

What's Really Happening In the Oahu Real Estate Market

May 1st. '09

As promised, I have produced the 1st. Quarter '09 Sales Report that will clearly show you the trends we are experiencing today. The graphs are in a new easier to understand format and should readily reveal to you what is happening in today's Oahu Real Estate Market.

Throughout '08 we experienced a general decline in real estate sales but many of us were perplexed that the Median For Sale and especially the Median Sold prices had not dropped significantly. Some real estate analysts reasoned that we are simply 'not the Mainland' and we are not going to see the type of decline the Mainland has experienced in Hawaii real estate.

I for one have never 'bought into this' reasoning and as I have mentioned in previous articles, the Median's are not an accurate method and that it is the Averages that portray a much more accurate picture of what is happening in the market. In an effort to explain my reasoning we need to consider that when a vast number of \$1,000,000+ properties either are listed or sold they have a tremendous 'weighted' effect upon the Median figures.

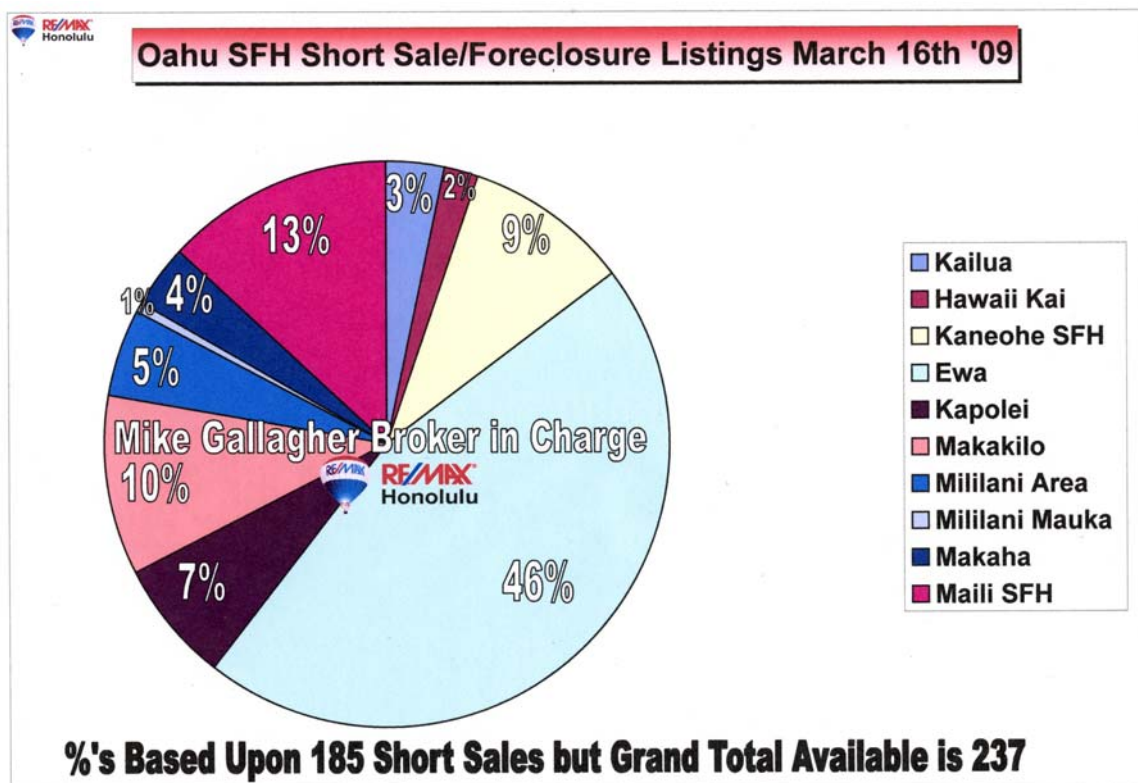
All throughout '08 these properties continued to be listed and sold which resulted in inflated Median figures. This was interpreted by many real estate analysts incorrectly and resulted in the reporting that Hawaii is not going to be 'like the Mainland.'

This is not the case now, as in '09 we are experiencing an absence of the high ended listings and sales and a dramatic increase in listings and sales of the lowest priced listings in almost every neighborhood across Oahu, the result of which is now showing up in our new 1st. Quarter graphs.

As this new trend of purchases in the very low end of price ranges available on Oahu increases we will see an increasing decline in Median and Average For Sale and Sold prices.

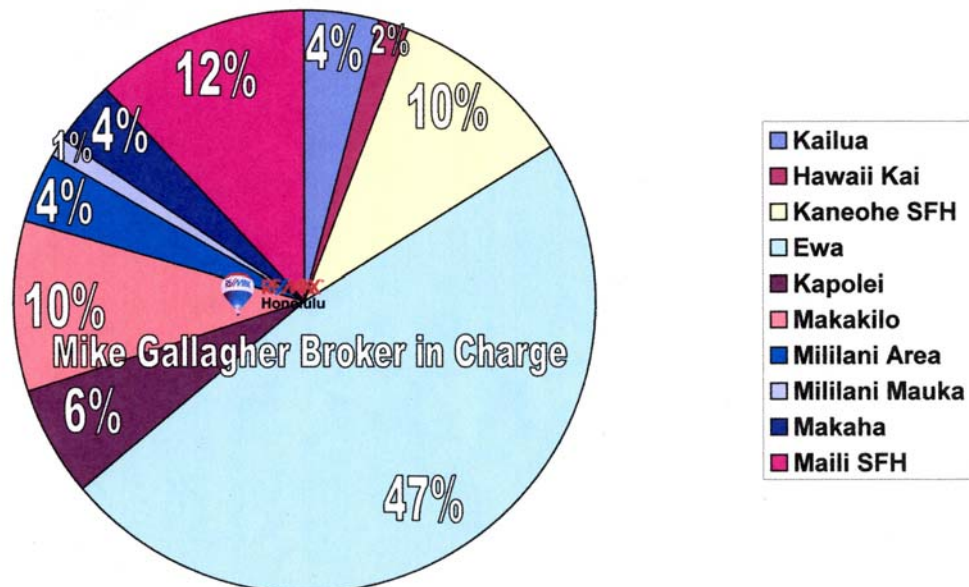
Further compounding the decline in Median and Average For Sale and especially Sold Prices will be the ever increasing numbers of Foreclosures and Short Sales. These two are now showing their effect upon home values in every neighborhood on Oahu. No area is exempt from this condition.

As of April 15, 2009 there are approximately 500 Foreclosures and Short Sales on Oahu. As of March 16th there were approximately 481. The result is a +4% increase in the Foreclosure/Short Sale rate in the last 30 days. A list of almost all Foreclosure and Short Sales on Oahu is posted on my website at: www.hawaii realestate statistics.com





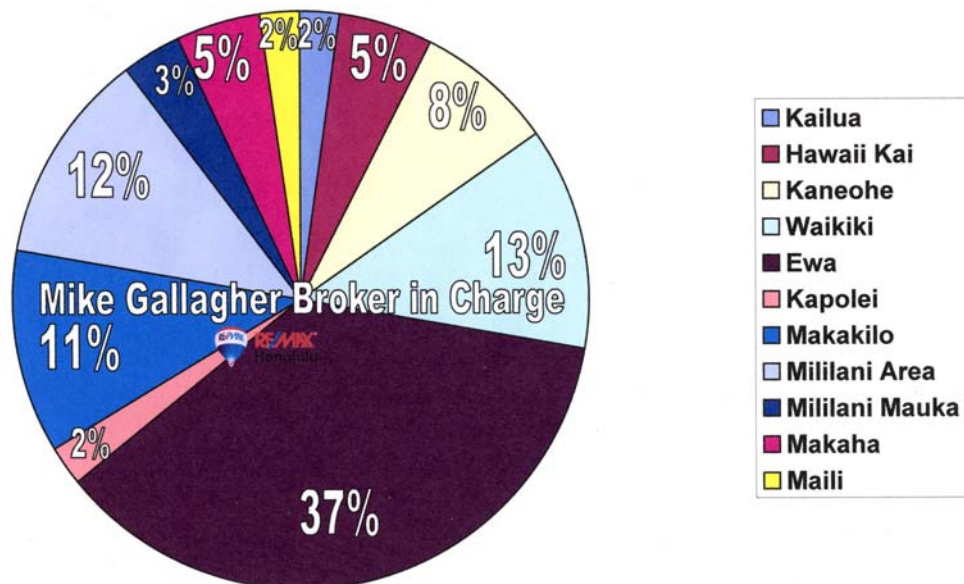
Oahu SFH Short Sale/Foreclosure Listings April 15th. '09



