

[back to story page](#)
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Albuquerque home prices above average

By [Avi Shama](#)

For the Journal

Home sales in the Albuquerque Metropolitan Area are ready to take off, and their prices may be ready to stop sliding, if the recent declines in mortgage rates, brought about by the Treasury Department's takeover of Fannie Mae and Freddie Mac, continue to hold. However, compared with their affordability before the real estate bubble, Albuquerque home prices are still higher by about 15%, relative to average levels of income and rent.

Compared with the rest of the country, these findings reflect a healthier and more stable Albuquerque real estate market, supported by a healthier economy, thanks to the city and state's economic development efforts.

This conclusion is based on my use of several research approaches to assess home prices in Albuquerque, similar to the approaches used by Columbia University's Business School and by Moody's [Economy.com](#), and on my analysis of the impact on mortgage rates of the Sept. 7 takeover of Fan and Fred by the Treasury Department.

Mortgage Rates Approach:

Historically, the interest rate for a 30-year first mortgage loan has been 1.6 percent above the prevailing rate of the 10-year Treasury note. However, because of the uncertainty induced by the financial crisis, mortgage lenders increased the interest rates on mortgages that they issue by 0.9 percent, or by 16 percent relative to rates before the financial crisis. This situation has changed dramatically after the recent takeover of Fan and Fred, because, as part of the takeover, the Treasury Department guarantees all mortgages backed by Fan and Fred. Should this trend continue, potential home buyers will find it easier to get mortgage loans at lower interest rates, and they will qualify for larger mortgages. This will increase home sales, reduce inventory, slowly stop the small price decline of the past year, and, later, begin to firm up prices.

Ratio of Home Prices to Per Capita Income Approach:

This ratio results in the average number of years of work that it takes to earn the cost of an average home in Albuquerque. In the prebubble 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 means that the average Albuquerque home now costs 17% more than it did before the bubble.

Ratio of Home Prices to Rent Approach:

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, and it is similar to the price-earnings ratio used by stock market investors to evaluate different stocks. Using data from Realty Trac.net, this ratio in Albuquerque averaged 12.5 in 2000-2003. It went up to an average of 14.2 in 2004-2007. The difference between the ratios means that home prices in Albuquerque in 2004-2007 were higher by about 14% than prices in 2000-2003.

A small 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.

Supply-Demand Ratio Approach:

This ratio is an indicator of the balance between sellers and buyers. A ratio of six, or six months' supply, reflects a balance between supply and demand. Anything higher than 6 suggests oversupply, which may drive prices down. According to the Albuquerque Association of Realtors, in July 2007, this supply-demand ratio was 5.36 months, compared with 7.38 months in July 2008. The difference between the ratios means that in 2008, sellers have to wait an additional 2.02 months, or 38% longer to sell their homes. To move inventories faster, sellers reduced their prices a little, and the result was a small decline in the average price of homes sold in Albuquerque in the past year. If the recent declines in mortgage rates continue to hold, inventory levels will decline and the need to lower prices will not be as strong. By comparison, nationwide the supply-demand ratio is 11 months, suggesting more price declines.

The meaning of these findings to buyers is that, above all, buyers should work exclusively with buyers agents who, by law, must represent them and only them. Any other contractual relation with real estate agents (such as dual-agency relations) is less than ideal for the buyers. In addition, because the Albuquerque market is presently a moderate buyer's market, buyers can negotiate for somewhat lower prices, take little

time to make offers, and prequalify for a mortgage so that they can move fast once they make a purchase decision. Of course, if they intend to pay cash, they should negotiate for lower prices, because cash offers provide peace of mind to the seller.

Likewise, sellers should work with exclusive seller agents who have fiduciary responsibility to the sellers, and who follow the rapidly changing market conditions. Of course, sellers could insist to price their homes at the levels of the bubble period, but this could be a losing strategy.

From the Executive's Desk

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[Back to story page](#)