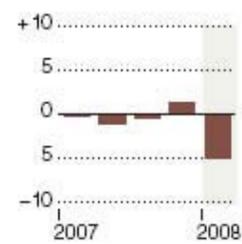
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Hudson



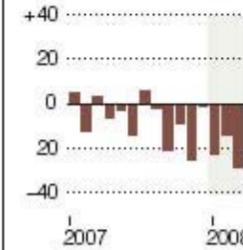
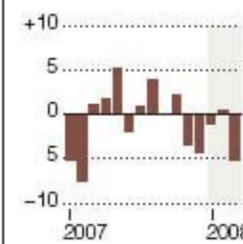
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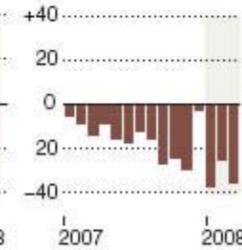
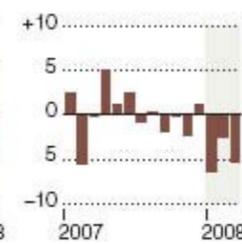
Prices have mostly held up in parts of northern New Jersey. While sales volume has slowed in these counties, the number of sales has increased statewide by about 4 percent in the first quarter of this year compared to the same period last year.

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Nassau

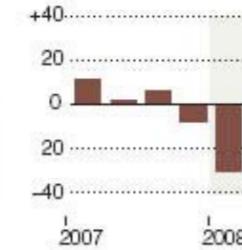
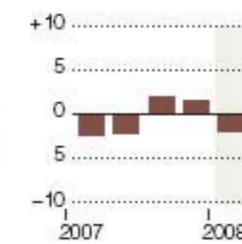


Suffolk



After rebounding in the spring of 2007, prices in Nassau and Suffolk have resumed a negative trend in the last several months.

Westchester



Westchester prices were down slightly in the first quarter, and sales decreased dramatically.

Note: Quarterly data were used when monthly data were not available.

Sources: The Otteau Report; New York State Association of Realtors; The Warren Group; Westchester County Board of Realtors

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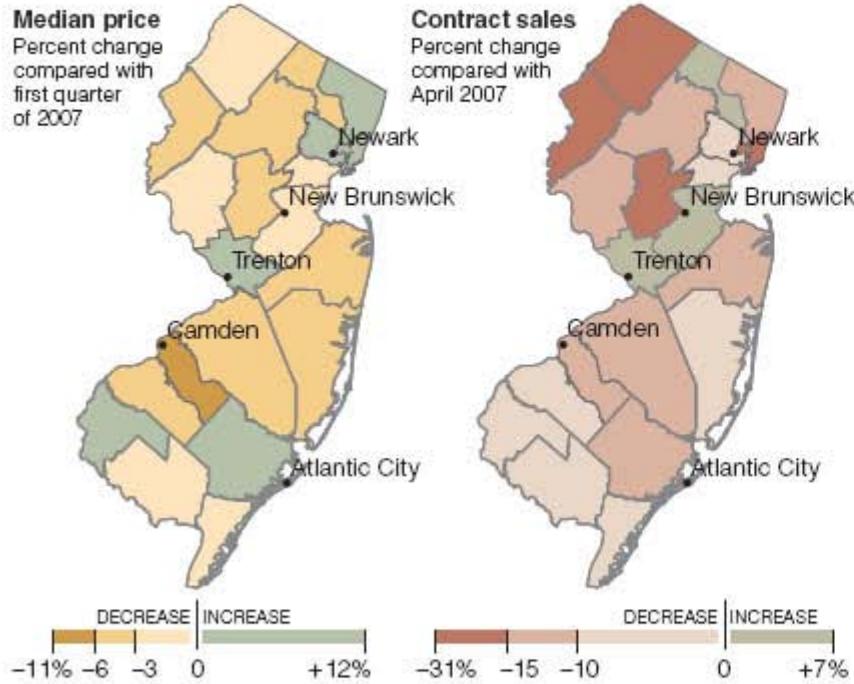
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A Tough Market for Homeowners

While median home prices in northern New Jersey were relatively stable in the first quarter of 2008, prices dropped in most counties. New Jersey counties also had fewer home sales and more unsold homes than they had over the same period last year.



Source: The Otteau Report * All percent changes are in comparison with the same period in 2007.

County	MEDIAN PRICE		CONTRACT SALES		UNSOLD INVENTORY	
	Jan.-Mar. '08	Pct. Chg.*	April 2008	Pct. Chg.*	April 2008	Pct. Chg.*
Atlantic	\$244,380	+0.8%	259	-12.8%	4,302	-2.1%
Bergen	451,596	+1.2	732	-14.1	6,348	+10.1
Burlington	222,000	-5.5	417	-12.4	4,181	+6.0
Camden	340,440	-10.1	432	-13.6	4,353	+8.0
Cape May	185,000	-2.6	194	-4.4	3,834	-11.7
Cumberland	165,000	0.0	42	0.0	671	+20.9
Essex	400,500	+0.3	412	-4.8	3,223	+9.8
Gloucester	210,000	-4.5	257	-4.1	2,480	+9.0
Hudson	385,867	+3.1	259	-17.8	3,191	+10.4
Hunterdon	386,000	-2.3	141	-13.5	1,349	-3.0
Mercer	261,000	+2.4	282	+7.2	2,682	+0.3
Middlesex	339,900	-1.5	659	+0.6	4,654	+11.8
Monmouth	366,005	-4.3	656	-10.0	6,618	-2.1
Morris	435,000	-3.1	431	-12.0	3,773	-0.6
Ocean	249,804	-4.2	696	-1.3	7,330	-0.4
Passaic	355,000	-5.1	273	+0.4	2,307	+4.6
Salem	176,000	+12.1	41	-8.9	593	+8.8
Somerset	349,450	-5.4	321	-17.3	2,592	+2.7
Sussex	272,000	-2.5	152	-16.0	2,300	-1.5
Union	360,000	-2.7	339	-9.4	3,235	+12.2
Warren	264,000	-5.7	90	-30.8	1,177	-3.4

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Aaron Houston for The New York Times

Christopher Otteau, an appraiser.

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