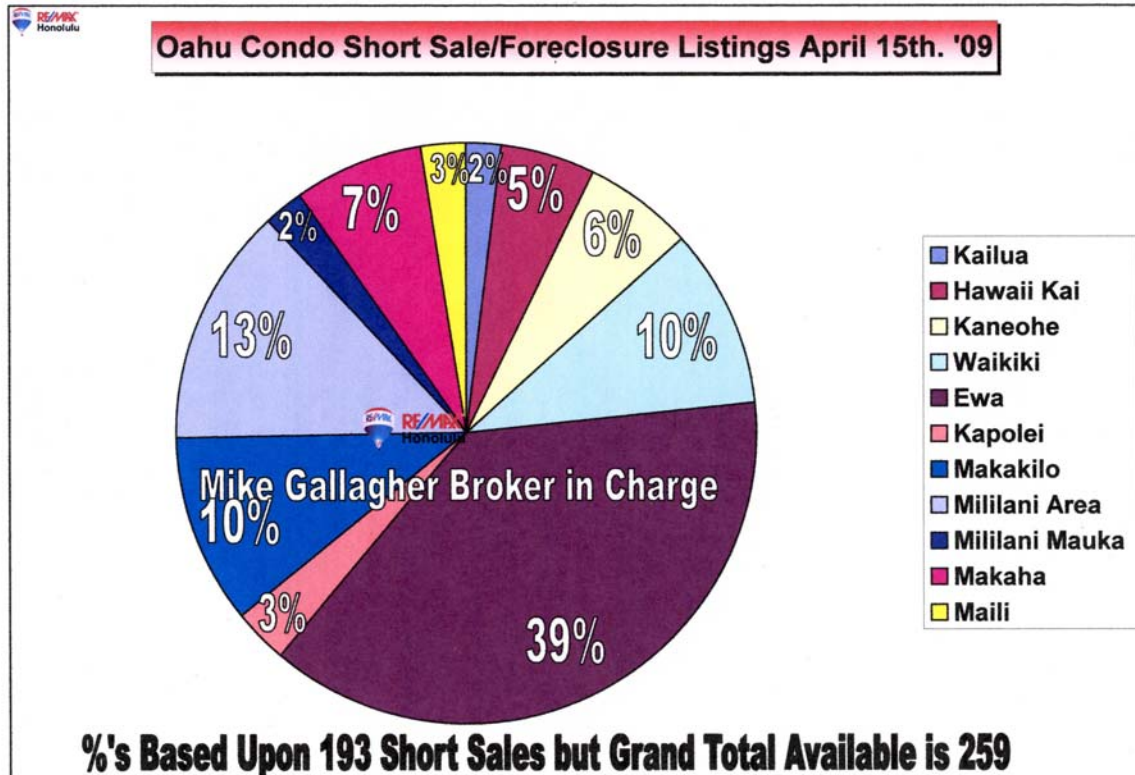
%s Based Upon 186 Short Sales but Grand Total Available is 240



Oahu Condo Short Sale/Foreclosure Listings March 16 '09



%s Based Upon 184 Short Sales but Grand Total Available is 244



I have often said that I predict the bottom of the market to occur late in 2010 and then more recently I have updated this prediction to early 2011. I hate to be the bearer of bad news but what I can see from these 1st. Quarter graphs is that it is still just the beginning of a market down turn that we are in with a bottom that just might be as far away as 2014. This updated prediction all depends how bad our economic conditions get and when.

I have also stated that I believe the worst of our economic news and real estate market trends for Hawaii are going to occur this Fall '09. I still believe that we have yet to see the worst of our economic decline in Hawaii but exactly when this is going to occur I am not sure.

I still think that this Fall '09 we will see a worsening of our current Economic statistics for Hawaii, dissimilar from the present conditions. After the Fall I believe we will still see a rising unemployment rate coupled with crippling increased taxes from both the Hawaii Legislature and our Federal Government. I believe the two will translate into a worsening of times in both our personal living conditions and the real estate market.

Top 10 Most Heavily Taxed States

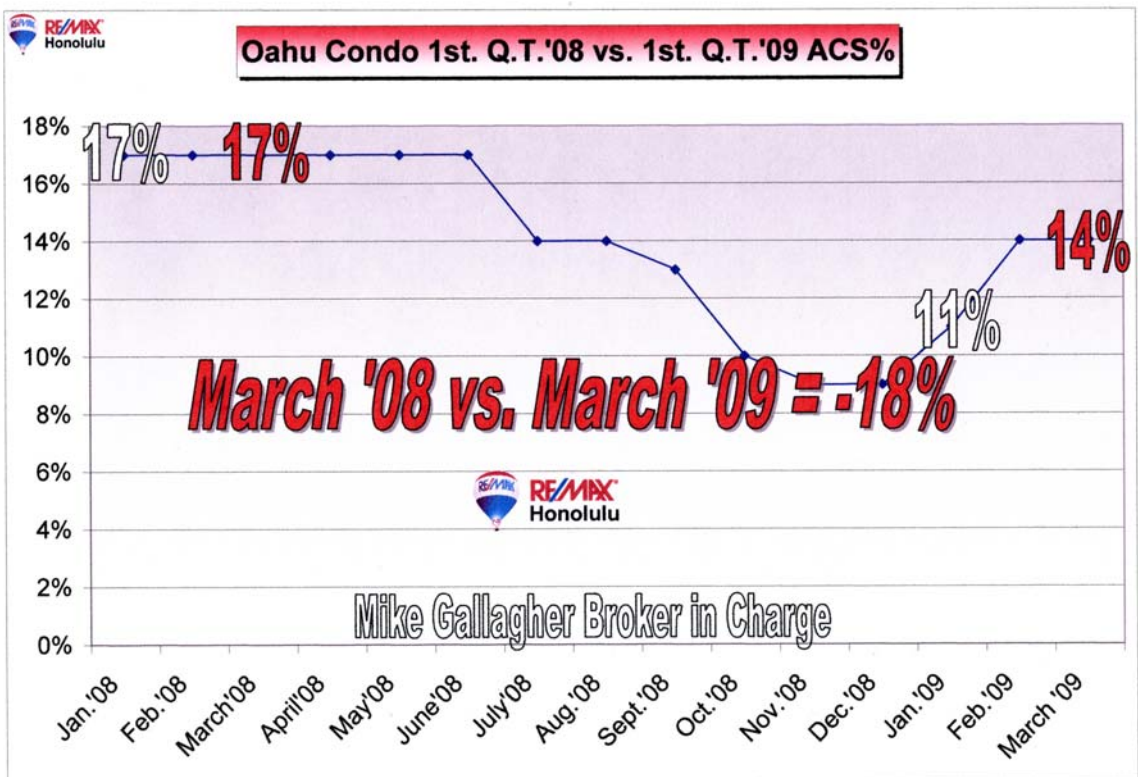
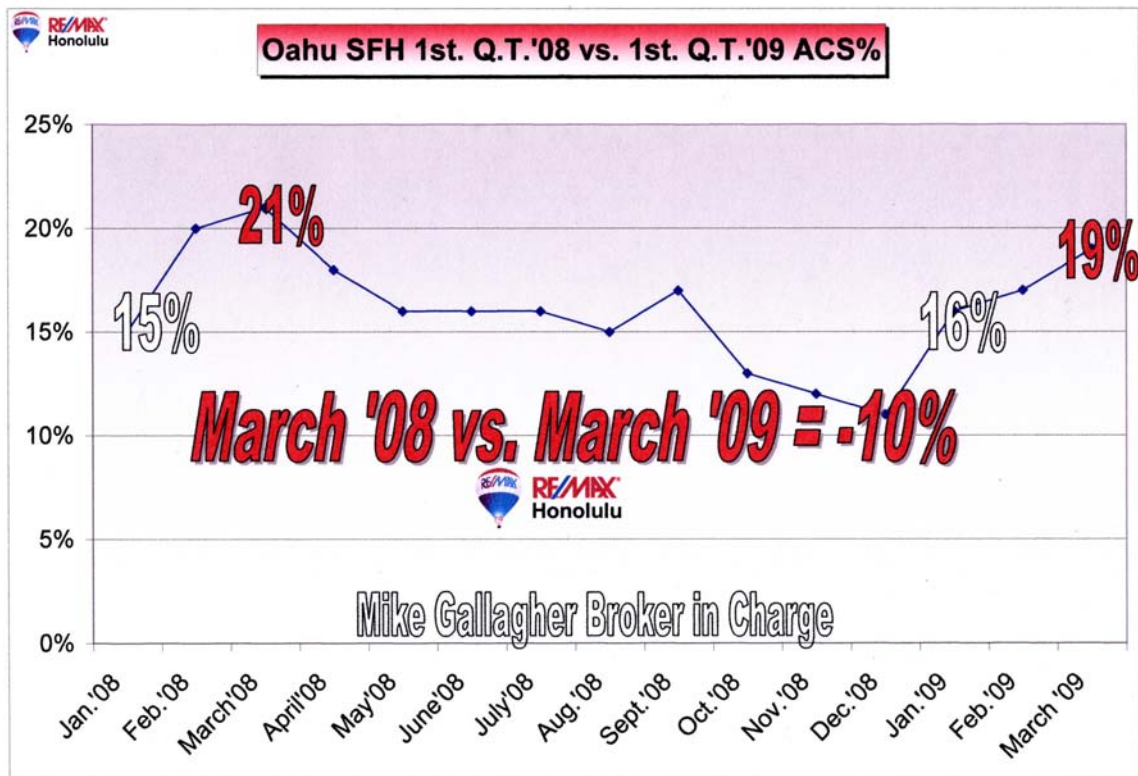
It's April, so people's thoughts are turning to taxes, and where they live makes a big difference in how much they pay.

Here are the 10 states with the highest taxes, including property, individual income, sales, alcoholic beverages, tobacco, motor vehicles, hunting and fishing, motor fuels, death and gift taxes, as well as insurance premiums. The per capita tax was derived by adding up all the taxes and dividing the total by the number of citizens.

1. Vermont, \$3,861
2. Hawaii, \$3,856
3. Connecticut, \$3,596
4. Minnesota, \$3,203
5. New Jersey, \$3,024
6. New York, \$3,019
7. Massachusetts, \$2,953
8. Washington, \$2,553
9. Wyoming, \$2,357
10. Pennsylvania, \$2,223

Source: Forbes, Matt Woolsey (03/30/2009)

Now for the graphs...



