



of New England

*2009 New England
Housing Market
Outlook*



Executive Summary

Foreclosures will Play Major Role in 2009 and Maintain Price Pressure

Despite the challenges ahead, prices, interest rates will benefit buyers; investors will pounce

Home foreclosures will significantly impact the New England real estate market in 2009, creating opportunities for first-time buyers and real estate investors, but keeping home prices at or near 2008 levels, according to RE/MAX of New England.

Jay Hummer, Executive Vice President of RE/MAX of New England, said the already-high foreclosure activity in the region will be pushed even higher by rising unemployment, salary freezes, stock market losses and other consequences of the sputtering economy. Hummer said that any improvement in the market won't occur until at least the third quarter of 2009.

"The foreclosures we saw in 2008 were caused by the sub-prime mortgage crisis. This year we're going to see a spike in fixed-rate mortgage foreclosures based on the changed financial circumstances of homeowners," Hummer said.

The New England real estate market will be affected in several ways, according to Hummer. First-time home buyers, aided by historically low interest rates and a moderate loosening of credit markets through the federal bailout effort, will buy in greater numbers. Investors, wary of the stock market, will push money into bargain-rate real estate deals. Banks, eager to rid themselves of foreclosed properties, will sell short, keeping home values at 2008 levels or even lower.

"We saw real estate investors come back in a fairly big way in the last half of 2008, and we expect that trend to continue," Hummer said. "By the end of 2009, the increased activity in first time buyers and in investment buyers could significantly cut down the overall inventory. This would be the first step in rebuilding the value base."

About 130,749 homes were sold in New England in 2008, an 18.4-percent decline from the 160,377 homes sold in 2007. The steepest drop in home sales, about 25 percent, occurred in Connecticut, from 44,909 in 2007 to 33,552 in 2008. Although also showing decline, Massachusetts had the lowest percentage drop in home sales, with 13 percent fewer homes selling in 2008 than in 2007. The average 2008 home sales price in New England dropped nine percent, from \$323,071 in 2007 to \$295,124 in 2008. (MLS statistics through Dec. 16, 2008)

Average home sales prices in Vermont fell the least amount, about one percent, while those in Rhode Island fell the most, more than 15 percent. A primary factor in Rhode Island's drop is foreclosure activity. The Ocean State had the highest amount of foreclosures of all New England states in 2008.

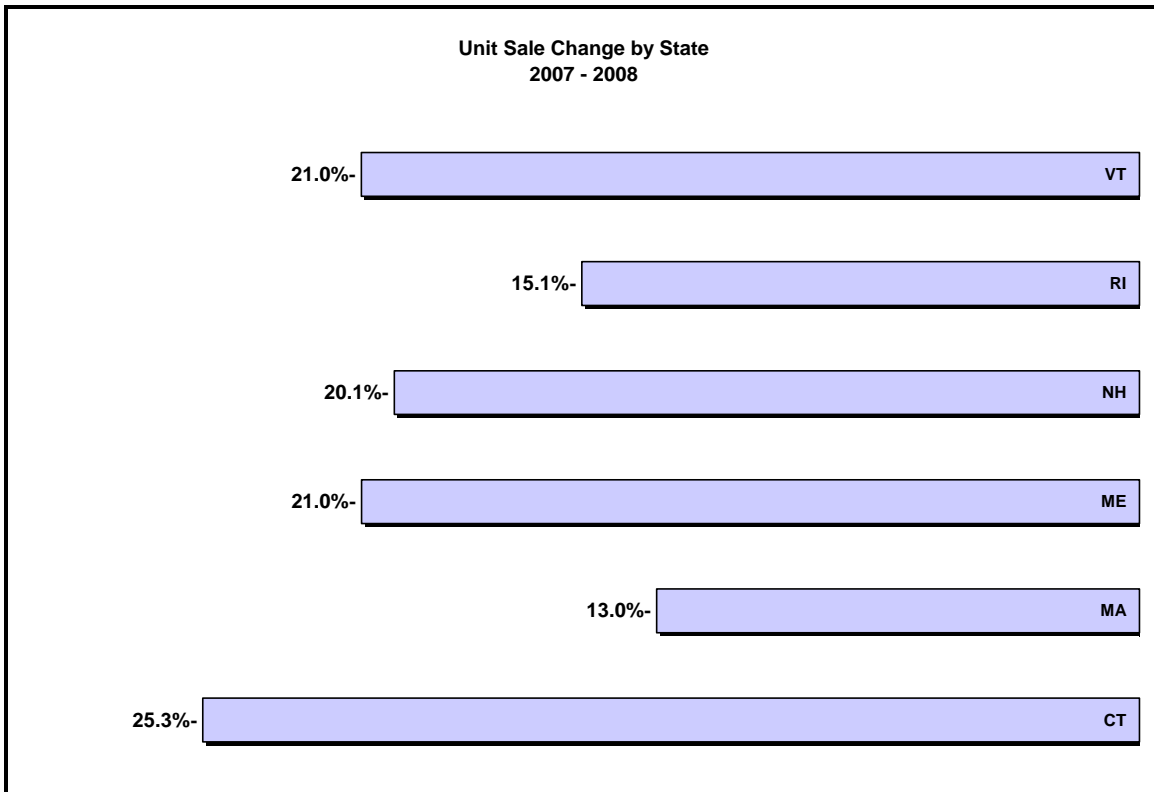
Attractive interest rates and low prices should keep 2009 home sales at about the same level as 2008, though average sales prices could drop by a few percentage points due to the downward price pressure presented by foreclosed properties.

