

# The Housing Bubble

Examining the home price boom and its effect on owners, lenders, regulators, realtors and the economy as a whole.

October 13, 2007

## [This Time The Builders Are The Speculators](#)

A [report from](#) the Arizona Republic. "A Chandler man slashed his price by \$60,000 to sell his home so he and his wife could move to Ahwatukee. An east Mesa women accepted about \$25,000 less than her original asking price even after installing carpet, remodeling a bathroom, upgrading the swimming pool and adding a \$7,000 hot tub and a \$2,000 shed."

"Their tactics weren't extraordinary in the ongoing housing downturn, where prices are falling by double-digit percentages in some cases. 'Realtors need to have a discussion with sellers because appraisal value and market value are two different things now,' said Debi Gotlieb, a residential-real-estate agent."

"In nearly every ZIP code in the Southeast Valley, median home prices fell on a percentage basis over the past year, according to Information Market. The biggest percentage drop was 19.4 percent in the 85297 ZIP code in Gilbert. Another Gilbert ZIP, 85296, saw a 15.2 percent drop."

"Susan Estes, an east Mesa resident, was among those in 85208 who saw her home value fall by 8.1 percent over the past year in her area, making it hard for Estes and her

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husband to sell their 1,589 square foot, four bedroom, two

bath home.”

“Estes and her husband put their home on the market in December, took it off for one day in June and put it back on the next day. It was expected to close Friday, 270 days after it went on the market.”

“She originally asked \$255,000 for it, dropped the price to \$240,000 and sold it for \$229,500.”

“The deal came after Estes sunk \$7,000 into a hot tub, \$2,000 into a shed and thousands more into remodeling. ‘And we’re making \$5,000 off the sale,’ she said.”

“Some real estate agents argue that home prices have been inflated for so long that a market correction is overdue. ‘I had a family that couldn’t accept an offer, but as the market continues to decline a little bit, they probably wish they had,’ said Cindi Dewine-Barebo, a residential real estate agent specializing in the Southeast Valley.”

“For Gary Brown, selling his two-story home in Chandler was a chore that he and his wife were anxious to finish. They put their 3,000-square-foot home near Ray and Rural roads on the market last October for \$520,000 and sold it, twice.”

“The first deal fell through because it was contingent on the buyers selling their home, and that sale fell apart. After nine months of agent showings and open houses, the Browns sold the home in July for \$60,000 less than their original asking price.”

“Brown blames himself for not following the advice of his real estate agent, Gotlieb, who urged him to price the house at \$480,000. ‘You know, you get delusions of grandeur,’ he said.”

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- October 2007

The [Arizona](#) Daily Star. "The slowdown in Tucson's new-home market is far from over and may not turn around until 2010, a major local developer said at a conference."

"'We're going to have to forget about 2008,' said Don Diamond, chairman of Diamond Ventures. 'I think 2009 will show the bottom, but not come up from the bottom.'"

"Steve Betts, president and CEO of Tempe-based SunCor Development Co and Diamond said builders were partly at fault for the overproduction of housing, and they expect lenders will shy away from providing builders with funding for large-scale developments. Builders will instead have to work with local development experts to plan future projects, they said."

"'We've had a lot of corrections because of speculation in the market, and that's not good,' Diamond said. 'This time the builders are the speculators.'"

In [Business](#) Las Vegas from Nevada. "The median price of a Las Vegas home in September fell to its lowest point since January 2005 and recorded the biggest one-month decline at nearly 5 percent since the market peaked 15 months ago."

"The \$14,240 price drop to \$285,750 in September is \$29,250 below the peak of the market of \$315,000 in June 2006, according to the latest statistics from the Greater Las Vegas Association of Realtors."

"'The price drops are a concern because we have a situation where buyers are very cautious, and sellers are forced, with as much competition as there is out there, to do what they can to move their property,' said Devin Reiss, the Realtors' president. 'It's typical until buyers feel more confident and

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there is less competition out there. This is a reality right now.' ”

“There were 990 homes sold in September, a drop of nearly 25 percent from August and a 43 percent decline from September 2006. The median price of townhomes and condos also tumbled in September, dropping 8 percent to \$175,000.”

