The Blame is not in the Stars…

Gosh, we like excitement! Whether it's a planetary alignment, the "killer bees" from Texas, or the granddaddy of them all-Y2K-we just love to fret and fume about ***some immanent disaster***. We then get busy ***blaming*** someone or something as the ***cause*** of it all.

Over the last several years, new concerns have been hyped by the Media. These include: ***the "Real Estate Bubble"***, the ***"Mortgage Meltdown"***, the ***"Sub-Prime Lending disaster"***, and other variations. Culprits include: the ***greedy lenders***, the ***FED***, ***real estate brokers***, the ***Media*** itself and yes, the ***President of the United States.***

Wow! Such a smorgasbord of reasons and woes to choose from!

I am first and foremost a numbers man. Sure, I can get all lathered up with emotions like everyone else. But before I make a serious commitment to doom, ***I want to see numbers***. Show me the data. Otherwise, I view it as group entertainment.

Example: throughout all the talk of the "Mortgage Meltdown" have you ever seen figures indicating what ***percentage*** of outstanding loans are in default? And, what the actual number of default loans are? The percentage of default and delinquencies is actually somewhere between 4 and 5 percent. That means that 95% of the population pays their bills on time.

Be wary of statements such as: "Murders in ***Brighdale County*** doubled this year over last year…" Now if there were 100 murders last year in ***Brighdale County***, this could be frightening. ***What if there were only one and this year there were two?*** It would be insignificant. "Murders doubling" ***sounds*** more impressive. Without knowing the actual number of occurrences, we are lead down a path chosen by the axe grinder.

Well, are we in a market correction? Of course. Anyone ***working the market feels this.*** But knowing the extent of the correction and reasons for it takes numbers. ***That's where I come in.***

This article will demonstrate two things:

- ***Buyer demand is down due to excessive inventory. This is the underlying reason for the slowdown of the market.***

- ***There is more excessive inventory than meets the eye.***

As of this moment, the MLS (the Multiple Listing Service-the overwhelming source of real estate companies inventory), shows 451 new homes built after 2006 and priced above $300,000 currently offered for sale. They are selling at a average rate of 25 a month. So if no more homes in this category come on the market, we should deplete the inventory in about 18 months.

This massive inventory buildup was apparent long before the end of 2005 when the downturn market occurred. During the era of fabulous building and profits that extended from 2003-2005, the wave of delight could be felt throughout Northwest Arkansas. ***Everyone*** responded. The idea that it could all end was not even entertained.

So builders constructed homes with the Costner attitude of "If you build it, they will come", without regard to the actual existing buying pool or what they could afford. ***In short, they overbuilt high-end homes.***

Two things happened to end the good times. The Consumer Confidence Index took a nose dive after September of 2005 in the wake of Katrina and the Media started its "Real Estate Bubble Burst" slogan at about the same time. ***Buyers were ready to listen, and the massive buildup of inventory became public knowledge.***

As powerful as the Media may be, they cannot create a panic unless there is substance to back it up. Buyers were made aware of the market situation by the media, but the media was only reporting the truth. It wasn't just the high prices that were of concern-Northwest Arkansas is still a real bargain compared to the rest of the country. ***It was the excessive inventory-a real live situation not created or invented by the Media.***

Buyer's perception is everything! Basic economics tells us that the perception of value is deteriorated when supply outstrips demand. Just watch eBay to see this in action. Once buyers assimilated the news of the inventory, their perception of value changed. ***Caution and uncertainty now rules the real estate demand market.***

There, I've said it. The unvarnished truth.

I read an article recently in the newspaper where a big time economist-analyzing the reason for the 10 year drop in new home construction said it was due to the "***Mortgage Meltdown"***. Really?

I did some investigating and called on my friend ***Jackie K. Arledge***, a top loan office with JPMorgan Chase in Northwest Arkansas. According to Jackie, Chase, at end of 1Q of 2007, ranked 4th in Servicing volume- all $620,791,000 of it and 3rd in both Purchase and Refinance lending.

To summarize the conversation:

- ***Loans are very much available for all price categories including homes priced $300,000 and up.***

- ***Loan qualification is getting stricter and documentation is the norm.***

- ***Money is not being given away as it used to be.***

- ***It is harder-though not impossible-to still get 100% financed loans. However interest only loans are out.***

- ***Anyone who could qualify for a $300,000 and up loan two years ago could most likely qualify today.***

- ***A Conservative estimate is that only about 6-8% of the buying pool as been eliminated from securing a loan.***

There were 1,531 homes built in 2006 listed between May and July of 2006. For the same time period in 2007, the number is 867. New construction building in 2007 is down 43% over 2006. ***The point is, it is not because buyers can't get loans!***

Nor is the lack of jobs. ***The Unemployment Index in Northwest Arkansas is well below the National Average and represents an excellent job market.***

So what are the buyers waiting for? Well, If you knew that the demand was well below the excessive supply, what would ***you*** wait for? ***Bargains! Steals of the century!*** How long can builders (or a bank for that matter), sit on vacant inventory?

