

Hot, hot, hot

Interest rates have risen, but frenzied competition continues to heat up Bay Area home prices

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Dozens of prospective buyers cause traffic jams, snatching up disclosure packets and racing to make the best bid in the least amount of time. The new season of TV show *The Apprentice*, or perhaps the *Amazing Race*? No, it's mid-season of home buying in the Bay Area.

Even with interest rates up from historic lows and talk of the real estate bubble bursting, buying a house has reached new levels of chaos and money. Homes routinely receive multiple offers, commonly selling for 10 percent above the listing price.

"I can't think of an offer I've written this year without at least one other offer coming in," said Linda Baker, a realtor with Alain Pinel in Los Gatos.

Baker thought the buying frenzy would calm down in the summer. But with inventory tight, multiple offers are the norm.

Bill and Lynn Coye of San Jose experienced both sides this spring, purchasing a four-bedroom San Jose home in March, and selling their one-bedroom San Mateo condo in April.

The house they purchased was put on the market Monday morning and received multiple offers the following Monday, after a weekend of open houses.

For their condo, they got two comparable bids for \$25,000 over the \$320,000 listing price. "I looked at the offer and thought I read the number wrong," Lynn Coye said.

There are several reasons for the continued real estate fury -- a recovering economy, low interest rates and a tight housing inventory.

"The economy is coming back," said Rachel Alexander, senior mortgage consultant with Pacific Guarantee Mortgage in Foster City. While buyers are anxious to purchase, home owners are set in outstanding mortgages, so no one wants to sell, she said.

And while interest rates are up from last year's lows, "Interest rates are historically still very good," said realtor Baker.

Some owners and prospective buyers worry about a market correction, which could devalue their homes, but the experts don't agree.

"Real estate tends to mirror the economy," Baker said. "When the economy is picking up, the unemployment rate is dropping, and real estate is going to mirror that trend. So people are smarter this time, realizing that even though we're doing multiple offers, over the long haul this is a good time to get into the market."

Each realtor has a different list of hot Silicon Valley markets, but they all include homes under \$1 million, in good school districts and well-kept neighborhoods.

According to Meryle Sussman, broker/associate with Cashin Company in Menlo Park, one reason for the overbidding is that sellers are listing their homes under market price. The underpriced homes create a slight frenzy, she said.

The houses still sitting on the market tend to be overpriced, poorly located or need work.

Susan Lindstrom, broker and owner of Elite Properties in Foster City, gave the example that in Oakland, older homes that were next to the freeway, didn't show well and were overpriced, were still on the market 60 days after listing. In contrast, a well-kept Oakland house, with views and a nice neighborhood, immediately received multiple offers.

"The hardest thing for buyers to realize, in this market, is that you have to be prepared for multiple offers," Alain Pinel's Baker said. "It's not a matter of paying list price, but paying over list price."

She said many of her clients don't understand this, and their first offer is rejected. Then they start bidding more aggressively.

Coye said they bought their San Jose home after bidding on two other properties. For their first bid, they offered their upper limit of \$750,000, and lost out to a buyer offering \$1,000 more with a higher down payment.

When they saw the home they ultimately purchased, Lynn Coye was determined not to lose it because of \$1,000. The Coyes bid \$751,000, 4 percent higher than the \$719,000 listing price, and made a 17 percent down payment.

Losing bids multiple times takes a toll. After bad experiences with their first two offers, bidding on the third was difficult. "I was a little shell-shocked at that point," Coye said. "My whole feeling was 'oh no -- we can't get that house -- it's too nice for us.' I didn't want to get attached to it."

Fortunately the Coyes hadn't stopped looking. But many do. "Some are very aggressively looking and then give up," mortgage consultant Alexander said. "I don't blame them, but I discourage them from doing so, because it's not going to get any easier."

Bidding isn't just tough on the prospective buyers, but also on the mortgage brokers and realtors. "Every time someone wants to bid on a property, a client wants a customized pre-approval letter, and there's only a small chance the offer will be accepted," Alexander said.

And how do buyers get the house? "In this market, you have to think quickly to be able to recognize what you're looking for and make a decision on the fly," Baker said. "You can't analyze it, debate it and do investigation up front, or you'll lose it."

The winning bids combine good financial offers with terms helpful to the seller, such as a requested closing length or an agreement to rent back to the seller. "Come in clean, preapproved with a big deposit check up front, with no or few contingencies," said Lindstrom of Elite Properties.

While Cashin broker Sussman said that it goes against her values, she has to tell clients that because of the multiple offers, they should be prepared to make an offer without contingencies for financing, property conditions or appraisal.

Quick closings of two to three weeks are common, as are promises which pull at the seller's heartstrings, like caring for the prize rosebushes or a beloved stray cat.

For the Coyes, that offer meant giving the seller 25 days free rent-back, and their agent dropping her commission by a half a percent. It worked. They beat out five other bidders and now call the 2,550-square-foot property home.