



A Coast-to-Coast Look at Housing

BusinessWeek writers asked buyers and sellers all over the country about conditions in their area. Here's what they said

In hot real estate markets from New York to Los Angeles, people are paying extraordinary amounts for very ordinary houses. Are they shrewd or suckers? *BusinessWeek* asked recent buyers in hot markets around the country to talk about what went into their purchasing decisions. We also talked to real-estate experts. Here are some of their stories:

"I'm Definitely Overextending Myself"

Leeann Fitzgerald, 29, recently paid \$525,000 for a condo in the Pacific Beach community of San Diego. Although she put just 5% down, she still needed help from her parents to scrounge up the down payment. To make the mortgage payments, she figures, she'll need to take in two roommates.

Fitzgerald is a financial analyst in commercial banking, so she knows how to run numbers. Why did she stretch so far? She wanted to have a place of her own. Says Fitzgerald: "I'm definitely overextending myself right now. I never expected to be in this much debt at 29.... I'm just hoping this was a good investment and it will pay off someday." -- Erin Chambers

"People Are Looking for Things That Are New"

Ben Joslin, 37, is vice-president for marketing at Domania, the online real estate site. He lives in a hot market, too -- the Boston suburbs. But when it came to selling his own house -- which had four bedrooms and one-and-a-half baths -- he missed the mark. He listed it for \$409,990 but eventually had to sell for \$375,000. He figures it's because the house needed some work. "A lot of buyers getting into their first house don't have a clue to repair a house.... People were freaked out by hiring a contractor.... There has been such a boom in new construction that people are looking for things that are new and need no work."

-- Lauren Young

"Property Is Still the Best Long-Term Investment"

Avram Goldman, president of Coldwell Banker in the San Francisco Bay Area, argues that "there's really not a bubble in the housing market." Still, some of his stories about ravenous demand for real estate sound like evidence for a speculative frenzy.

For instance, open houses are routinely mobbed. "In the past few months, we saw numbers like 75, 100, 200, even 300 people coming to our open houses." And even high-end houses are going for above the asking price. A 2,100-square-foot home in Menlo Park, Calif., near the border of Palo Alto, was listed for

\$1.395 million on July 1. He says the sellers got seven offers almost immediately and went with one for \$1.6 million.

Avram says buyers don't buy into the bubble argument. "There's an underlying feeling that property is still the best long-term investment you can make. People are still smarting from what happened in the stock market."

-- Lauren Young

"Philadelphia Is Exploding"

Susan Rudy is deep into betting on rising home prices. She bought four properties in the Miami area over the last four years, rented them out, and then sold them. She took the profits and moved north to the Philadelphia area, where she bought a \$349,000 condo with a 40% down payment. Says Rudy: "I'm maxed out, but I definitely have an exit strategy." When asked if she's worried about a housing bubble and rising rates, she says, "That's a consideration, but I know I can hold on to it for two years at least."

Rudy is convinced that she got a bargain. "Philadelphia is exploding in real estate. Old timers are getting out of the city and don't realize what the property is worth. I'm going to be buying and flipping these properties for sure."

-- Erin Chambers

"The U.S. Is the Safest Market"

John Zdanowicz, professor of finance and director of the Jerome Bain Real Estate Institute at Florida International University, is optimistic about Southern Florida real estate. He says "The bubble won't burst as long as Latin American countries have economic and political instability.... The U.S. is the safest market to invest in." He says Miami's three selling points are Florida's low taxes, the stability that attracts wealthy Latin Americans, and the famous Miami climate.

--Diana Middleton

"In San Diego, You've Just Got to Find a Way"

Mark Riedy, director of the Real Estate Institute at the University of San Diego, says prices are so high in the region that people talk about moving away. He fears that if housing becomes unaffordable, the region will lose recent college graduates as well as teachers, police officers, librarians, and others. It isn't happening yet, he says. "There's more talk about 'We ought to leave' than there is actual residents willing to do it."

Says Riedy: "With the climate and the beach as free entertainment, people are willing to sign an ARM [adjustable-rate mortgage] and get into the housing market despite the cost. We recognize the value here. In San Diego, you've just got to find a way to do it, change your priorities to make it work."

-- Erin Chambers

Packing Up the U-Hauls

It may still be just a trickle, but some people are packing up and moving away from expensive cities. U-Haul reports that in the first half of 2004, it helped 0.5% more people move out of San Diego than it assisted moving in. A year earlier, more moved in than out. Up the coast in Los Angeles, U-Haul says it helped 5.1% more families move out than move in during the past six months.

-- Chris Palmeri

"We're Like Johnson & Johnson"

Of course, big swaths of the U.S. haven't been affected by real estate mania. Case in point: Columbus, Ohio, where prices have been growing at a moderate 4% annual rate. Barb Heicher-Gale, an agent for Keller Williams Consultants Realty in Dublin, Ohio, says, "I think we're in a very nice position. The nice thing with Columbus is that we're...so diversified. We don't have the huge, huge profits, but we don't have the other swing too. California and Florida are like the dot-coms. We're like Johnson & Johnson. You won't get your appreciation all at one time here, but you will get a little bit year after year."

-- Lauren Young