“That’s 12.5 percent below the price in September 2006. The number of sales in September fell 25 percent from August and 51 percent from September 2006.”

“The negative numbers reflect the credit crunch taking hold and preventing a large number of buyers from obtaining financing to purchase a home. ‘Without money, this market is going into a freefall,’ said Chris Thornberg, a Los Angeles-based economist who tracks the Las Vegas housing market.”

“Given the foreclosure and high inventory, prices should continue to fall, said Brian Gordon, a principal of Applied Analysis, which tracks the housing market for the Nevada Association of Realtors.”

“‘I think it will continue until there is more of a balance,’ he said. ‘And when you have 40 foreclosures per day, it is difficult not to have downward pressure on prices.’ ”

“Las [Vegas](#) Valley homebuilders have been forced to slash their prices to lure buyers, and the credit crunch has worsened the problem as evidenced by an increasing cancellation rate.” “But the question is, if that’s the case, why don’t builders shut their operations down and wait for the market to rebound?”

“According to some of the analysts monitoring the Las Vegas housing market, builders have essentially done that. Builders

are on pace to construct fewer than 21,000 homes by the end of the year, which is 46 percent off a high of 38,782 in 2005. They are also on pace to take out fewer than 15,000 building permits, less than half of the 30,149 issued in 2005.”

“But why not cut back production even further?”

“Builders can’t close their doors when sales are going poorly as they need to sell homes even if they are not profitable, said John Burns, a national housing expert. ‘You have interest on loans to pay back and people you have to pay and you have expenses,’ Burns said. ‘They will bring in revenue. Whether they are making money or not, they have to recoup as much as they can to pay down their debt so they can be in great shape to buy land.’”

“An example of what’s happening in the market is with Las Vegas-based private builder Astoria Homes. The company is holding its first sale this weekend in its 12-year history by discounting homes as much as \$200,000.”

“Astoria Homes President Tom McCormick said companies like his stand to gain little by shutting down their operations even if they save their supply of land for better conditions.”

“‘We have good people and for us to keep those people, we need to keep selling homes,’ McCormick said. ‘This market will turn around, and when it does, I need quality people.’”

“The bid [to build](#) a master-planned development in Jean has stalled as a result of Southern Nevada’s current real estate slump.”

“MGM Mirage and American Nevada Company are partnering to build what has been announced as a master-planned community of single-family homes, condominiums, retail and

a locals-style casino on a 166-acre site.”

“‘Very candidly, we’re struggling with what exactly to do there,’ MGM Mirage President Jim Murren said in a recent interview.”

“‘The economics of a lot of the residential development are not there right now,’ Murren said. ‘We’re fortunate that we’re not sitting on inventory like homebuilders are currently. But the pricing umbrella and the cost of construction have created a difficult environment to make residential pencil out right now.’”

The [Lahontan Valley News](#) from Nevada. “As local real estate agents wrestle with more homes being on the market because of fewer buyers, three subdivisions in Fallon have had their final plans approved.”

“When Diamond Creek Subdivision, Bighorn Ranch and a condominium complex in north Fallon are completed, the housing market in the city will be more flooded.”

“Bob Getto, of Prudential, Ferguson, & Getto Inc., said Fallon once was once able to attract home buyers from people selling their homes in other areas. The high number of foreclosures and people being unable to sell their homes have stopped prospective buyers from moving to Fallon.”

“‘Buyers generally have to stay where they are at because they cannot sale,’ he said. ‘It’s the law of economics. The more homes that become available results in lower prices.’”

“Getto said he is well aware of the three subdivisions in Fallon where construction has yet to begin. ‘I do not think the time is right,’ he said, mentioning there are already 235 homes on the market. ‘Now is not the time to do new