

PROPOSAL

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FORECASTING MARIN REAL
ESTATE PRICES

by

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THE ISSUE TO BE EXPLORED

As a Marin County real estate agent, both buyers and sellers look to me to provide guidance on the directions of real estate prices, with buyers wondering if they should hold off on a purchase while prices continue to fall and sellers wondering if they should sell now before the market deteriorates further, or wait until the market recovers.

In an unstable market of the sort we are currently in, homeowners that are not compelled to sell due to life changes typically will hold on to their homes and wait for a market recovery before putting them on the market. There are however, many real estate investors/speculators who purchased rental properties when credit was easy and prices were rising. In Marin, they purchased properties with Gross Rent Multipliers that were higher than required to break even with a reasonable down payment. They counted on increasing prices to more than offset the negative cash flow. These investors now are faced with the question of whether to continue holding such properties, or to cut their losses and sell now.

SPECIFIC TOPICS TO BE RESEARCHED

On the buyer's side, there have been government incentives, both federal and state that have attempted to stimulate demand, particularly for first time home buyers, through the use of tax rebates up to \$10,000 and through setting discount rates so low that lenders are offering loans at low interest rates, making payments more affordable and/or increasing buying power, which should have an upward impact on home prices. The question is, to what degree has this been an artificial stimulus and what will happen to demand when these programs end?

On the supply side, there is the question of the “shadow inventory” that lenders are holding from the market. What is the magnitude of this inventory? Are lenders keeping homes off the market in an effort to control supply and increase prices for the stock of housing they have taken back through foreclosure? Or has a backlog of foreclosed homes been built up simply because they have not had the capacity to process this influx of inventory? Is this inventory increasing or decreasing? What developments might cause lenders to move this inventory quicker to market, and if they do so, how severely might this impact prices?

Another factor that is contributing to the sluggish real estate market is the psychology of the buying and selling public. Everyone seems to know multiple people who have lost their jobs in the past year and many may fear for the continuation of their own job. The economists are now saying that the recession is over, but it doesn't feel that way to main street America. How long will it take for job creation to turn the tide and bring down the unemployment rate. This general state of the economy is causing people to stay on the sidelines of the real estate market. How long this might continue or how quickly it might change will have an effect on home prices locally.

There appears also to be a correlation between stock prices and the prices of homes in Marin County. When the stock market is riding high, people have paper equity that they can exchange for real property. When stock prices decline, this paper wealth also declines and takes away the ability for some to make the necessary down payments, and for others, the ability to “move up” to a larger home or one in a more desirable neighborhood. The stock market is seen as a leading indicator of future economic reality. If that is the case, does the recent recovery in the stock market portend a similar recovery and increase in prices of real estate? Knowing the extent of this correlation and its timing should help to forecast the future direction of home prices.

Another topic to be explored is the metric that is used to measure whether prices in Marin are increasing or decreasing, and by what amount? The median price is the most-often quoted metric and is believed to be more accurate than using average prices. But might there be another measure that could avoid the distortions that enter into both of these measures when one sector of the market is more active than another? Would it be more accurate across all price ranges to use a price per square foot as the standard measure?

In discussing pricing trends, the author publishes a quarterly Marin pricing analysis. This breaks the market into a low end (under \$750,000), a mid-range (\$750,000 - \$1,750,000) and a high end (above \$1,750,000). With prices having come down, is this still a reasonable way to segment the market when discussing pricing trends? What percent of homes are on the market in each of these segments? How should these pricing tiers be adjusted to make for more meaningful reporting of pricing trends?

What is the current “inventory” of homes on the market, and how does that compare with historic volumes? It seems that inventory is down, but price is not going up, contrary to the basic tenet of supply and demand? Why is this and does it mean that we can no longer use the months of inventory as a prediction of future prices?

And finally, to what extent does seasonality affect pricing? Should a realtor advise a client to put their home on the market only in the spring, when they might maximize the sale price? Or do the increased number of competitive listings balance out any perceived increase in buyer demand during the peak home buying season?

These are the issues that I intend to explore in the coming weeks.

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