Remember, ACS is a percentage of the inventory For Sale that is in Escrow with a Just Accepted Offer. This data is no more than 4 days old as

mandated by the Honolulu Board of Realtors to its membership. I prefer to track demand by this method vs. tracking Sold data which is often 45+ days old. My method tells me in 'real time' what is happening with demand.

As you can see for both the SFH's and the Condos the demand is beginning to rise and as of April 15th the ACS for SFH's and Condos was 21% and 16% respectively. It is the beginning of the Summer Selling Season when the demand for homes is at its strongest time all year. Demand falls dramatically after the month of September.

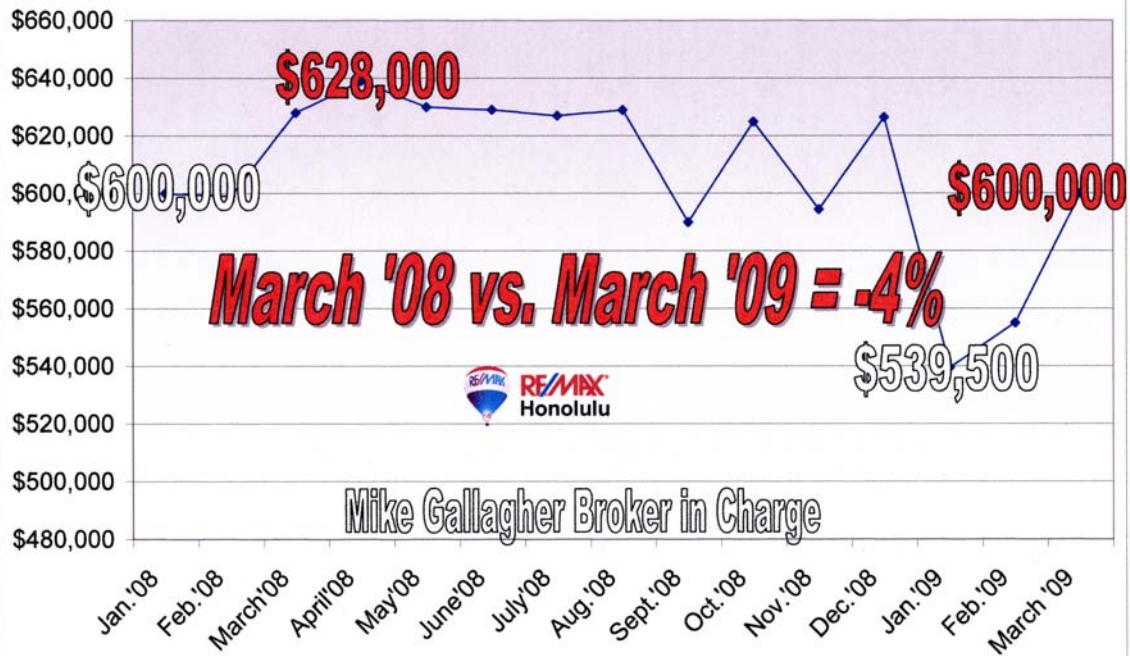
You will also note that the drop in SFH ACS is much lower than the Condo ACS drop. This is because during the last downturn (the Japanese Bubble) back in the '90's the volume of sales for Condos dropped by approximately -70%. Since this current downturn is not similar to the last I cannot guess where the bottom is going to be for sales on Condos but it would not be hard to imagine that it may exceed -70% considering the conditions of the World Wide Economy now.

It is Condos that are going to lead the way in this downturn just like it did in the previous downturn of the '90's. As the slow down in sales and demand picks up speed as the market goes through its current cycle you will at some point begin to see an increase in the drop in ACS % for SFH's.

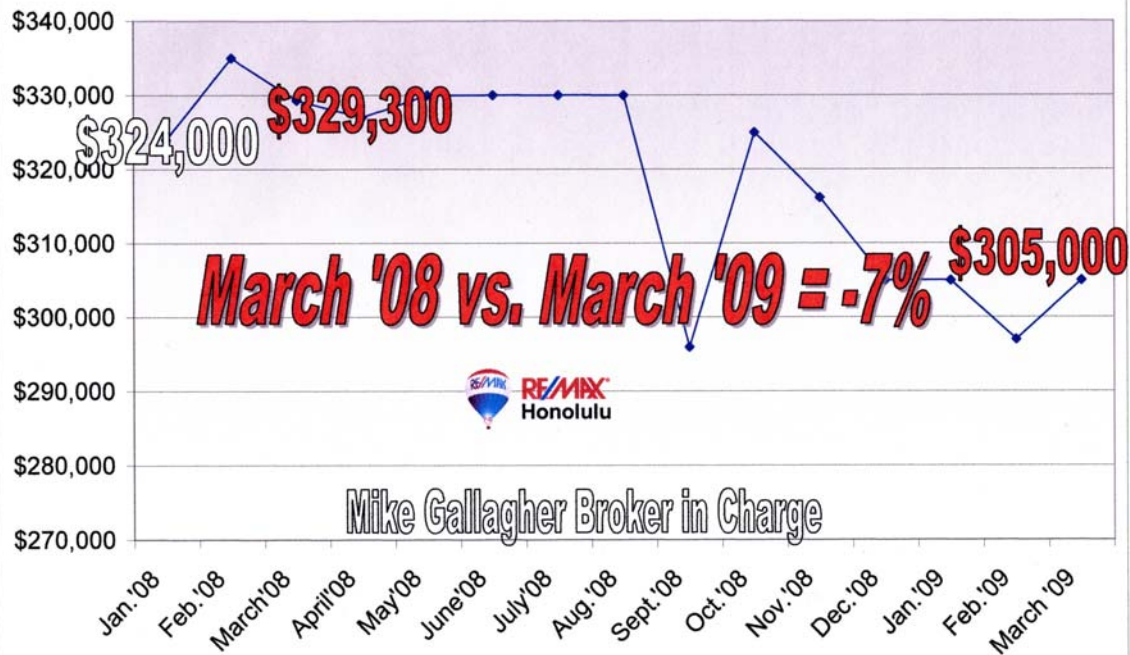
In addition, as the Condos loose value (Average or Median Sold Price) the 'gap' between the two charts showing Median Sold Prices, if you were overlap the charts, will widen and the SFH home prices will no longer have any alternative than to drop in concert with the Condos.

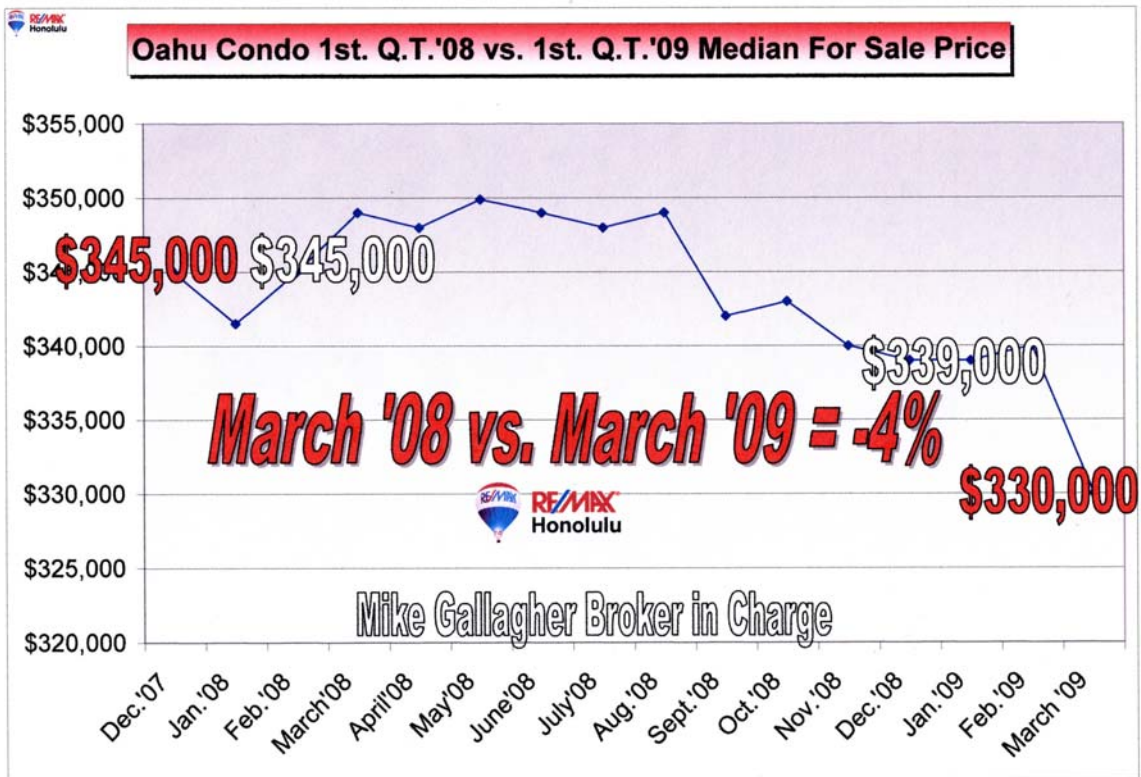
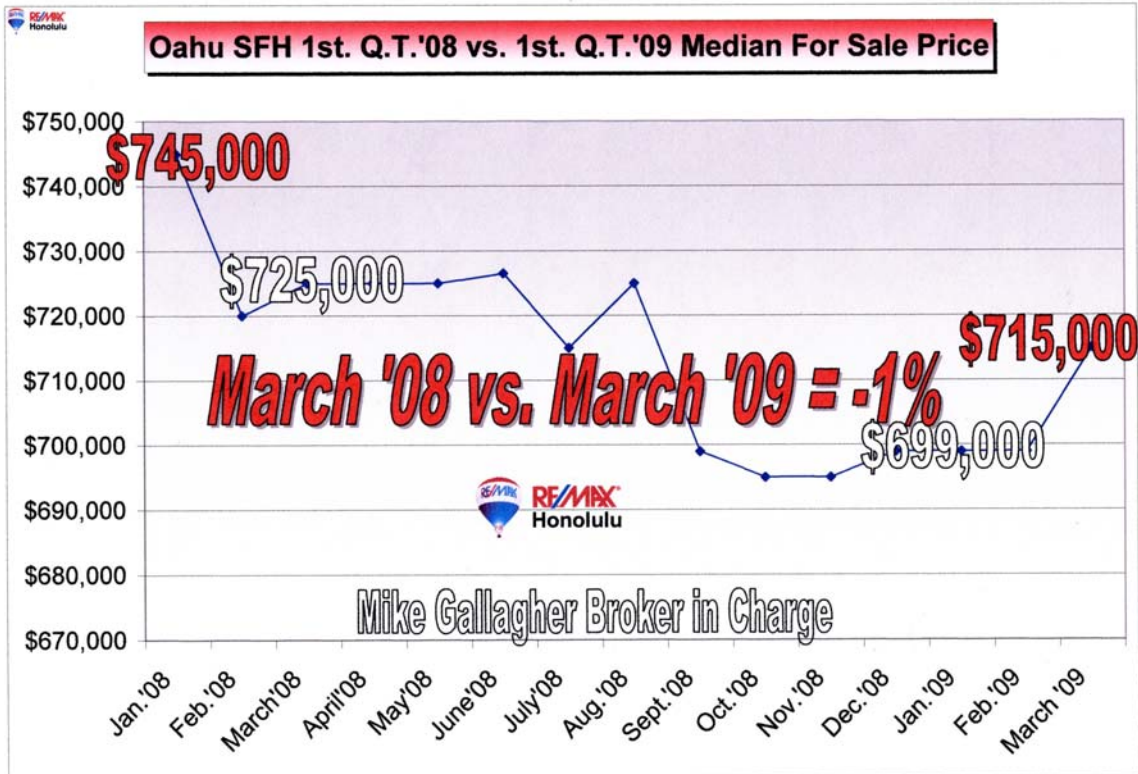


