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## Home Economics: Comparing the housing slump of 1994 with today's

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January 13, 2012 | By Alan J. Heavens

The year 1994 was a bad one for real estate. In fact, by then, things had already been difficult for several years.

In 1987, the bottom had fallen out of the national market, the result of unsustainable price increases and overbuilding. By early 1990, the Philadelphia region had been caught up, too. And by some measures, the early to mid-1990s were even worse here than the current downturn has been, with Philadelphia taking the biggest hit.

From 1990 to 1994, city prices fell 17 percent, compared with 2 percent in the suburbs, according to economist Kevin Gillen, vice president of Econsult Corp. in Philadelphia, and it took 10 years, until 1997, for them to recover to 1987's levels. Since 2007, he said, home prices have fallen 16 percent in the city and 20 percent in the suburbs.

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Late in 1994, a group of experts was asked to weigh in with ideas on how to jump-start real estate. This week, a few of those same people were asked again for their thoughts.

Eighteen years ago, one recommendation involved reducing Philadelphia's real estate transfer tax, typically split between buyer and seller. It had already been trimmed once, from 5.07 percent.

"It has been a long time since I rallied the troops to go to City Hall and scream our lungs out to get it reduced to 4" percent, said Prudential Fox & Roach vice president Joanne Davidow.

In the context of today's market, Gillen proposed that Philadelphia offer a holiday on its portion of the tax, 3 percent (the state gets the other 1 percent) for six months to a year.

"Unlike many other cities, our problem is not plummeting prices but plummeting sales," he said. "We currently have a large backlog of inventory that we need to clear before we can return to a more balanced market.

"Giving people incentive to get into the market," he said, "would get the proverbial chain of dominos to start falling and clear that inventory."

Applied all over the region, it's an idea that could help reduce overall settlement costs, making home purchases easier for qualified buyers with good credit and jobs but low savings.

One difference between 1994 and now? Condo supply.

Production of condos accelerated after 1994, but as their numbers increased and prices soared, too many developers focused on units ranging from \$1 million to \$3 million instead of those that people could more readily afford.

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The result? "There is not a lot of condo inventory under \$500,000, because lower prices, low interest rates, and rising rents have let first-time buyers and investors snap them up," said developer/broker Allan Domb.

"At the same time," he said, "suburban buyers saw their equity drop and their ability to buy these high-price units disappear."

Making lower-priced condominiums available could tap into unsatisfied demand.

In late 1994, fixed interest rates were 9 percent, compared with this week's 3.89 percent. In response, mortgage brokers and lenders were recommending "alternative" products such as adjustable-rate mortgages.

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Today, as a result of lenders' having been too free with money and people having taken on risks they shouldn't have, mortgage rules have been tightened. The Dodd-Frank Wall Street Reform and Consumer Protection Act "took care of that," said Philadelphia mortgage broker and Realtor Fred Glick, referring to the reform package enacted after the financial collapse of 2008.

"There are five-year adjustables, with points, in the low 2's [percent range], and interest-only [loans] still available. But that's as sexy as it gets," Glick said.

"Banking regulations have made underwriting so tough," said developer Carl Dranoff, "that when people try to take advantage of low rates, they don't know what mortgage they'll get, if they get one at all. There has to be a middle ground."

Although the economy and unemployment remain a drag these days on the housing market nationwide, some things help keep the Philadelphia market more buoyant, the experts said.

"There is more hiring than firing going on here," said Glick, echoing Marcus & Millichap's fourth-quarter 2011 report on factors driving the region's apartment market.

"Low real estate prices and interest rates are the first seed, but the fact that rents have gone up and that people feel comfortable with their jobs is what is pushing them to actually look," Glick said.

Like 1994's market, 2012's is oversupplied with homes for sale and undersupplied with buyers.

In 1994, the experts were pushing "seller assists" to help buyers into houses. Sellers, said John Duffy, of Duffy Real Estate on the Main Line, are no longer greeting such talk with stunned expressions.

"They understand there are costs associated with selling a house," he said, "and that they have to look at net profit."

It has also taken a while to get another message across - that houses must be priced in a way that's appropriate for today's circumstances - but Duffy and others say sellers are getting it.

"This is more important than ever, and up to us to prove it," Duffy said, adding that he still gets people waving 2005 sale-price data "that should be thrown out."

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"Sellers have to be honest with themselves," he said, "and price their houses to the competition."

It used to be that one thing the housing industry could always count on was an election year, with candidates on both sides proposing some idea to kick-start the market.

Said Duffy: "I don't see one this year."

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