

Written by Katie Somple,

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NOW WHAT?

Last December I wrote an article analyzing the current state of the market in which I stated, "Market corrections happen. Market recoveries happen. It's all a matter of degrees."

Degrees can be measured in many ways including the unprecedented number of valley wide short sales and foreclosures; the unprecedented amount of average days it takes to sell a Napa Valley home (nearly 200 days); the number of Realtors who have allowed their membership in the local MLS association to lapse; the level of difficulty to qualify for a loan; the rescinding of equity lines of credit; the unprecedented rises and falls in the stock market and the hail-mary world-wide efforts to salvage the collapsing economy.

As far as degrees go, it's reasonable to conclude we're experiencing the most severe market correction in our lifetimes. Who knew?

All we can do is fully understand the reality of the numbers and make good choices based on solid information. Here's a thumbnail sketch of how the St. Helena and the Napa Valley real estate markets have been affected so far:

Valley Wide

	Total Residential Sales	Average Days on Market	Median Sale	# Sales over \$2MM	# Sales under \$500K
2008, Jan-Sept	731	*196	460,000	26	432
2007 Jan-Sept	777	133	640,000	40	198
2006 Jan-Sept	967	96	635,000	40	201

St. Helena

	Total Residential Sales	Avg Days on Market	Median Sale	# Sales over \$2MM	# Sales under \$500K
2008, Jan-Sept	42	209	1,094,250	9	2
2007 Jan-Sept	57	153	1,100,000	12	1
2006 Jan-Sept	93	128	1,195,000	22	1

Currently there are 78 active residential listings in St. Helena at an average asking price of \$3,069,397 and an average number of days on the market so far of 141. Of these active properties, 27 are asking \$2MM or more. There are no current listings for less than \$500,000 in or around St. Helena.

Valley wide there are 918 active residential listings at an average asking price of \$1,155,096 and an average number of days on the market of 152. Of these active offerings 104 are asking \$2MM or more. 382 are asking \$500,000 or less.

The south end of the county is taking the brunt of the market corrections. For example, in 2006 American Canyon had 157 residential sales at an average sale of \$608,789. In 2007, when the tip of the iceberg on foreclosures was appearing on the horizon, total residential sales dipped to 86 total for the year, at an average sale of \$562,600. Year to date there have been a record-setting 166 (correctional) sales at an average price of \$386,348.

Napa hasn't fared much better in value losses. So far in 2008 the average selling price of the 483 homes that have sold is \$588,608, compared to 688 homes sold between January and October of 2006 for an average of \$730,267.

Returning to the article I wrote nearly one year ago, I stand by the market correction cycle and projections of recovery I made then: "When *must sell* (aka correctional price) homes are sold, they create benchmarks for comps and appraisal values within their neighborhood or asset class, thereby establishing a temporary real estate weather pattern, which remains until the inventory of *must sell* homes gets absorbed."

Due to the great number of unanticipated short sales and foreclosures, Napa Valley's inventory of must sell homes still looms large. Lenders say there is another wave coming as a result of sub-prime loans that were issued in 2005 whose interest rates are re-setting in 2008 and 2009. That is the clearest indicator that the market correction cycle has not hit bottom. Recovery will not begin until the inventory of must sell Napa Valley homes are purchased.

That is discouraging news for sellers, but great news for buyers who thought they could never afford to buy here-especially young families and new generations of longstanding Napa Valley families. Considering that life choice trends are returning to traditional values of staying close to family, this unprecedented market correction is the open door to the valley's historic real estate appreciation trajectory for buyers who thought it passed their generation by.

The market conditions are also ideal for low risk investors who need their real estate investments to pencil out. Napa and other parts of the valley are in a magic market where you can buy a house for a price that the rent will pay the mortgage.

The best description I've heard to describe the current real estate market compares it to a sharp falling knife that no one wants to catch. For those buyers who are buying for the long term, I differ with the assumption that buyers should wait until the knife hits the floor before making a move. By the time the knife makes a sound the market will be flooded with every other buyer who has been circling and waiting. The spurt of activity has proven in the past to flip the switch back to a seller's market.

My advice is to establish a strong personal relationship with a local lender. He/she holds the key to a closed escrow. They should have you on speed dial during this crazy market giving you updates and smoothing credit and qualification issues in advance. Simultaneously, call your local Realtor. Shop thoroughly, negotiate hard and buy a great location/location/location house now. These houses will sell first and, in the long run, will appreciate at a faster and higher level.

This factor should not be under-estimated: as a pre-qualified buyer in today's market, you're the prettiest girl at the dance. Your leverage power is higher now than it will be when the knife hits the floor and every other buyer is scrambling for it.

Katie Somple is Broker/Owner of St. Helena based LifeStyle Properties and WineryX Real Estate. She is the author of Inside Track Real Estate newsletter and maintains an active real estate blog on lifestyleproperties.com