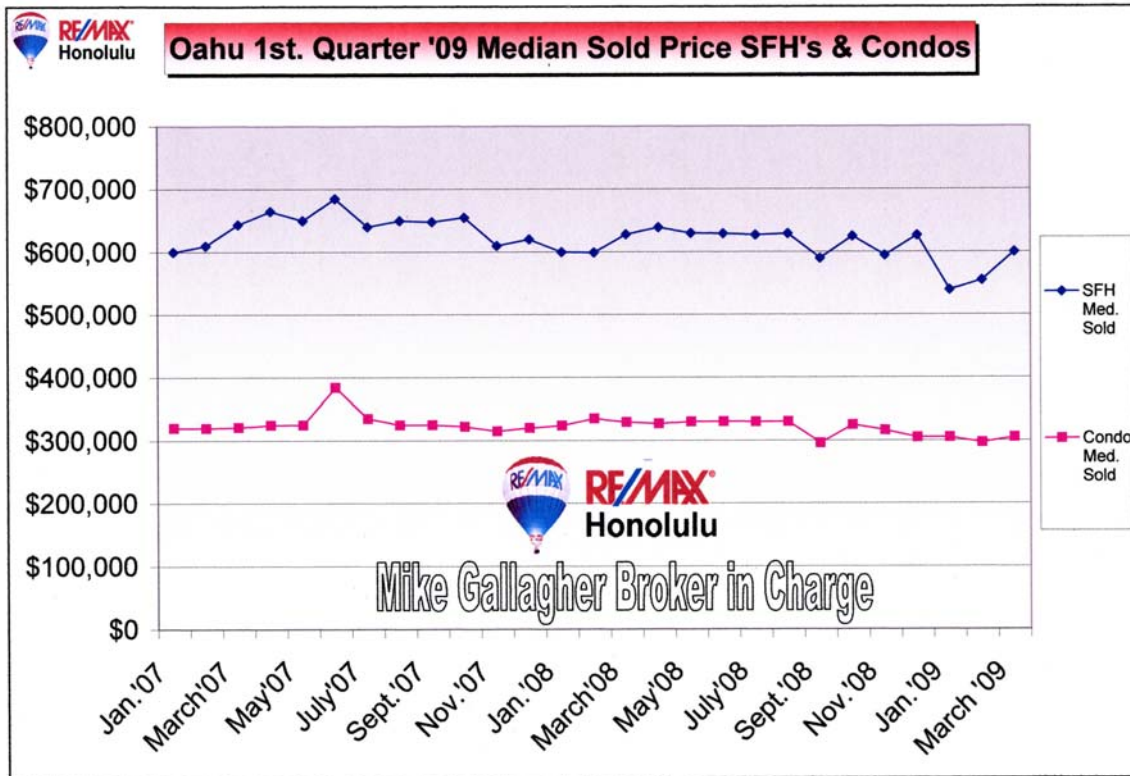
Oahu SFH 1st. Q.T.'08 vs. 1st. Q.T.'09 Median Sold Price



Oahu Condo 1st. Q.T.'08 vs. 1st. Q.T.'09 Median Sold Price







The below graphs depict the activity during the '90's when the last downturn occurred.