Speaking of inventory, remember when I said that the current inventory of high-end homes is 451? ***I was only half right!***

We have, right now in Northwest Arkansas ***hundreds*** of homes above $300,000 and built after 2006 that are not part of the MLS inventory!

I was curious to discover this amount and find out which city has the most of these "hidden homes". I looked at all properties listed after 2006 that were priced above $300,000 and built in 2006 or after. ***The assumption is that the vast majority, if not all of them are new construction homes.***

Using a computer program and the ***property's address***, I tracked those that were withdrawn from the market and were never re-listed, or they were re-listed but were ultimately withdrawn.

The results may surprise you.

Looking at the region, of the 1,593 homes listed after January 1, of 2006***, 352 of them are withdrawn from current MLS offerings never to return. This represents 78% of the existing MLS inventory!***

So where are they? I have included charts and tables indicating which cities and counties have these "hidden homes" lying lost and dormant. See exhibits

What is happening to them? Here are some possibilities:

- ***The builder sold them directly to buyers.***

I am sure this is true of some of them. But ***all*** of them? Since only about 10% of the buying pool can afford such homes and since most of these buyers go through an agent and the MLS, ***only a small percentage of homes can be disposed of this way.*** Jackie from Chase indicated that she has not given a loan for an unlisted new construction home in a very long time.

- ***Builders owner-finance.***

Certainly a possibility, but again why would a buyer owner finance if they can get a loan? They wouldn't. Unless builders have deep pockets and are willing to start a sub-prime situation of their own.

- ***Builders offer to rent the homes.***

How many renters do you know that can pay upwards of $2000 a month for payments? Why would they?

- ***Builders turn in the key to the banks that own the note.***

Even if this were true, what is the bank going to do with them? They can no more sit on vacant inventory than the builders can***. And since none of these***

addresses have been re-listed, even if they are owned by the bank, they are still out there hidden somewhere!

- ***Builders (or banks), are setting on vacant homes.***

Ah ha! I opt for this scenario in the vast majority of cases!

So in summary:

- ***It is the buyer's perception of value that rules the market.***

- ***The massive build-up of high end inventory has challenged the perception of the buyers.***

- ***The inventory is not just localized on the MLS but is prevalent throughout Northwest Arkansas.***

- ***The fault, dear reader lies not in the stars, but with us.***

Until next time and by the numbers…

Paul R. Bynum-Executive Broker
Database Manager, Real Estate Market Analyst
Coldwell Banker Faucette Real Estate
pb@mountdata.com
Website: www.mountdata.com

Data sources:
Multiple Listing Service Database
Jackie.K.Arledge@chase.com
Website: http://homeloan.chase.com/jackie.k.arledge

Hidden Homes Across Northwest Arkansas

					Current Status of Re-Listed					
	Total Listings	All Withdrawn	W Once	Re-listed	C	P	S	W	Multiple W	Hidden Homes
Bella Vista	84	35	10	25	3	2	5	7	8	17
		41.7%	28.6%	71.4%	12.0%	8.0%	20.0%	28.0%	32.0%	20.2%
Bentonville	464	247	68	179	42	11	27	30	69	98
		53.2%	27.5%	72.5%	23.5%	6.1%	15.1%	16.8%	38.5%	21.1%
Centerton	28	18	15	3			1	1	1	16
		64.3%	83.3%	16.7%	0.0%	0.0%	33.3%	33.3%	33.3%	57.1%
Farmington	31	13	2	11	3	1	3	2	2	4
		41.9%	15.4%	84.6%	27.3%	9.1%	27.3%	18.2%	18.2%	12.9%
Fayetteville	258	99	62	37	17	3	6	6	5	68
		38.4%	62.6%	37.4%	45.9%	8.1%	16.2%	16.2%	13.5%	26.4%
Lowell	8	1	0	1				1	0	1
		12.5%	0.0%	100.0%	0.0%	0.0%	0.0%	100.0%	0.0%	12.5%
Rogers	467	224	72	152	55	5	14	30	48	102
		48.0%	32.1%	67.9%	36.2%	3.3%	9.2%	19.7%	31.6%	21.8%
Siloam Springs	12	4	2	2				1	1	3
		33.3%	50.0%	50.0%	0.0%	0.0%	0.0%	50.0%	50.0%	25.0%
Springdale	140	59	21	38	19		7	6	6	27
		42.1%	35.6%	64.4%	50.0%	0.0%	18.4%	15.8%	15.8%	19.3%
All Other Cities	101	56	12	44	18	2	3	4	17	16
		55.4%	21.4%	78.6%	40.9%	4.5%	6.8%	9.1%	38.6%	15.8%
Benton County	1128	562	172	390	112	20	48	72	138	244
		49.8%	30.6%	69.4%	28.7%	5.1%	12.3%	18.5%	35.4%	21.6%
Washington County	465	194	92	102	45	4	18	16	19	108
		41.7%	47.4%	52.6%	44.1%	3.9%	17.6%	15.7%	18.6%	23.2%
Northwest Arkansas	1593	756	264	492	157	24	66	88	157	352
		47.5%	34.9%	65.1%	31.9%	4.9%	13.4%	17.9%	31.9%	22.1%

