



**Morgan Brennan**, Forbes Staff

I write about real estate markets, outrageous homes and cities.

Subscribe

1.3k

BUSINESS | 6/28/2012 @ 8:54AM | 2,966 views

## The Housing Market's Latest Problem: Lack Of Inventory

When Janet Schindler snagged a listing in tony Presidio Heights last month, she was surprised to hear that her competition for the listing had valued the property at markedly less. Schindler, a real estate agent with [Sotheby's International Realty](#) in San Francisco, believed that with staging and some minor remodeling the single-family detached house could command between \$5.4 million to \$5.9 million in auction.

The two agents she beat out for the listing had suggested price tags 10-15% lower than hers. It was an estate sale. The property sat on a double lot but it had no view. But the neighborhood was good and so was the home's layout. After a brief flicker of doubt, she plowed forward with her initial valuation.

Turns out even Schindler was modest in her assessment. "When we went on the market, 20 people wanted disclosure packages immediately and when we set the bid date, we received seven offers," says Schindler. When homes are scheduled for luxury real estate auction, prospective buyers can usually make bids prior to the actual auction. The highest offer? \$7 million, at which the sale closed. "I couldn't believe it."

While it's still unusual for non-distressed homes to fetch more than their asking prices, the transaction sheds light on the buying frenzy (at least compared to the past four years) taking hold in many of America's most sought after neighborhoods. Realtors in various markets across the country report robust increases in the number of transactions transpiring. In some areas, prices are beginning to tick up in response.

The National Association of Realtors just released its [pending home sales](#)



[data](#), reporting that the number of contracts signed in May for existing homes was 13% higher than a year ago. Every region of the country reported increases. “Actual closings for existing-home sales have been notably higher since the beginning of the year and we’re on track to see a 9 to 10% improvement in total sales for 2012,” added NAR chief economist Lawrence Yun in a statement. The number of new home sales (new single-family construction) is up too, with 19.8% more transactions in May than a year ago, [according to the Commerce Department](#). The flurry of activity has NAR projecting a 3% increase in existing-home prices nationally this year and a 5.7% increase in 2013.

The surge is in some part due to the time of year– the [April to July home selling season](#) accounts for more than 40% of each year’s transactions– but there’s a bigger pattern emerging. Buyers who have perhaps waited on the sidelines to purchase a home are now feeling confident to make a purchase and investors are voraciously snapping up [distressed properties in search of higher returns](#) than they would yield with other assets. But this increased demand is being met with dwindling supply. Thanks to both [a dearth of new construction](#) and a [backlog of distressed homes](#) that haven’t come to market, inventory is dramatically down. Simply put, in many areas, there aren’t enough available homes.

“In the Atlanta area, we are 40% below where inventory was this time last year,” says Debra Bradley, managing broker for Coldwell Banker Residential Brokerage in Buckhead, Ga. “Generally inventory goes up this time of year, not down.” Bradley says Atlanta homes priced right are selling across all price points, from bank-owned properties to luxury mansions. An agent in Bradley’s office recently listed a luxury property for \$1 million; it went into contract a week later.

### **Gallery: 10 Cities Where Homes Sales Are On Fire**

NAR is reporting tight inventory levels throughout the U.S., particularly at the lowest price points where both investors and first-time home buyers have been the most active. Shortages in for-sale homes are even occurring in Florida and the entire western region of the country, particularly in the Sun Belt states hardest hit by the housing crash.

“It’s different today for a buyer being in the market,” says Rick Davidson, chief executive of [Century 21 Real Estate](#). “They might not find that deal of the century that they may have expected to find.”

Indeed. Multiple offers have become more commonplace and bidding wars have been cropping up regularly in the most sought-after neighborhoods. Some buyers complain that they are having a hard time securing a purchase, beat out by other bidders, let alone find a bargain. In Arizona’s Maricopa and Pinal counties, housing supply has dropped 50% since May of 2011. It’s pushed prices 32% higher since last year in the [Phoenix](#) area, according to the [W. P. Carey School of Business at Arizona State University](#).

“Most houses below \$250,000 priced realistically are attracting large numbers of offers in a short time, and many exceed the asking price,” says Mike Orr, director of the Center for Real Estate Theory and Practice at the W. P. Carey School of Business. He points to a Chandler home that recently garnered 84 offers. A Glendale house received 95 and closed at a sales price 17% above the ask.

“We are clearly in a seller’s market,” asserts Beth Butler, president of [ONE Sotheby’s International Realty](#) in Miami, Fla. “The [Dade County] inventory has been steadily dropping over the past 15 months. We actually do have shortages in the sought-after areas.”

Miami has been on fire. ONE Sotheby’s reported its best month ever in May, closing 191 transactions worth \$161 million. Year-to-date sales in the office are already \$150 million higher than over the same period in 2011. There are 32% less homes for sale in the Magic City metro and what is available is averaging 73 days on market — a 47% decrease year-over-year, [according to Realtor.com](#).

#### *Keep Reading...*

“You have pent up demand where people are actually waiting for properties to come onto the market,” explains Butler. In classic supply-demand fashion, prices are ticking up in response: listing prices are up 15.5% since last year, according to Realtor.com. Butler forecasts “considerable appreciation” in prices for the rest of this year — despite the fact that Florida has the highest level of distressed shadow inventory yet to hit the market. She’s especially bullish on Miami Beach, Coconut Grove, and waterfront property in Coral Gables.

#### **Gallery: 10 Cities Where Homes Sales Are On Fire**

Jed Kolko, chief economist at [Trulia](#), notes that home buying interest seems to be strongest in areas where prices were hit the hardest, according to both Trulia’s latest [American Dream Survey](#) and search activity on the national listing site. This is especially true where demand for larger homes is concerned. However, Kolko warns that the optimism being expressed by consumers may be running ahead of reality.

While inventory levels have been ratcheting down and prices ticking up in many places, there is still a significant glut of distressed homes yet to hit the market. When they do, they will likely be offered at discounted prices, a dynamic that runs the risk of stifling the blossoming price recoveries being experienced in states like Florida, Georgia and New Jersey.

Even so, realtors express little worry about the so-called shadow inventory still lurking on lenders’ balance sheets. “It’s not being let out to the [southern Florida] market in bulk. It’s coming slowly and it’s not seriously impacting the market one way or the other,” insists Butler. “Truth be told we could use the inventory!”

For more on the markets affected most strongly by the inventory crunch, check out this list of the [10 metro areas where homes are selling the fastest](#), courtesy of [Realtor.com](#).

—

*You can follow me on [Twitter](#) or subscribe to my [Facebook profile](#). Read my Forbes blog [here](#).*