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Real estate rebound will require jobs, time

Written by

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New Jersey real estate pros are reading tea leaves, searching for positive signs — anything remotely positive, really — that point to a rebound in the state's tortured housing market.

They want to tell home buyers and sellers there is hope, so they point to trends ticking slightly upward: low mortgage rates that indicate it's time to buy, employment rates showing signs of life, even Jersey Shore summer rentals that are ahead of last year's pace.

But the cold, hard data of sales, inventory and foreclosures remain in free fall, leading analysts to predict that the rock bottom of the real estate crash — once widely expected to arrive late this year or the start of 2012 — now may not arrive until 2013.

“Broad-based, all indications are that prices will probably finally bottom out in 2012 or 2013,” said James W. Hughes, dean of the Bloustein School of Planning and Public Policy at Rutgers University. “But then, we're looking at a long period back.”

How long?

“Not in this decade,” Hughes said.

Much of the past week's real estate market pessimism was spawned by a nationwide analysis by the Zillow website, which reported that home prices swooned at a rate not seen since 2008.

According to Zillow's first-quarter Real Estate Market Report, median home values dropped 3 percent during the first quarter of 2011, compared with the same quarter last year. As a result, more homeowners are finding themselves with negative equity — owing more money on their homes than they are worth on the market.

In New Jersey, the Zillow report showed, first-quarter median home prices fell 3.3 percent. During the past year, Garden State home prices have fallen a full 9 percent. That's further and faster than our neighbors in New York (1.4 percent, 3.4 percent) and Pennsylvania (3 percent, 7.3 percent.)

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report showed New Jersey median home prices falling twice as fast, 6.6 percent, in the first quarter of 2011.

Hughes said the first three months of 2011 represented a “double-dip,” with falling prices made to seem more steep by the artificial sales bump created by government tax incentives at the start of 2010.

Without the tax breaks for home buyers, which stabilized prices and led to signs of a rebound, Hughes said, “we lost that momentum and we’re starting to see them dropping again.”

So what’s it going to take for a real rebound to begin?

Jobs. It’s not a tremendous leap to connect the slogging housing market to the equally poor health of the job market. Workers need steady income before they can feel confident enough to buy a home.

Most important, experts say, are private-sector jobs, which indicate that employers feel strongly enough about the economy to begin hiring again.

Once the unemployment rate begins to fall, expect home sales and prices to react.

Boomers’ kids. Specifically, we need Generation Y, the children of the Baby Boomers, to enter the housing market once and for all.

Born between 1977 and 1995, Gen Y’ers

are now 16 to 34 years old. Many of those who traditionally would be living on their own have chosen to ride out the Great Recession with their parents. Many have yet to find steady employment. And the youngest Gen Y’ers aren’t old enough to drive yet.

Once this group finds high-paying, entry-level jobs and begins to enter the housing market, it will create a demand that will allow those already in a home to sell and move up.

Time. Complete recovery is many, many years away, Hughes said. The last drop in real estate prices occurred in the 1980s. Then, it took six to seven years for home values to recover.

“And that’s if you bought your home in 2000,” he said. “The ’05, ’06 days, they’re not coming back.”

Real estate professionals do see some bright spots, however.

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For example, Jersey Shore rentals in towns like Avalon and Stone Harbor are up for the coming summer season, according to Allan Dechert, president of the New Jersey Association of Realtors.

Two years ago, renters didn't have the economic confidence to rent a Shore house six months in advance. So early Shore rentals signify a turnaround, at least in attitude, Dechert said.

Moreover, he said, interest rates remain low, homes are affordable and the inventory is there. That doesn't mean New Jersey is going to rediscover its bubble days, however.

"I don't know when we're going to get back to there," Dechert said. "We're just looking for slow, steady increases. Can you buy a house today and sell it in six months and make money? No. Is there value in home ownership? Definitely."

Home builders, too, are guardedly optimistic, said Dominick Paragano of D.L. Paragano Homes in Stanhope, president of the New Jersey Builders Association.

Paragano points to slight increases in New York City and Philadelphia home prices, which can turn into gains for New Jersey.

"From our perspective, that's a great indicator," Paragano said. "We get the castoffs. When you start to see and get to feel that things are getting better, it spins what people will do with their income and their housing needs."

Paragano also said that the number of construction permits issued in New Jersey rose in 2010 — the first time since the downturn began in 2005.

"It's an indicator of confidence," he said. "People aren't going to work on their house if they don't think it's going to be worth it. I'm happy to see that."

When the rebound does begin, Hughes believes, the first signs will appear in New Jersey towns with good school systems and ready access to Manhattan — towns like Summit, Chatham, Madison, Morristown and others along NJ Transit's Midtown Direct line.

The last, he said, will be homes in South Jersey, where homeowners rode the housing bubble higher than most, purchasing large homes for relatively low prices and commuting to higher-paying jobs in Central Jersey.

As energy prices rise, it will take longer for those communities to recover their value,

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