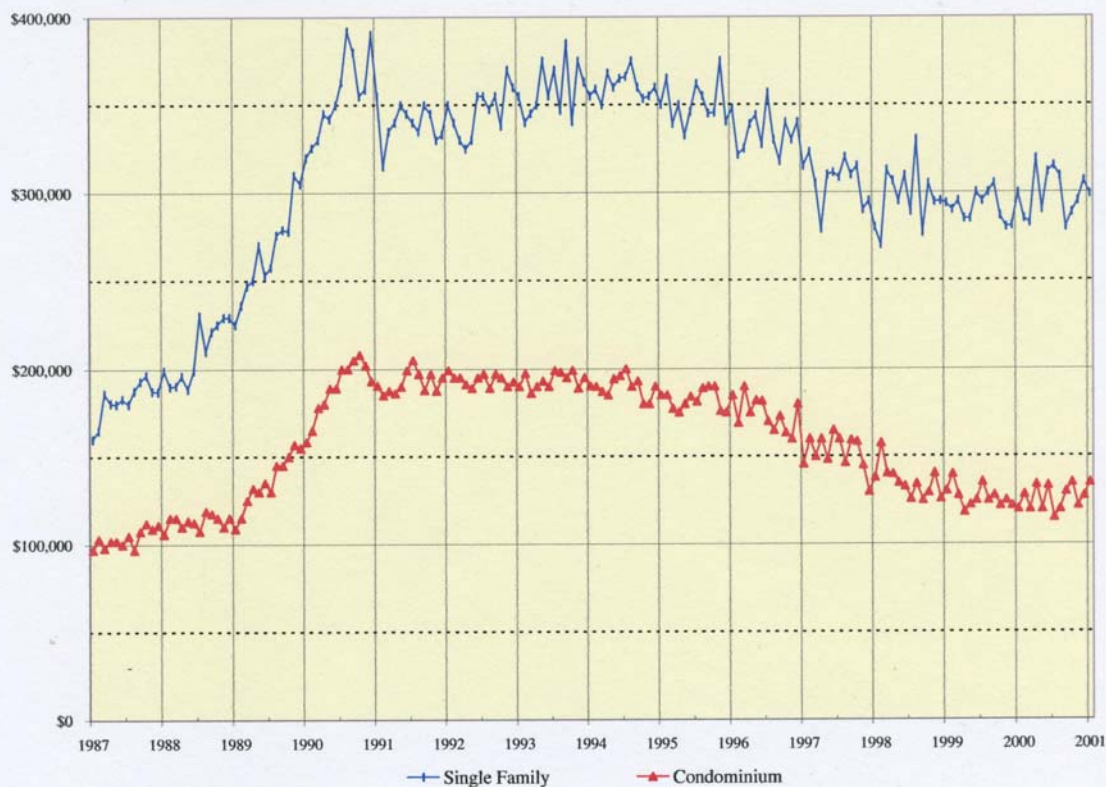
OAHU RESIDENTIAL PROPERTY SALES RATE

Annual Unit Sales Rates Based on Prior 12 Months

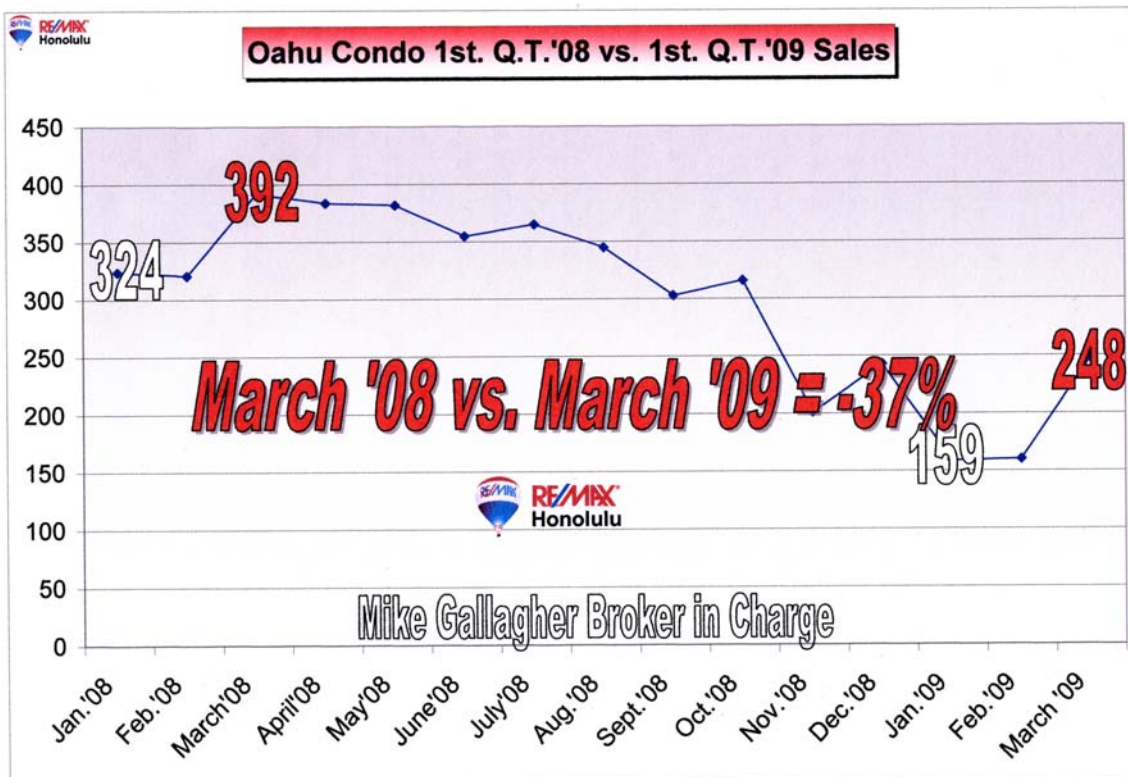
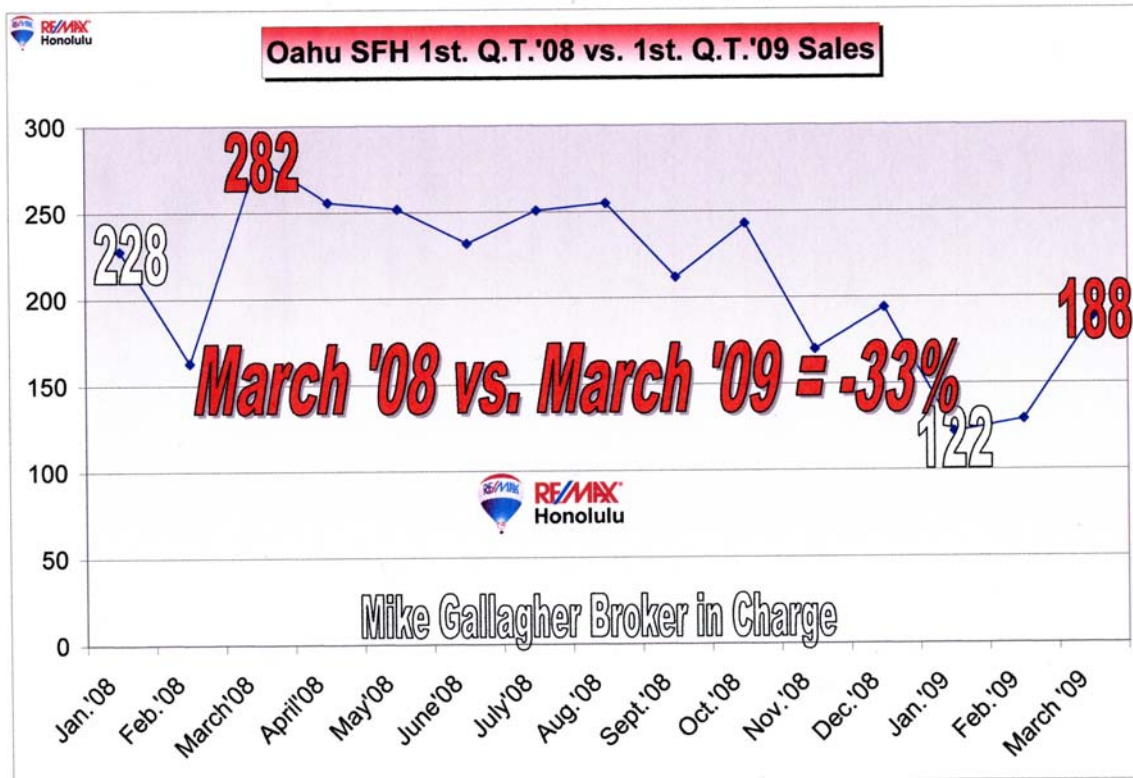


Whenever we start to see a confluence of these lines and a similar measure of activity we can 'assume' the market's return to recovery. The same can be said for the following graph.

