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SHOPPING FOR A HOME? LOOKING TO SELL? EXPERTS SAY AT LAST ...

It's a buyer's market

By Mary Umberger
Tribune staff reporter
Published May 7, 2006

In the housing market, this is what "normal" feels like:

Homes sell in months, not hours. Prospective buyers actually browse. They drift back for a second look at a place weeks later, confident that it still will be available. They want the price cut. And they get it.

It's been a long time--at least five years--since the Chicago area's real estate market worked this way.

But many agents say the buying frenzy is now over, and "normal" has returned. Prices this year will appreciate less rapidly, and in many cases houses won't sell themselves before a sign has even gone into the ground.

That means it's time for a seller attitude adjustment, real estate agents say. Think about making a mere profit rather than a killing.

"I tell sellers, this is not the market we used to have," said Gold Coast agent Jeri Dry. "I tell them to be prepared for a six- to nine-month marketing time, and that's if they're priced correctly.

"It could be a year," Dry said. "Lots of condos have been on the market for 300 days."

Agents see no catastrophic shift from the housing boom times, with homes languishing and prices in decline. The volume of sales

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appears to be running on a par with last year's record numbers, and there are still towns and neighborhoods where sales continue to clip along.

What has changed in terms of verifiable statistics is that the inventory of homes on the market has surged, even for the traditional spring selling season. Faced with so much competition, many sellers are being counseled to settle in for a longer wait, and think hard about their asking prices.

"You tell them, `Tighten your belt as tight as you can get it,'" said Deerfield real estate agent Honore Frumentino. She said that North Shore homes in the \$2million to \$4 million range, which already had been selling slowly in 2005, are getting even less attention now.

"We had a three-year supply of those homes last year, now it's up to five," she said.

In the first four months of 2006 the Chicago-area market took on about 97,000 new listings of single-family homes and condos, up from 83,000 new listings in the year-earlier period, according to the Multiple Listing Service of Northern Illinois.

It is too early in the season for statistics on market times and selling prices to indicate the phenomenon of a return to "normal," but interviews with a dozen agencies reveal a clear change in tempo and expectations.

A leading concern, they say, is that while the number of homes on the market is higher, the pace of sales has not changed, resulting in a bigger pool of available stock. That translates into an advantage for buyers.

"I'm worried about selling," said Chip Wagner, whose home in Naperville went on the market about two weeks ago.

Wagner pays more attention to the market than the average consumer because he is an appraiser whose firm compiles studies of home sales throughout Chicago. He said Naperville is a prime example of the market shift.

"There are 30 percent more listings this year than there were at the same time last year, and 20 percent fewer homes under contract," Wagner said. "I'm at a price that we consider to be strong here. But there haven't been many lookers."

His Naperville firm, the Headrick-Wagner Appraisal Group, says Chicago-area homes are piling up. In 2004 there was typically a 2.9 months' supply of single-family homes for sale, meaning that if no others were to come on the market the supply would be exhausted in about three months.

In 2005 that number averaged 3.7 months. At the end of March it hit 4.2. Headrick-Wagner interprets inventory above four months as a so-called buyer's market.

Put another way, Wagner says that about 2 percent more single-family homes were under contract April 1 than one year earlier. Yet Chicagoland's single-family inventory is 30 percent higher than last year.

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Such numbers do not mean that the Chicago market is in any kind of bubble trouble or that the average seller is on the verge of losing money, said David Lereah, chief economist for the National Association of Realtors, which reported that the nation had a 5.5-month supply of existing homes in March.

"We've been running under four [months' supply] for the last year or more," Lereah said. "Now we're starting to see supply come up. I regard the danger zone--make that the 'yellow flag zone,' where I start to be concerned--at above six months' supply."

Whatever he calls the zone, Chicago isn't in it, he said.

Last year's 8 percent price appreciation here probably will evolve into 3 percent this year, said Downers Grove agent John Veneris, former president of the Illinois Association of Realtors. "At the end of the year we'll see that prices have leveled out, but they won't drop."

The change in market tempo is clearly tied to rising interest rates; the average 30-year rate is up a full percent over last year.

But some industry analysts see other factors at play.

Analysts say that some buyers have gotten

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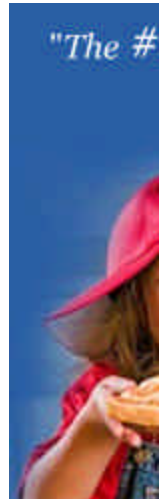
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skittish--they've heard the word "bubble" so many times that they are holding back, waiting to see what happens. At some point enough people start to think things are slowing down that they behave differently, creating the self-fulfilling prophecy of a slower market.

Real estate experts also surmise that when interest rates were at their lows, some people might have been enticed to buy when they might have otherwise remained renters for a time. Thus the market was dipping into its pool of future buyers, resulting in a bit of a slowdown now.

Then there are the investors, who in the past couple of years have been credited with a stealth influence on the market, pushing prices higher. Some analysts credit them with one-quarter to one-third of all home purchases in 2004 and 2005. That market also may be cooling.

"The rehabbers we had a year or two ago, they all picked up and moved on," said Oak Park agent Donna Karpavicius. "Things changed in a big hurry."

Another reason that some properties are on the market longer is that the housing construction boom, particularly in the city, created a taste for new or totally renovated properties.

"They don't want to do much work," agent Dry said of today's home buyers. "They want to move in, hang up their clothes, and that's it."

And so, some sellers in the "fixer" category, which these days is very broadly defined, may get surprisingly low offers, agents say.

"This is a year when I've had more low-ball offers--people coming in \$60,000 to \$80,000 below asking prices," said Karpavicius, who recently took over another agent's languishing "needs work" listing of a home in Riverside.

She immediately got the price reduced to \$429,900 from \$489,500 but has received little response, other than a couple of too-low offers around \$350,000.

Karpavicius and other agents said they are encountering price expectations that defy local statistical norms.

"There's a type of seller who expects they'll be able to finance their 2-year-old daughter's Yale education on the sale of their two-bedroom, two-bath," said North Side agent Lino Darchun. "They don't understand the concept of 'comps,'" or market analyses of comparable previous sales.

Mike Malloy took a long, hard look at the "comps" last weekend when he met with Downers Grove agent Veneris to discuss putting his Woodridge home on the market.

"If this were last year at this time, I'd be telling him to go \$10,000 higher," said Veneris.

Malloy, who with his wife, Maureen, wants to move to Beverly in order to be closer to family, said he is philosophical about the \$10,000 difference

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that a year can make. He's not greedy, he said.

He paid \$199,000 in the heat of the boom; the home had been on the market just one day when he bought it in 2003. He figures he'll do well if it sells anywhere near his \$274,000 asking price.

"I've only been here three years, so either way, that's a lot of money," he said.

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