“It’s not likely we’ll see any increase in sales volume or prices, considering the economic factors we’re facing. But, the market has to stop bleeding before it can begin healing, and 2009 could be a transition year toward a gradual rebound in the real estate market,” Hummer said.

A key component of a recovery would be Congressional favorability toward a set of buyer-focused ideas proposed by the National Association of REALTORS (NAR). One of NAR’s proposals is opening the \$7,500 tax credit for first-time home buyers to all purchasers, and eliminating the current repayment requirement – effectively changing it from a loan to a grant.

Sellers must recognize that buyers are driving the market and should adjust their strategies accordingly, Hummer advised. The number of foreclosed properties on the market, combined with the drop of net wealth and the effects of layoffs, salary freezes and increases in staples like food and clothing, will keep buyers focused on finding a bargain. With the inventory high and likely to get higher in the first half of 2009, bargains won’t be difficult to find.

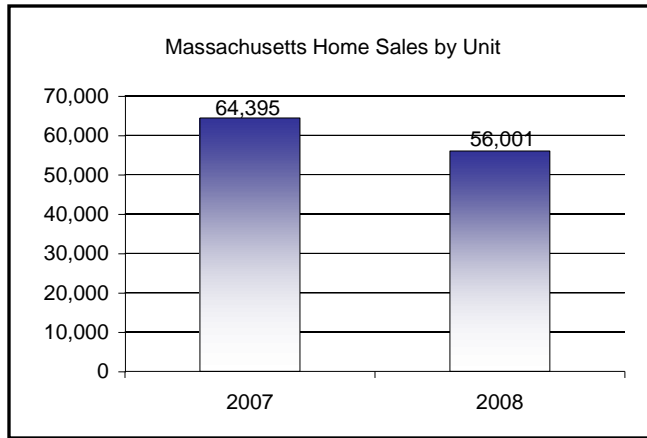
“Sellers have to be realistic in their expectations right from the start, because buyers can afford to be picky. If buyers don’t think the price is right they’ll move on to the next property very quickly,” Hummer said.



Jay Hummer, Executive Vice President and Regional Director for RE/MAX of New England has 24 years of experience in the real estate franchise industry, beginning his career in New York City in 1984. As Executive Vice President and Regional Director, Hummer oversees 275 offices and 3,200 sales associates throughout Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. The RE/MAX Internet web address is www.remax.com.

Massachusetts

Transportation considerations and bargain-seeking in urban areas hit by the sub-prime crisis proved a noticeable trend in 2008, as Bay State buyers leaned toward towns near public transportation and investors made moves on income-producing properties.



REALTORS across the state expect those trends to continue in 2009, with historically low interest rates and realistic pricing ushering in some hopeful signs by the third and fourth quarters.

