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Five Misconceptions about the Market

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After 20 years as a realtor in Pacific Palisades, I have experienced two recessions and two boom periods. We're now in a strong recovery, but I think it's important for buyers and sellers to keep these five misconceptions about our real estate market in mind:

1) It is a great time to sell and a bad time to buy.

Everywhere you look, people are saying "What a bad time to buy and what a great time to sell." Indeed, this is a hot seller's market and for buyers there are multiple offers on properties. But the reality is, if you do not have to sell, now may not be a good time to do so since we are only in the beginning of an appreciating market.

The Palisades real estate market has appreciated 15 percent in 2013 and we are still 15 percent from our 2008 peak. Every other real estate market (and for that matter the stock market) has always surpassed the previous peak and our current one will be no different. We expect, given the extremely low inventory, there will be another 15- to 20-percent appreciation over the next two to three years. So why sell a $2 million home today when there is a good chance it will be worth considerably more in a few years? For a buyer, while it may be frustrating trying to buy a home now, interest rates are still close to 50-year lows. Also, while prices are 15 percent higher than a year ago there is a good chance they will gain some nice appreciation over the next few years. Just like people are kicking themselves for not buying a year ago, a year or two from now people will also kick themselves for not buying now.

2) Using cost-per-foot analysis when comparing properties.

For certain situations like new construction homes or any condos, using cost per square foot may be beneficial. However, for most other types of properties this analysis can be quite misleading.

In general, in the Alphabet, El Medio and Via Bluffs neighborhoods, a new construction home would go in the $800 to $850 range excluding views, oversized lot, etc. In the Huntington it can be $900 per foot and the Riviera around $1,000 per foot.

However, whenever the land value makes up a majority of the value of the property you should not use cost-per-foot to analyze property values. For instance, if there is a small 1,500-sq.-ft. home on an Alphabet street lot asking $1.5 million, it can be confusing why a tear-down goes for $1,000 per foot. The reality is that the land is worth $1.5 to $1.7 million, so if there is a 500-sq.-ft. shoebox-size home on the property, it would be showing at $3,000 per foot. So when a majority of the value of a property is in the land, you can never use cost-per-foot analysis to compare the house.

3) Using monthly sales data as opposed to yearly sales data.

I see many prominent newspapers such as the L.A. Times as well as other large real estate firms comparing, for instance, March 2012 homes sales to March 2013 and seeing what the average or median price has appreciated or depreciated. The problem is that this data pool is so small the end result is very skewed.

To get the most accurate data you must use annualized data. For instance, 277 homes sold last year in the Palisades, but some months it was as low as 12 sales. So you can see that all it takes is a bank-owned property or a very high-end sale to throw all the numbers off.

The L.A. Times for years has published the monthly comparison. I have seen them report that the Palisades depreciated 45 percent one month and appreciated the same amount another month. As you can imagine, these huge swings are absurd. This is why one must compare at least a year's worth of data to another year's worth of data to really get an accurate indication of the market.

4) When interest rates start going higher, this will slow down the market.

With current fixed rates in the high 3's depending on the loan amount, credit, etc., even if rates go to 4.5 or 5 percent I do not see it having much of any effect on slowing down the market because buyers will just choose interest-only ARMs (Adjustable Rate Mortgages). This is exactly what happened a few years ago when rates were heading up and people wanted to keep their payments low.

Many experts are predicting that when rates start going up it will completely stall the residential real estate market, but this will not be the case. If rates are eight or nine percent it will have an affect, but this is not realistic in the next few years for interest rates to jump that much.

5) More inventory will be coming on in the spring.

I have heard from several people that they expect there will be a large influx of homes coming on the market this spring, but again, this will not be the case. Many sellers who do not have to sell are realizing we are in an appreciating market and therefore are choosing to hold onto their homes and not sell them. This is especially true of any seller that has negative equity or barely any equity.

With only 70 homes on the market, when normally we have had almost double that amount, there is so much pent-up demand that even if we had a flood of new listings, our Palisades market would have no issue absorbing this.

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