Each take above shows the withdrawn activity for 9 cities, 2 counties and the region.

Taking the region as an example: Since January 1, of 2006 there have been 1,593 listings of homes built 2006 and after, priced above $300.000. 756 of these were withdrawn and are gone from the MLS. Of those withdrawn, 264 never came back on the market. Of the 492 that were relisted, 157 of them or 31.9% are listed as current, 24 or 4.9% are pending, and 66 or 13.4% have sold. 88 of them or some 17.9% of those relisted, are again withdrawn and gone from the MLS.

Adding up the C, P, S, and W columns gives a total of335 individual homes that represent the fate of the 492 relisted. The difference of 157 shown in the Multiple Withdrawn column were all the attempts to get the homes sold and going thru a withdrawn status before ending as either C, P, S. or W. **The "Hidden Inventory" column is the addition of all the withdrawn that ultimately stayed withdrawn-never to be seen on the MLS again. This represents 22.1% of the original inventory!**

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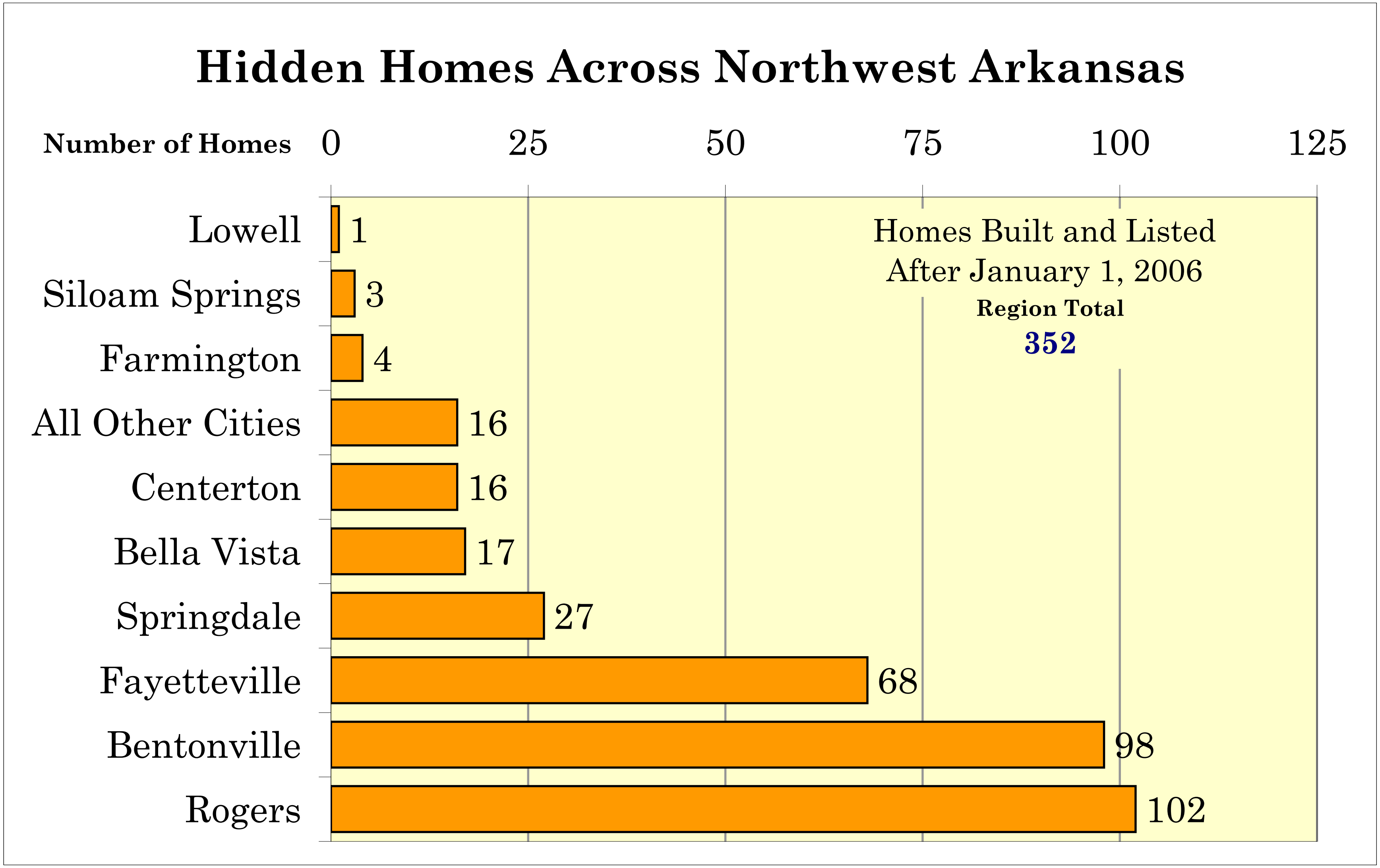