While home sales dropped by 13 percent in 2008, and sales prices dropped by 9 percent, some communities felt less of a blow.

Communities like Arlington, Woburn, Medford, Wakefield, Reading, Abington, Waltham and Kingston have shown strength in the downturn, due to their proximity to Boston or their location on commuter rail corridors.

“When gas prices spiked up people started buying closer to Boston and in towns with rail service,” said Gary Rogers, Associate at RE/MAX First Realty in Waltham and President of the Massachusetts Association of REALTORS. “The areas between routes 128 and 495 without public transportation declined faster.”

Home sales prices dropped statewide by 13 percent in 2008, led by urban areas with higher concentrations of foreclosure activity. The pressure on prices lured investors seeking bargains on multi-family units, with strong activity in communities like Lawrence, Lowell, Worcester, Brockton and New Bedford. Broker/Owner Terry Sullivan of RE/MAX Advantage Real Estate in Beverly reported that 2008 multi-family sales were up 85 percent in Essex County compared to 2007.

“However, the multi-family market is only 3 percent of the total market,” Sullivan said. “But the fact remains that investors are recognizing good buying opportunities.”

Foreclosure activity has pushed prices lower in traditional vacation areas such as Cape Cod as well. In Hyannis, the average sales price dropped from \$607,000 in 1997 to \$436,000 in 2008 due to foreclosure pressure. Only waterfront properties on the Cape maintained value in 2008; all other areas showed decline.

Over-55 communities have seen a dramatic slowdown in sales as well as construction. Developers are attempting to change restrictions so they can market the stagnant units to younger buyers. Rogers says that a disproportionate number of houses on the market now are overpriced, but he expects that a surge of new, better-priced listings will come online after January.

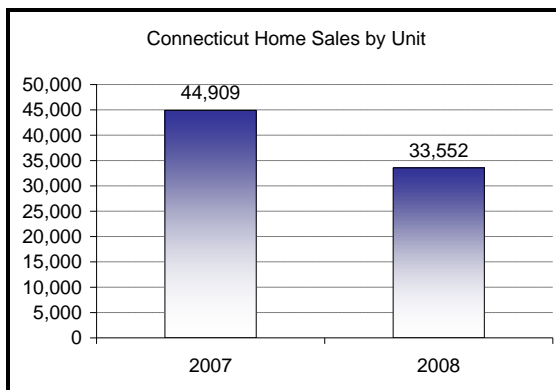
“If interest rates go the way they are forecast to go, we will see a resurgence of activity in the housing market,” he said. “It’s not a cure all, but it will address the number one issue causing market unrest—consumer confidence.”

Connecticut

The Connecticut real estate market took a particularly hard hit amid the economic downturn and sub-prime crisis in 2008. Home sales plunged by 25.3 percent from 2007, compared to the New England average of 18.4 percent.

Urban centers such as Hartford, East Hartford, New Britain and Bridgeport led the decline, due to the higher rate of sub-prime loans and adjustable-rate mortgages in those areas. But more affluent communities have seen a slowdown in sales as well.

“Layoffs in the major financial markets have had a big impact on communities like Greenwich and Stamford,” said Broker/



Owner Jeff Wright of RE/MAX Right Choice in Trumbull. “It seems that the closer you get to the New York line, the lower the house sales go.”

Nearly 11,360 fewer homes changed hands in Connecticut in 2008 than in 2007, the greatest number and percentage drop among the New England states. However, average sales prices were on par for the New England average, down 8 percent from 2007.

Wright points out that interest rates, inventory and a push by industry leaders to promote first-time home sales such as the Greater Bridgeport Board of REALTORS’

“Great Time to Buy” campaign, could lead to an improvement in 2009.

“We’re making a big effort to help first-time buyers with things like 6 percent down payment assistance, buying down two points, and other things,” Wright said. “Consumer confidence is crucial.”

While Hartford and East Hartford are struggling in the downturn, West Hartford has done relatively well, primarily due to reduced inventory and far lower foreclosure rates than in other urban areas.

Lou Mira, Broker/Owner at RE/MAX Premiere REALTORS in West Hartford, said major investment in West Hartford’s revamped downtown and new restaurants and stores have helped West Hartford’s market.