MEDIAN SALES PRICES OF RESIDENTIAL PROPERTIES OAHU, HAWAII: 1987 - 2001, Monthly

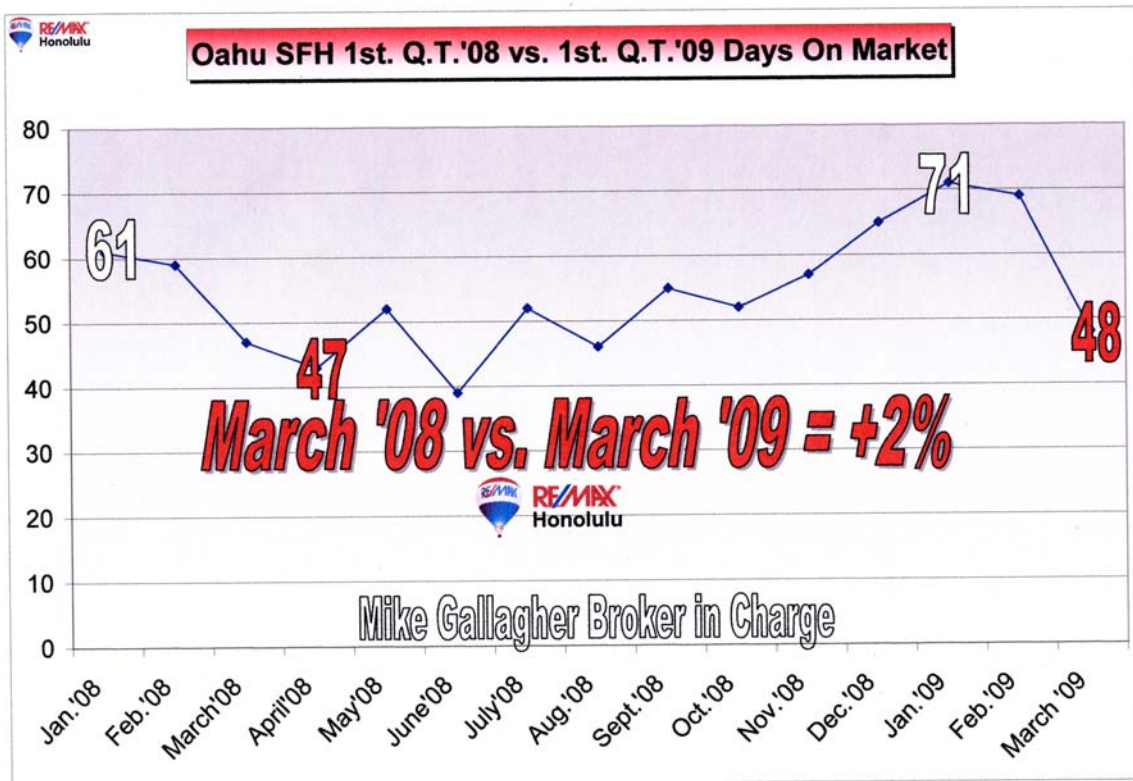


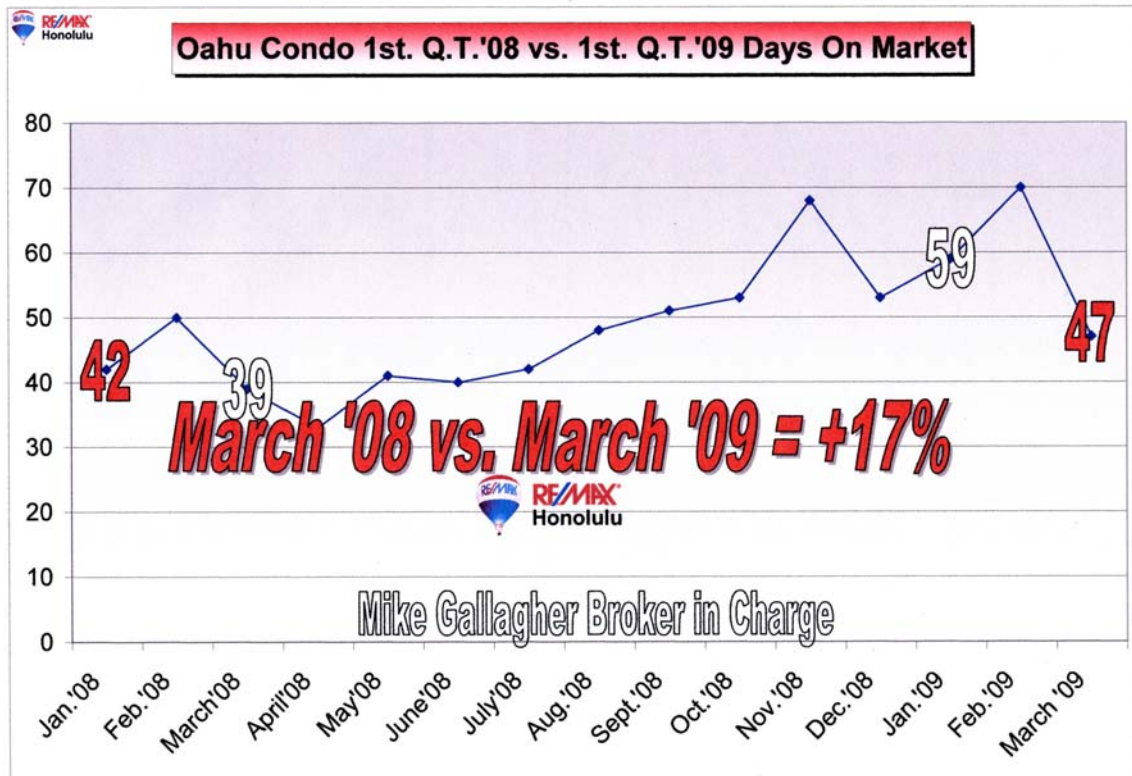
Please note that in any given year, say for instance 1997 to 1998, if you look at just that block above you will see each month of that year go up and down. It is not until 1999 to 2000 that we see a 'Flat Line' occur only when we compare the two periods. This is why these Quarter period graphs are so important to truly show us the way to understanding what is really happening.



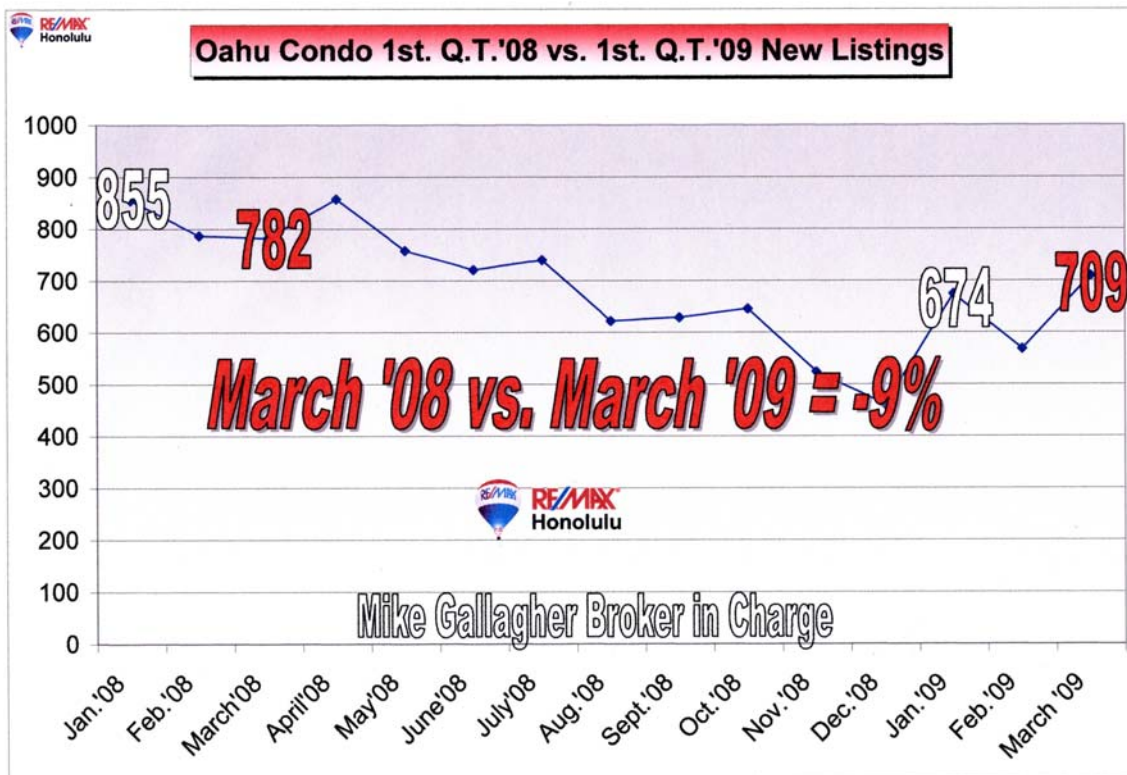
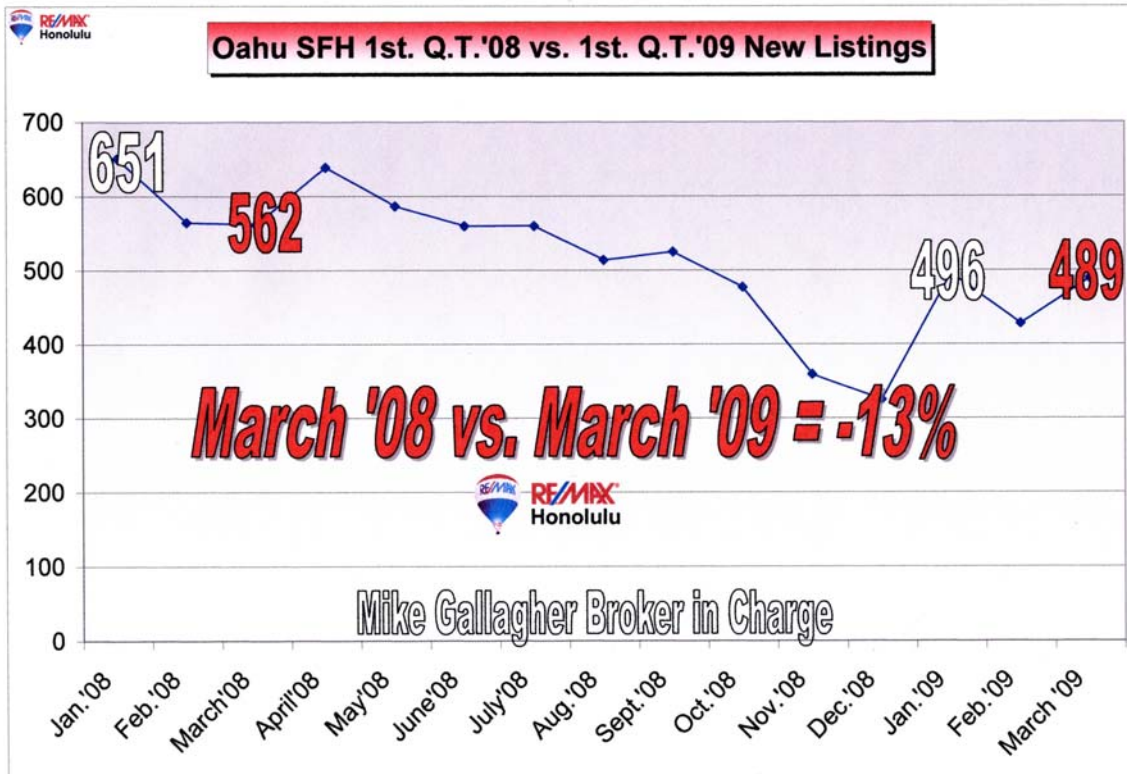
So now we see that the drop in sales of both SFH's and Condos are very similar, -33% and -37% respectively. Since we are in the beginning stages of

the downturn, one can only imagine what the 4th Quarter Report for this year will look like.

