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Shore home prices still falling

By Alan J. Heavens

Inquirer Real Estate Writer

Home prices at the Jersey Shore continue to search for a bottom, almost four years after the U.S. housing market took a downward turn.

An analysis of second-quarter 2010 sale prices in Atlantic and Cape May Counties, done by Econsult Inc. vice president Kevin Gillen for Prudential Fox & Roach, shows that the typical Shore house has lost 24 percent of its value since the market's peak in the second quarter of 2006.

By comparison, Philadelphia's single-family home prices fell 6.8 percent in the same period, U.S. prices dropped an average of 13.2 percent, and the average decline for New Jersey as a whole was 13.6 percent.

"This disparity is likely attributable to the fact that the market for Shore homes is disproportionately composed of vacation homes, rather than year-round primary residences," Gillen said last week. "As foreclosures have climbed along with unemployment and mortgage delinquencies, most households are incentivized to liquidate their second home or vacation home before doing likewise to their year-round residence."

On a positive note, the analysis showed the decline slowed to just 0.7 percent in this year's second quarter.

In addition, second-quarter sales from Brigantine to Cape May increased 77 percent, to 493 transactions from 278 in the first quarter. That was better than the seasonal norm, Gillen said; in a typical quarter, about 450 houses change hands.

The economy's struggles have slapped the U.S. vacation-home market hard: In 2009, 533,000 such homes were sold, half the record 1.07 million sold in 2006.

What's more, and what explains much about the Shore's price declines, the number of vacation-home purchases by investors nationally also has plunged since 2006 - to 940,000 in 2009, from 1.65 million in 2006.

Investors - those who buy vacation properties almost exclusively to rent them to others -

played an overwhelming role at the Shore during the real estate boom.

In 2005, said Moody's Analytics Inc. chief economist Mark Zandi, "76 percent of loans to purchase a single-family home in the Ocean City metro area were to investors - the highest in the country."

"Yes, the boom, bubble, and bust in Jersey Shore prices is due, in significant part, to the rampant speculation in housing," Zandi said.

Bill Mesticelli of Philadelphia has sold two vacation houses and a rental property in Ocean City in six years. Even with a dip in prices of 14.7 percent since 2006, he said, "I think the market down there is still way overpriced.

"The mortgage companies are very tight with lending for second homes without a hefty down payment," Mesticelli said. "I plan to get back in the market in Ocean City in about two years, when I believe the prices will stabilize."

Although private mortgage insurers are not refusing to write policies in Shore towns, some have raised the loan-to-value standard, and thus the down payment necessary, in areas deemed "distressed."

How distressed is the Shore? Since 2007, there have been 10,527 foreclosure filings in Atlantic County, with lenders taking back 1,236 homes, according to RealtyTrac Inc., of Irvine, Calif., which tracks U.S. foreclosures. For the same period in Cape May County, there were 4,665 filings and 580 lender repossessions.

The hardest-hit town has been Atlantic City, where prices have nose-dived 63.3 percent since the market's peak, Gillen's analysis indicated.

The latest Bureau of Labor Statistics data show that the leisure industry accounts for 53 percent of employment in the Atlantic City-Hammonton area. Seventy-five hundred casino workers have lost their jobs in recent years, with a domino effect on the investors whose condos they rented in Brigantine, Margate, and Ventnor.

Atlantic City-Hammonton's August unemployment rate was 11.5 percent. The rate for the state overall was 9.6 percent.

And the situation appears to be worsening. Outside of the seasonal population, the area is not considered affluent - 11.1 percent of Atlantic County's 271,000 residents fall below the poverty line, the Census Bureau says.

Atlantic City-Hammonton's foreclosure rate is 8.1 percent, with subprime loans a factor in more than one-third of those. About 14 percent of this area's mortgages are seriously delinquent, according to a Center for Housing Policy study.

From what he has seen, Gillen said, subprime loans "were significantly more prevalent in the low-income areas of New Jersey than in Pennsylvania or Delaware."

"When you combine a greater decline in house prices - especially in the Atlantic City area - you get more negative equity, and hence greater numbers of defaults," he said.

Investment properties and second homes are not eligible for mortgage modification, so they are more likely to go to foreclosure.

Because real estate investors try to get in with as little skin in the game as possible to turn a profit, they typically do not make high down payments. Thus, fewer are likely to get mortgages these days.

It is a different ball game for those who buy vacation homes for their own use.

Alex and Beth Cerrato of Haddonfield bought a three-bedroom home in Ocean City three years ago, after waiting for prices to drop. But as bargains began popping up, they sold that property for a \$5,000 profit 18 months ago and bought a four-bedroom short sale closer to the beach.

"We aren't flippers," Alex Cerrato said. "This is the place we bring our boys and our families to gather for good times."

In Avalon and Stone Harbor, home to some of the Shore's most expensive dwellings, prices rose 59.3 percent between 2000 and 2010. They have fallen 18.8 percent since 2006's second quarter, Gillen's analysis showed.

The downturn has been far less kind to the Wildwoods, where speculative development loomed large during the real estate boom and prices soared 63 percent in 10 years. Prices have fallen 41.2 percent since 2006, Gillen's analysis showed.

Home values had to go up before they came down. Gillen's data indicate that between 1980 and 2010, Shore prices rose 154.6 percent, 55.4 percent over the last decade. At the same time, prices nationally increased 119 percent and 33.7 percent, respectively.

Since 2009's second half, Gillen's data show a marked slowing of price decreases.

"When prices first began to decline in 2006, they did so at an annualized rate of 4 percent a year," he said. "In the latter half of 2009, the rate of decline decelerated to only minus 1.4 percent per year."

Alex Cerrato isn't worried. He plans to own his Shore house for 20 or 30 years.

"Eventually," he said, "values will start going up again."

Contact real estate writer Alan J. Heavens at 215-854-2472 or aheavens@phillynews.com.

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