“We saw more first-time buyers in 2008 than in 2007, due primarily to the desirability of West Hartford and the increased affordability. A few years ago there was no inventory under \$200,000, but now you can find a home for \$175,000,” Mira said.

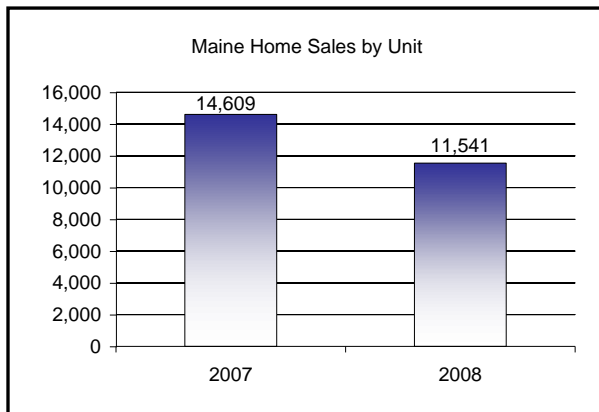
Mira, who has 25 years in the real estate business, expects the third and fourth quarters of 2009 to show signs of stability, helped along by low interest rates and low home prices. He hopes that the federal government will adopt the National Association of REALTORS’ proposal to change the \$7,500 purchase tax credit from a loan to a grant, and that the bailout leads to an easing of available credit.

“If someone has 5 percent down, they should be able to get a loan,” he said.

Maine

Oceanside vacation homes maintained their sales pace in 2008 in Maine, though the state did not escape the downward push in home sales that hit New England and the nation.

Unit sales dropped 21 percent in 2008, with 3,068 fewer houses changing hands than in 2007. Of the New England states, only Connecticut had a steeper home sales drop, at 25 percent. But Don and Sue Spann, Broker/Owners at RE/MAX Riverside in Topsham, say the state is positioned relatively well for 2009 given the



low foreclosure rate and the durable appeal of Maine's traditional strengths: the vacation home market, cleanliness, low crime rates and quaint communities.

"We also have a market in which the dynamics are changing," said Don Spann. "Not more than a year ago, buyers were looking outside of Portland because they couldn't afford to buy there. But the increase in gas prices and the drop in home prices changed that mindset."

Sales prices in Maine decreased in 2008 at about the same level as other New England states, at nine percent. Sue Spa says that the price drops have resulted in home buyers seeking better deals and home sellers having

to prepare themselves for vigorous negotiations and long on-market timelines.

"A price may sound very competitive at the moment, but in six or nine months the same home could be going for considerably less. Buyers have been watching the market, so they know what's happening," she said.

Some areas of Sagadahoc and Cumberland counties have maintained amid the tough 2008 market, particularly the coastal stretch of Cumberland County that includes Portland and York. But other areas, such as Westport Island in Lincoln County have not fared as well.

The outlook for 2009 and beyond will be impacted by the closing of the Brunswick Naval Air Station, scheduled for September 2011. Some 3,500 jobs will be lost on the base, and more than 700 former base housing units will ultimately go on the market, flooding inventory in the region. Area officials predict that about 2,600 homes will be affected by the closing, since some workers live off-base in single- and multi-family homes and apartments.

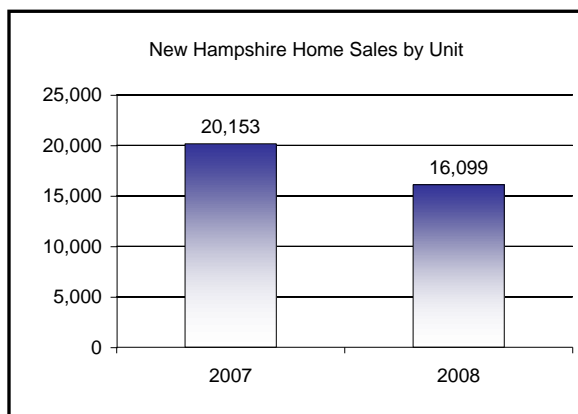
"Historically, a lot of first-time home buyers in the area have been military families, but that obviously will no longer be the case," said Don Spann. "But over time the transfer of the base to civil use could present a tremendous opportunity for folks."