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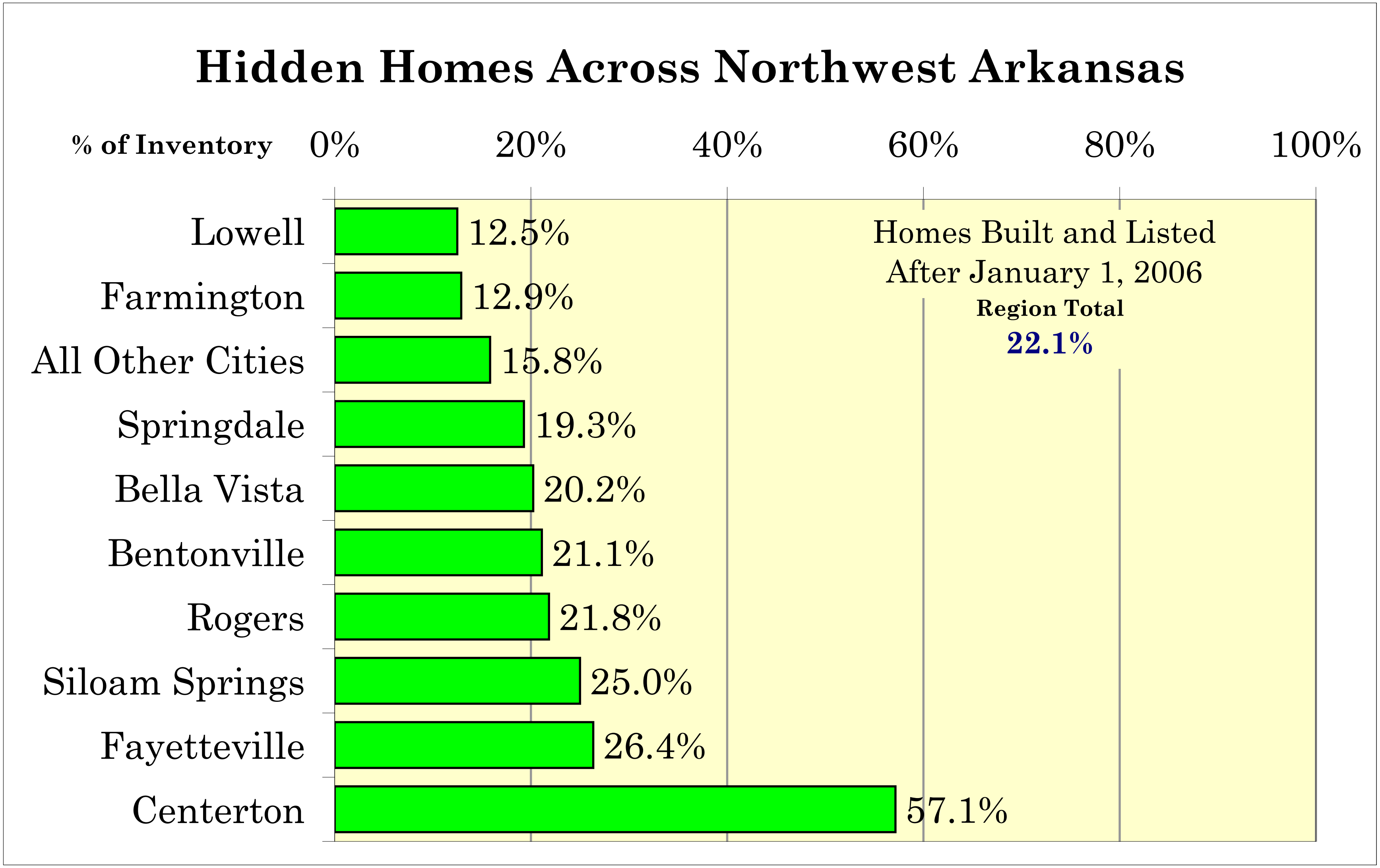

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