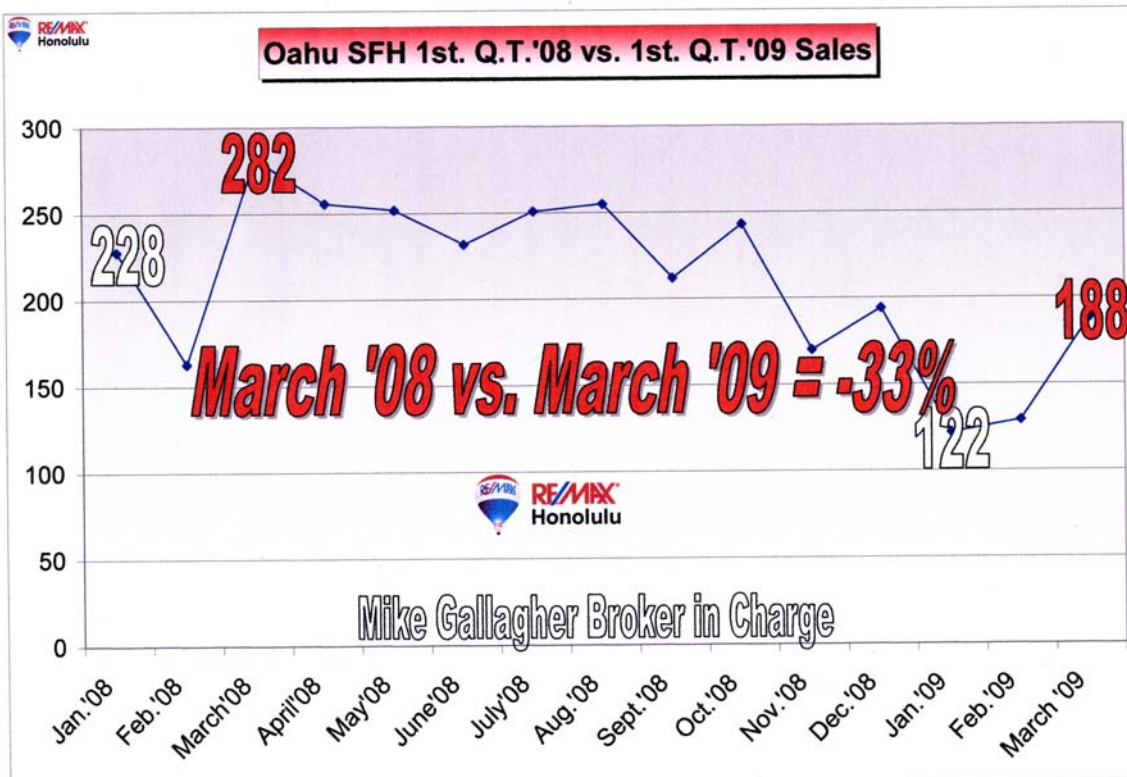
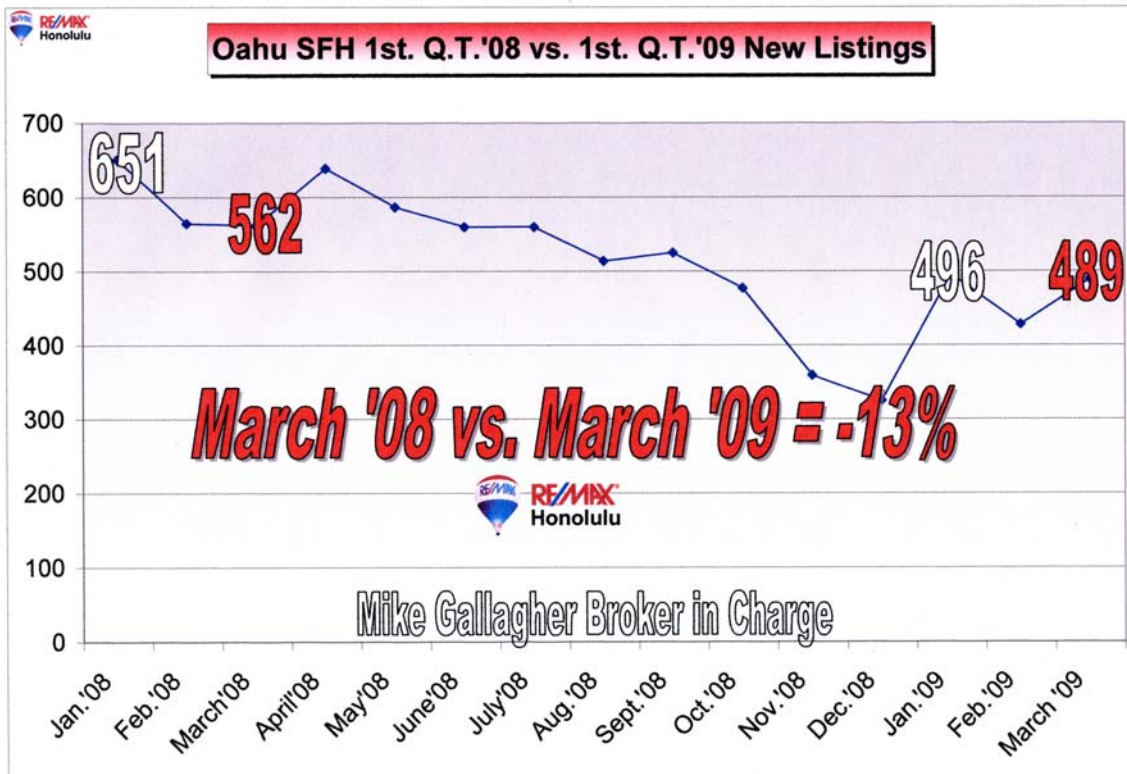




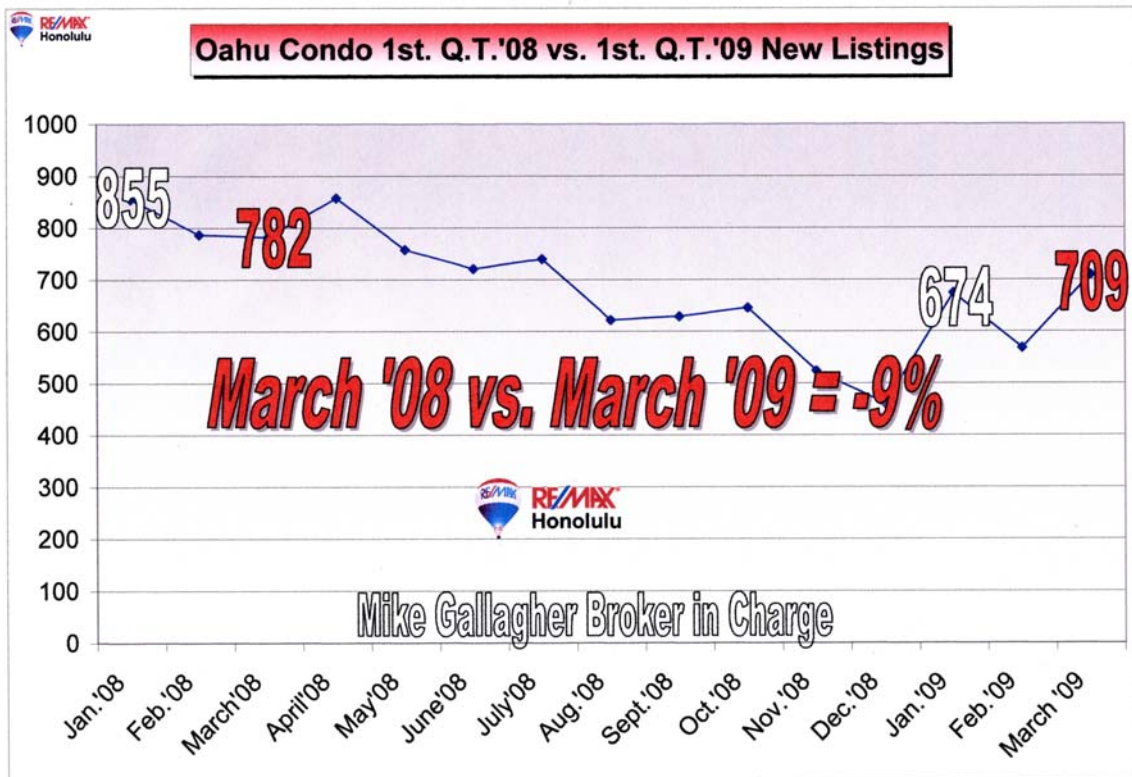
If some of you will remember, feature writer Andrew Gomes of the Honolulu Advertiser took the opportunity to tell everyone in one of his recent columns on Hawaii Real Estate Sales that 'everything was selling so much faster.' Well, this true, however...One Month's results do not tell the story accurately. D.O.M. or Days On Market (How long a home has been for sale) have both risen for SFH's and Condos +2% and +17% respectively. Remember...Condos lead the downturn.

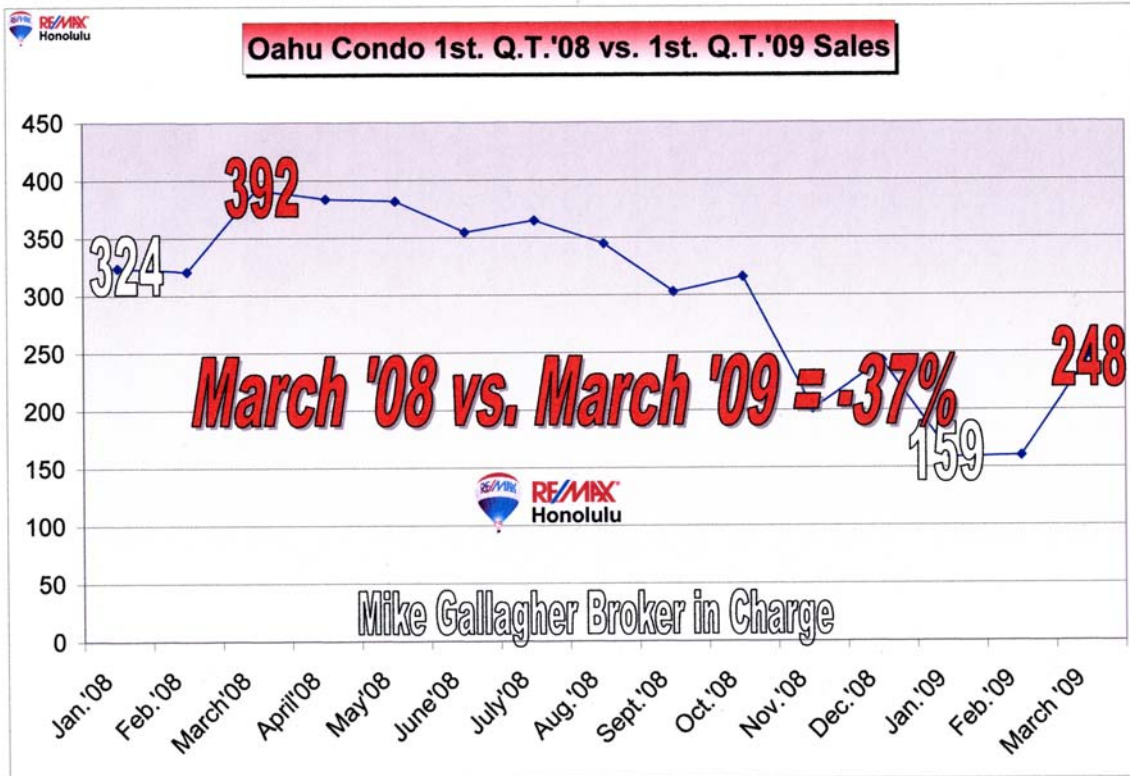


Again...Condos lead the downturn.
Look once again at New Listings compared to sales.