Sue Spann expects 2009 to be an "era of opportunity" for buyers, given the low interest rates and continued price declines. "The government has to understand that the economic problems started with the housing market, and the solution lies in the housing market," she said.

New Hampshire

As in other New England states, deals for buyers will abound in New Hampshire in 2009, particularly in the inland regions of the state. While home sales dropped in 2008, New Hampshire may be one of the first states to see a rebound because of the state's low unemployment rate.

Broker/Owner Patti Kemen of RE/MAX Legacy in Dover said the Granite State's seacoast regions maintained steady sales through 2008 but that inland regions saw home sales decrease over the year.



“The fact that we’re the third highest state in the nation for second homes and vacation homes gives us some advantages in a down cycle, but we’re clearly not looking at a stable market at this point,” Kemen said.

Home sales in New Hampshire slid from 20,153 in 2007 to 16,099 in 2008, a 20 percent drop. The average home sales price dropped about eight percent, from \$266,223 to \$245,898. Foreclosures more than doubled in New Hampshire in 2008 amid the fallout from the sub-prime mortgage crisis, and Kemen predicts that foreclosures will continue to have a strong impact on sales

and prices through at least the first two quarters of 2009.

Condominium sales fell faster and farther than home sales in 2008, with unit sales down about 36 percent. Kemen said there is a direct correlation between the stall in condominium sales and pricing of the units on the market. Sellers must be aware that high condo fees may have to be offset by the asking price.

“The sellers are in the position of having to play catch-up with the market, which is difficult because the market fell so fast. With condos, as with houses, realistic pricing is crucial,” Kemen said.

The New Hampshire market is seeing more and more first-time homebuyers looking for houses priced below \$200,000, and fewer are willing to take on any major renovation projects when they buy. This is a key distinction between today's first-time buyers and the baby boomer generation before them, according to Kemen.

“The boomers weren’t afraid to take on fairly major projects when they purchased, but first-time buyers in this market are different. They’re looking for good prices on houses that are in turn-key condition,” she said.

Kemen said the job market, consumer confidence and government attention to the credit markets and unemployment causes will all play a major role in any future turnaround in New Hampshire.

“Foreclosures are dragging down prices, so the first step will be to keep people in their homes. If we do that, the housing market will turn, and when the housing market turns, it indicates a change in the economic climate,” she said.

Rhode Island

Foreclosure activity had a dramatic impact on the Rhode Island real estate market in 2008, particularly in urban areas such as Providence, Pawtucket and Cranston. The foreclosure market drove home sale prices in Rhode Island down 16 percent in 2008 compared to 2007, the biggest price drop of the New England states.

However, several communities weathered the 2008 foreclosure and economic storms fairly well, according to Broker/Owner Rob Scaralia of RE/MAX 1st Choice in Cranston.

“There are certain communities that went unscathed by the short sale and foreclosure activity that drove home prices down in other parts of the state,” said Scaralia. “Exeter, Charlestown, Narragansett, Barrington, Warren and the east side of Providence seemed fairly immune to the price pressures.”

In some of those communities the average sales price rose in 2008, Scaralia added.

Overall, 1,697 fewer houses changed hands in Rhode Island in 2008 than in 2007, a 15 percent decrease. On a bright note, home sales dropped less in Rhode Island than in any other New England state in 2008 except Massachusetts.

The big dip in sales prices, however, is directly connected to the high level of foreclosure activity in the Ocean State. Through the second quarter of 2008, about 1.2 percent of Rhode Island homes entered foreclosure, compared to the national average of 1.1 percent. About 27 percent of 2008 home sales in Rhode Island were attributable to short sales or foreclosures.

