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Central Jersey real estate sales fickle

Location, commuter access and structural upgrades all factors when putting home on market, experts say.

By PAMELA MACKENZIE
Staff Writer

Homes along many of Central Jersey's commuter rail lines have a better chance of being sold than residences in more rural or suburban areas, according to real estate experts and housing statistics.

That's one of the conclusions drawn from a study of the sales numbers, which paint an uneven -- and depending upon where you live, unsettling -- picture of the Central Jersey housing market.

In some towns, the market is actually improving over last year, while in other areas, homes are languishing on the market even longer than in 2006, when the real estate bubble burst in earnest. Prices began to get soft in August 2005.

In a snapshot of statistical information comparing home sales in the second quarter of 2006 with the second quarter of 2007:

- The number of months to sell homes increased in 23 Central Jersey towns, remained the same in four towns, and decreased slightly in 18 towns.
- In 2006 in Hunterdon County, the average number of months a home was expected to be on the market was 10; this year, it's 11.

In Somerset County, the number remained steady in 2006 and 2007: The average is eight months to sell a home.

In portions of Union County, the number also remained steady -- about six months -- while in portions of Middlesex County, it increased from four months to five.

- The number of homes going unsold is fluctuating from county to county. In Hunterdon County, experts say, there were 1,115 homes for sale at the end of June 2006; this June, there were 1,440. In Somerset County, there were about 2,640 homes for sale at the end of June 2006; at the end of this June, that number was 2,582.

"We've been saying for four or five months now that the commuter markets are healthier than other communities," said William O. Keleher Jr., chairman of Prudential New Jersey Properties. "Our offices in Summit, Westfield, New Providence and Short Hills are very strong. The Summit office is setting records, and that's in the face of a flat or less than flat market in other parts of the state. In Middlesex County, our Metuchen office is also doing well because that's another commuter market."

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Keleher added that the company is seeing some strength in Somerset County and Morris County communities that are on NJ Transit lines. His offices in Hunterdon County, where fewer people make the commute to New York City, are seeing more challenges.

The good and the bad

Jeffrey Otteau, president of the Otteau Valuation Group in East Brunswick, specializes in compiling data throughout the state about how many homes are on the market at any one time and how long it's taking to sell the homes.

This last figure is hard to pin down, so Otteau divides the number of homes for sale in a town by the average number of sales monthly to estimate how long it would take to sell existing inventory, assuming homes will continue to sell at a steady rate. He calls this "product absorption."

For example, in the second quarter of 2006, Bridgewater had a monthly average of about 131 homes added to the existing pool of homes for sale. About 59 homes were purchased each month, leaving 371 homes unsold. Otteau projected it would take six months to sell the existing inventory.

This year, however, Bridgewater has a monthly average of 116 homes added to the market, and about 63 homes are purchased each month. At the end of the quarter, 341 homes remained unsold. Because the homes are selling at a faster rate in 2007 and because there are fewer of them, Otteau projects it will take only five months to sell the existing inventory.

In Union County towns such as Summit and Westfield, the projected rate of product absorption has remained flat, but this is good news because more homes are selling this year than last. For example, in Westfield, the average number of homes added monthly to the market rose from 71 to 74, but the number of monthly sales has risen from 37 to 41. So even though the amount of unsold inventory has risen from 174 to 201 homes, the projected absorption rate is still five months.

Where has the market suffered?

One town is Middlesex Borough. Although the number of homes being added to the market there has fallen from 30 in 2006 to 24 in 2007, the average number of sales in that town has fallen from 17 in 2006 to 11 in 2007. That has caused unsold inventory to rise from 50 homes to 61, and the projected absorption rate has gone from three to five months. Piscataway and South Plainfield have seen less dramatic changes, with projected absorption rates changing from five to six months.

In Hunterdon County, the Flemington market has been struggling, while Raritan Township has seen the market improve. Flemington had almost eight homes coming on the market each month during the second quarter of 2006. This year, only six homes were added to the market each month. The number of sales though, dropped from four in the second quarter of 2006 to two this month. This explains why the projected absorption has risen from seven months in 2007 to nine this year.

Raritan Township has fared better, with the number of unsold homes dropping from 213 to 197 this year. At the same time, the average number of sales per month has risen from about 34 to almost 41. So the project absorption rate has changed from six months in 2006 to five months in 2007.

What's happening

What does all this mean for those trying to sell their homes? Otteau put these figures in a larger economic context, with short-term and long-term consequences.

Remember that the housing recession has been going on for nearly two years, he said -- his figures show it began in August 2005. This housing recession has occurred without a national recession, without high interest rates and during one of the highest employment-rate periods in New Jersey history. So this recession is not like any recession in recent history, he added.

What happened? First, the housing market is in the midst of a short-term cyclical correction. In other words, homes became so unaffordable that the prices had to come down. From 2000 to 2005, home prices rose 87 percent, but salaries only rose 13 percent. It's normal that the market rise would slow at some point to create more affordability.

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However, New Jersey also is in the midst of a long-term economic structural change that shows no sign of ending, Otteau said. The state is losing high-paying jobs, which are being replaced with low-paying jobs, and this will continue to be a drag on home sales.

"In the last six years, New Jersey has lost 110,000 of the highest-paying jobs," Otteau said. "They have been replaced with 125,000 of the lowest-paying jobs in the state. This is common to all the Northeast."

He points to industries such as telecommunications and pharmaceuticals, in which jobs have moved to more affordable states or even overseas.

"But because New Jersey is the most densely populated state, the land will remain costly," Otteau said. That, coupled with restrictions on development, will keep prices somewhat high.

The commuter factor

Some towns along the rail lines are benefiting from Manhattan's very strong residential housing market, as Keleher noted. Otteau said Manhattan housing hasn't fallen into a recession. People are leaving Manhattan to find more affordable New Jersey homes within a 40-minute commute of the city -- what Otteau called a "trickle down" effect.

"Housing costs \$1,100 per square foot in New York and \$400 per square foot in New Jersey," Otteau said. "So people in New York will continue to see New Jersey as a good alternative and will come here to buy homes, especially in homes served by Midtown Direct on NJ Transit."

Another factor is that because land counts for 40 percent to 50 percent of the cost of a home in this state, the towns with homes on smaller lots and more affordable houses will see more activity.

Bridgewater is a good example of this, he said. One of the reasons homes in Bridgewater sell faster than in other towns is because it has homes in all price ranges, and the homes in the lower ranges are selling better.

Otteau also projects that the average age of the first-time homebuyer is going to rise from 32 to 40 as homes become generally less affordable. He said this is why some of the transit villages such as Cranford Crossing and River Park at Raritan are creating rental luxury homes. Those homes will meet the needs of the young, affluent professionals who want gracious living even though they can't afford to buy a home of their own.



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