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Friday, September 5, 2008

Residential Real Estate

Albuquerque avoids real estate rollercoaster

Area homes only slightly overpriced

New Mexico Business Weekly - by [Carrie Seidman](#) NMBW Associate Editor

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Source: Greater ABQ Assn. of Realtors
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The stories are plentiful: A California home listed at \$7 million finally sells for \$3.5. A Florida developer auctions off his completed but vacant condominiums at cost. Family homes sit on the market for months, bearing unrealistic bubble-era price tags.

But according to research done by Avi Shama, a professor at the **Anderson School of Management** at the **University of New Mexico**, in the Albuquerque residential market, the highs are not so high, nor the lows so low.

“We have not gone through the yo-yo years of 2005 to 2007,” says Shama, the Rutledge Professor Emeritus of Management. “In keeping with the nature of Albuquerque, things go very slowly up and rather slowly down. So, compared to the nation, it’s a market without a lot of overhang of houses and, relatively speaking, a healthy demand.”

Shama, a real estate aficionado — in his spare time, he’s studied real estate law, appraisals and management, as well as tested to become a broker — recently decided to apply several national research techniques to the local residential market.

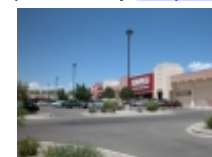
All four approaches he employed revealed homes in the city are currently overpriced by only about 15 percent (or \$36,000 for the average priced home) as compared to their affordability before the real estate bubble and the ensuing housing crisis. This compares to estimates of more than 30 percent for home prices in Phoenix and Las Vegas.

Shama’s research was based on approaches used by **Columbia University’s** School of Business and Moody’s Economy, using home prices, supply of homes, demand for homes, mortgage rates, income and home rental prices, during the past eight years.

“Even though I used different methods, they all revealed the Albuquerque market was

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overpriced by the same amount [14 to 17 percent],” says Shama, “which was reassuring that things are not out of hand.”

The methodology and results were as follows:

Mortgage rates approach = Overpriced by: 16 percent

Historically, the rate for a 30-year first mortgage loan for 80 percent of the purchase price has been 1.6 percent above the prevailing rate of a 10-year U.S. Treasury note. By this standard, today’s mortgage rate should be 5.6 percent instead of 6.5 percent, which prospective home buyers are now charged by lenders. (Lenders charge the extra .9 percent to reduce the risk they are taking to make loans in uncertain times.)

This difference translates to an increase of 16 percent in the mortgage rate. Put simply, a buyer buying an average home priced at \$240,000, who qualified to get a mortgage for 80 percent (\$192,000) before the financial crisis began in 2007, would now qualify for a loan of only \$161,280.

Ratio of home prices to per capita income approach = Overpriced by: 17 percent

This ratio results in the number of years of work it takes to earn as much as the cost of a home. The ratio was calculated using home price data from the **Greater Albuquerque Assn. of Realtors**, and per capita income from census data. In the pre-bubble years of 2000-2003 this ratio was 5.42. During the bubble years of 2004-2007 this ratio averaged 6.36. The difference between the two ratios is .94 years, and means that the average Albuquerque home now costs an additional 11.28 months of work. This means, on average, an Albuquerque home now costs 17 percent more than it did before the bubble.

Ratio of home prices to rent approach = Overpriced by 14 percent

Owner-occupied homes and comparable rented homes are close substitutes. As a result, this ratio shows the number of years of rent money that it takes to recoup the price paid for a home. The smaller the ratio, the more attractive it is to buy rather than rent.

According to RealtyTrac.net, the home price-rent ratio in Albuquerque averaged 12.5 in

2000-2003. It went up to an average of 14.2 in 2004-2007. The difference of 1.7 between the ratios means that home prices in Albuquerque in 2004-2007 were higher by about 14 percent than prices in 2000-2003; a 5 percent decline in home prices in the first two quarters of 2008 did not change this picture, because the ratio was coming down from a high of 15.7 in 2007. In fact, in the peak year of 2007, Albuquerque homes were overpriced by 25.6 percent, compared to home prices in the pre-bubble years.

Supply-demand ratio approach = Time to sale: +2.02 months

This ratio is an indicator of the balance between sellers and buyers. It is widely accepted that a ratio of six, indicating a six month supply of homes, reflects a balance between supply and demand. Any number higher than six suggests oversupply.

According to the Greater Albuquerque Assn. of Realtors, in July, 2007 this supply-demand ratio was 5.36 months, compared with 7.38 months in July, 2008. The difference of 2.02 months means that in 2008, on average, sellers have to wait an additional 2.02 months to sell their homes. To move inventories faster, sellers must reduce prices; so far this year home prices in Albuquerque declined by about 5 percent. By comparison, nationwide the supply-demand ratio is 11 months, suggesting much larger declines may be coming.

“If there’s any burst of the bubble here, it will not be severe,” Shama says, “because the bubble years were so moderate.”

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