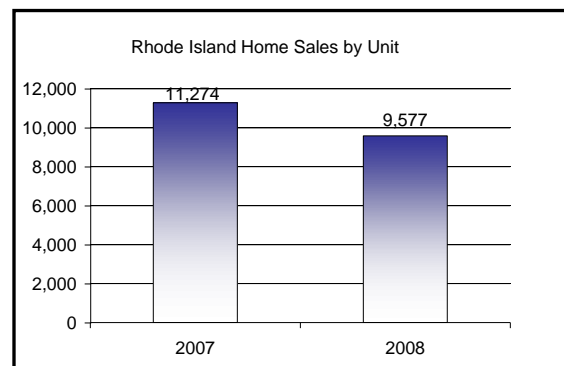
But there may be a silver lining in these numbers, according to Scaralia.

“These sales are removing a good portion of inventory excess from the market, and the sooner we do that the sooner we’ll come back to a healthier market,” Scaralia said.

First-time homebuyers were active at about the same level in 2008 as in 2007, Scaralia said, and indications are strong that they’ll become more active in 2009. Historically-low interest rates and an abundant supply of bargains, along with an expected ease in credit markets amid the federal bailout plan, will motivate first-time buyers. The only reservations some buyers may have is that the value of their new home will decline after they purchase. These concerns may keep some buyers on the fence as they wait for prices to fall further. But interest rates and tax credits will continue to pull buyers into the market.

“It’s all about affordability now. Buyers need to get in and they need to be able to stay in. The big outcry last year was that people couldn’t actually afford the homes they just purchased. We’re seeing that change now,” Scaralia said.

Another bright spot: Pending sales. They’re up compared to this period last year, Scaralia said.

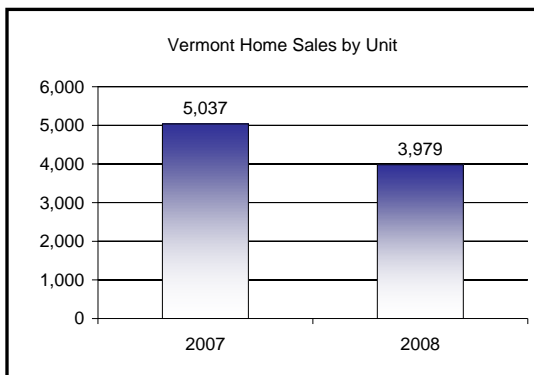


Vermont

The stock market collapse flattened vacation home purchases in Vermont in 2008, though home sales prices dropped far less than in other New England states, likely due to light foreclosure activity in the state.

“The banks are more conservative here, so we didn’t experience what a lot of other states did in that area,” said Broker/Owner Kathy Sollien of RE/MAX Maple Leaf Realty in Bennington.

About 3,980 homes changed hands in 2008, a 21 percent drop from the 5,037 homes sold in 2007. The low number of sub-prime loan foreclosures in the state helped maintain home sales prices, which dipped just one percent, from \$264,967 in 2007 to \$261,637



in 2008. In contrast, average sales prices dropped by 8 percent in New Hampshire, 9 percent in Maine and 16 percent in Rhode Island.

Sollien said the market in 2008 was similar to 2007 in that sales during the spring, normally an active time, did not materialize. Hopes that the sales would pick up in the summer were dashed as well.

While the state has seen significant layoffs in the auto parts industry sector over the last several months, the unemployment rate of

5.7 percent (as of November 2008) suggests that Vermonters may be better situated than many other states to take advantage of the buyers’ market that will continue into 2009.

“I think buyers will realize that at some point they have to stop trying to find the bottom,” Sollien said. “You’ll never know you hit bottom until the prices start to rise, so it makes sense to get in before that happens.”

Vacation home sales, and vacation condo sales in particular, have slowed to a crawl. Sollien says that second-home buyers are typically cash buyers, and the plummeting investment market has reduced the flow of cash that once made its way into the Vermont vacation home market.

Low interest rates and an expected ease in credit markets through federal bailout efforts have REALTORS like Sollien cautiously optimistic about 2009. First-time home buyers are typically looking at homes in the low to mid \$100,000 range, though some are eyeing homes at the \$250,000 mark, Sollien said.

“The financing situation will have a huge impact on how the market recovers, but I do think things will turn around. Confidence is the key. When people start getting more confident they’ll start going out and spending their money,” she said.

New construction has slowed significantly in the state, though there is a good amount of land available for sale. Historically low interest rates have led to a surge in refinancing activity.

Sources for Report

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