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March 18, 2001

Housing prices stabilize

By **DAVID PACINI**
Sentinel staff writer

CORRALITOS — John Colendich is remodeling his Corralitos home to get it ready to sell, and he's got a special deal for anyone ready to make an offer near the \$525,000 asking price.

Colendich will paint the house whatever color the buyer wants, and customize the remodel to fit the buyer's desires.

He wants to accommodate the buyer in part because they will be neighbors. But he also wants to make the house more attractive in a market the experts say shows signs of slowing.

"We're pretty much going through it from top to bottom," Colendich said of the 1,600-square-foot, three-bedroom home, which he bought as an investment with his wife Fran and friends Martin and Anita Lasich.

"We just thought it would be a lot more appealing," Fran Colendich said. "We thought it would make it easier to sell the house."

Gary Gangnes of Real Options Realty in Capitola called today's real estate market "transitional," with prices leveling off and more houses on the market.

That's good news to local businessman Del Weeks, who has spent the past two years looking for a home in the \$300,000 range. Two weeks ago, Weeks said, pickings in that price range were slim. Thursday, he said he was expecting a list of 17 homes in that range from his real-estate agent.

"Prices are even coming down in some areas," Weeks said. "With interest rates probably coming down in a couple weeks now, it looks like it's going to become more of a buyer's market. Things are looking better in that respect. There seem to be houses coming on the market that are not overpriced."

Gangnes compiles extensive statistics on the local market, which he uses to create graphs that illustrate local trends. He also provides narrative interpretations of the statistics and explanations of the forces

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he believes are driving local trends at his Web site, ror.com.

Gangnes said the fuel that was driving area home prices higher has burned out.

That fuel, Gangnes said, was the high-tech industry. With many tech firms downsizing — Cisco, Intel and Yahoo among them — fewer stock-leveraged buyers are in the market for homes.

"All this endless money is not there anymore," Gangnes said.

Gangnes said the number of jobs started increasing at a rate of 3,200 a month in Santa Clara County in 1995.

"It kept up that pace until the mid- to late 1998," he said.

As housing prices shot up in Santa Clara County, home buyers began to look further afield, including in Santa Cruz County. Gangnes said the relationship between the two housing markets is now easily defined.

"The Santa Cruz County market typically follows the Santa Clara County market, with the same trends happening in Santa Cruz some months after the trend begins in Santa Clara County," he said. "The average home price in Santa Clara County has been dropping since April."

Gangnes points to a number of other indicators to illustrate the change. For example, he says, sales of new homes in the West fell almost 19 percent in January, according to a U.S. Department of Commerce study. That's the biggest month-to-month drop since 1994.

In addition, the supply of local single-family homes for sale, known as the unsold inventory index, grew to 6.1 months in February, the highest it's been in more than four years.

That index, said Gangnes, is the most important predictor of future price movement and expresses the amount of time it would take to deplete the inventory of houses for sale at the current sales rate. With a six- to eight-month supply, inventory is normal and prices are stable.

The last time Gangnes saw a higher supply was in February of 1997. A year ago it was 2.7 months.

What's more, the relatively high supply is still growing fast, Gangnes said. As of Tuesday, there were 500 active listings and 202 pending listings. The 702 total is up from 657 the previous week.

One of the reasons the supply is growing fast is because single-family homes are taking longer to sell. For houses that closed escrow in February, the average number of days the houses took to sell was 59. That's double what it was when the market peaked in May and June of 2000.

At the market's peak, the median price for a single-family home was \$485,000, an increase of \$200,000 from three years earlier. The median price has not passed that amount since then.

In yet another indication the market has slowed, February saw 108 houses close escrow, the lowest monthly number in six years. In

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February 2000, 182 houses closed.




Despite the signs of a slowing market, don't expect prices to start plummeting, local real-estate agents say.

"My take on it is we've had a very fast-moving train that's just now chugging into the terminal," said Michael Blaz of Coldwell Banker Jackson and Mann. "I don't think we're going to see depreciation. Homes will continue to hold their value, but we will probably not see the 23 percent across the board appreciation we saw last year."

Prices are stabilizing rather than dropping because the state is still 100,000 housing units short relative to its population, agents say.

"We are cautioning sellers not to price their properties too high, and not to expect frantic overbidding," Gangnes said.

Contact Dave Pacini at dpacini@santa-cruz.com.

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