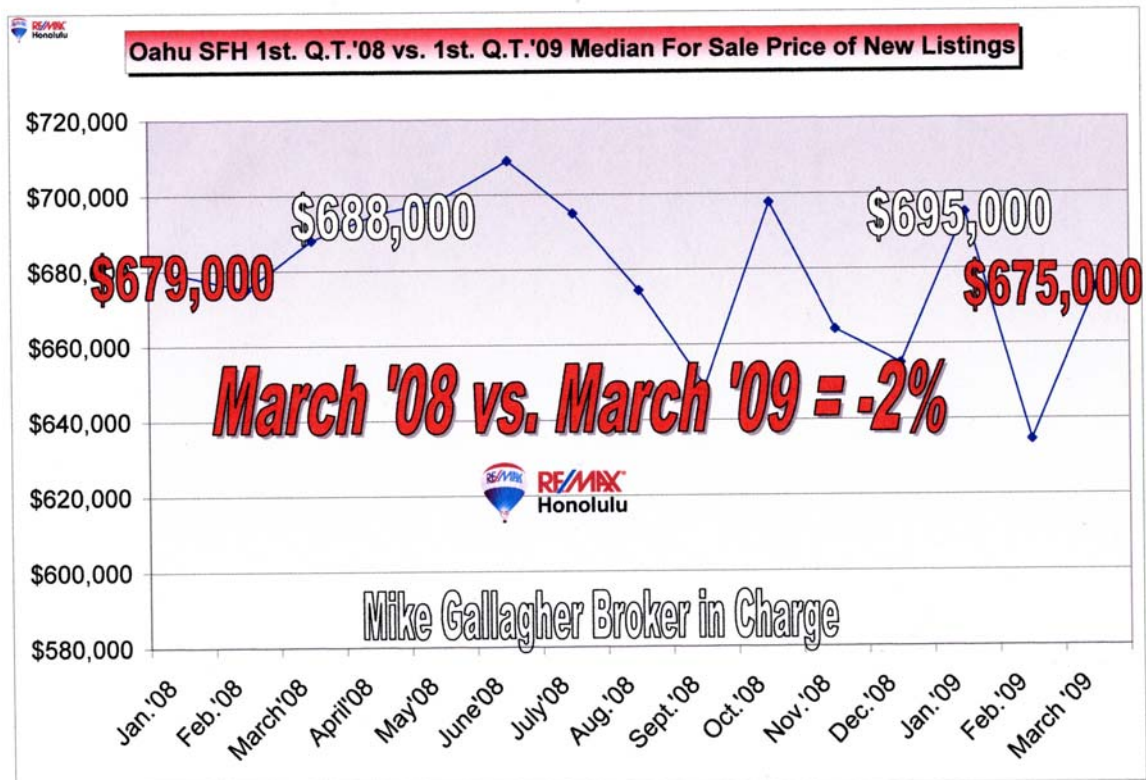


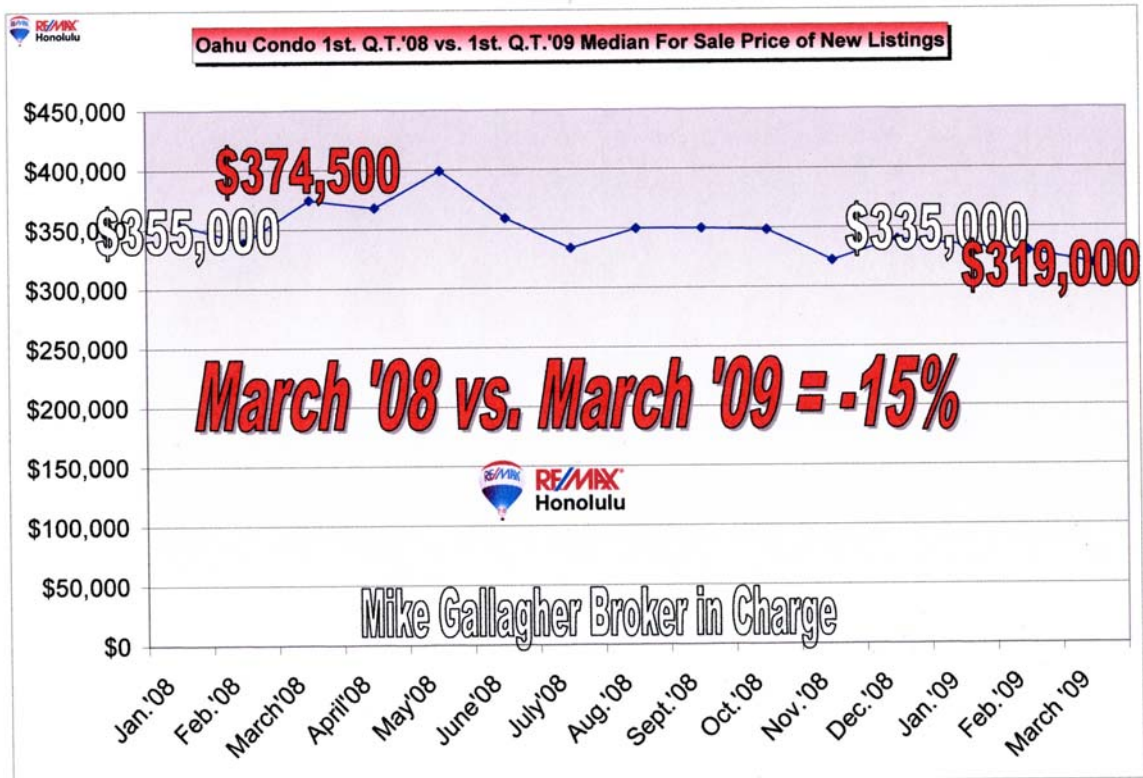
Do the math. That's 489 New Listings and 188 Sold. What does this tell you about future inventory?



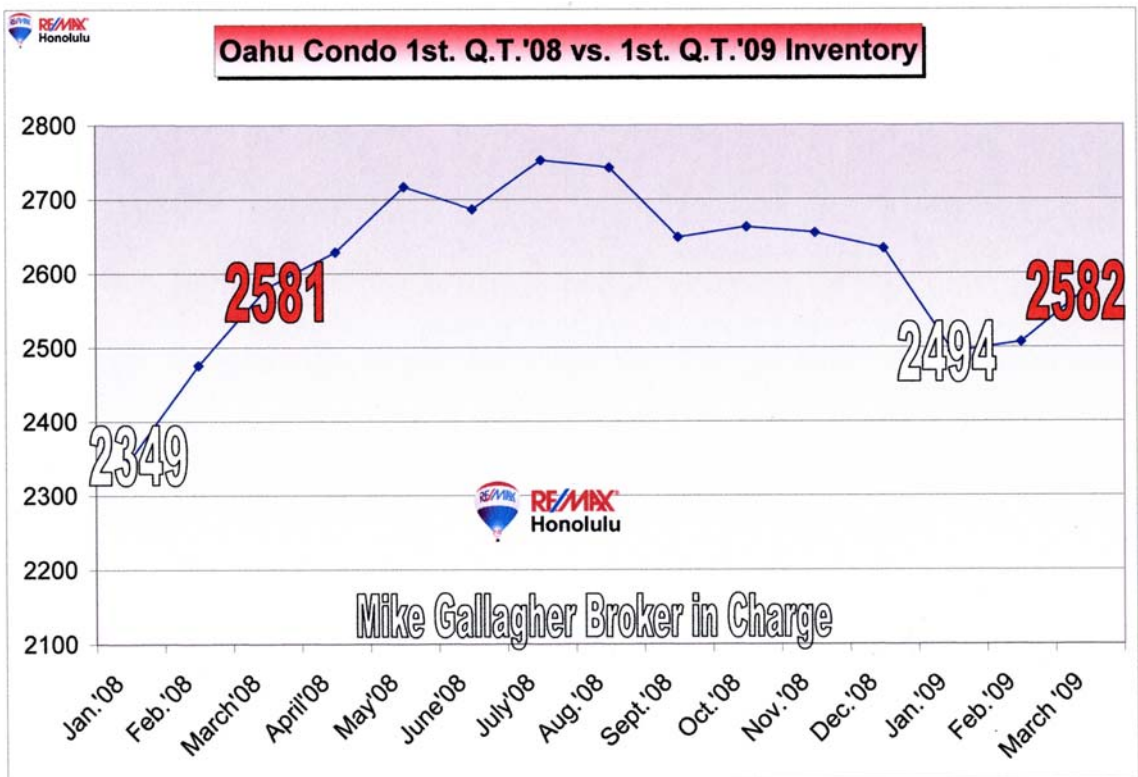
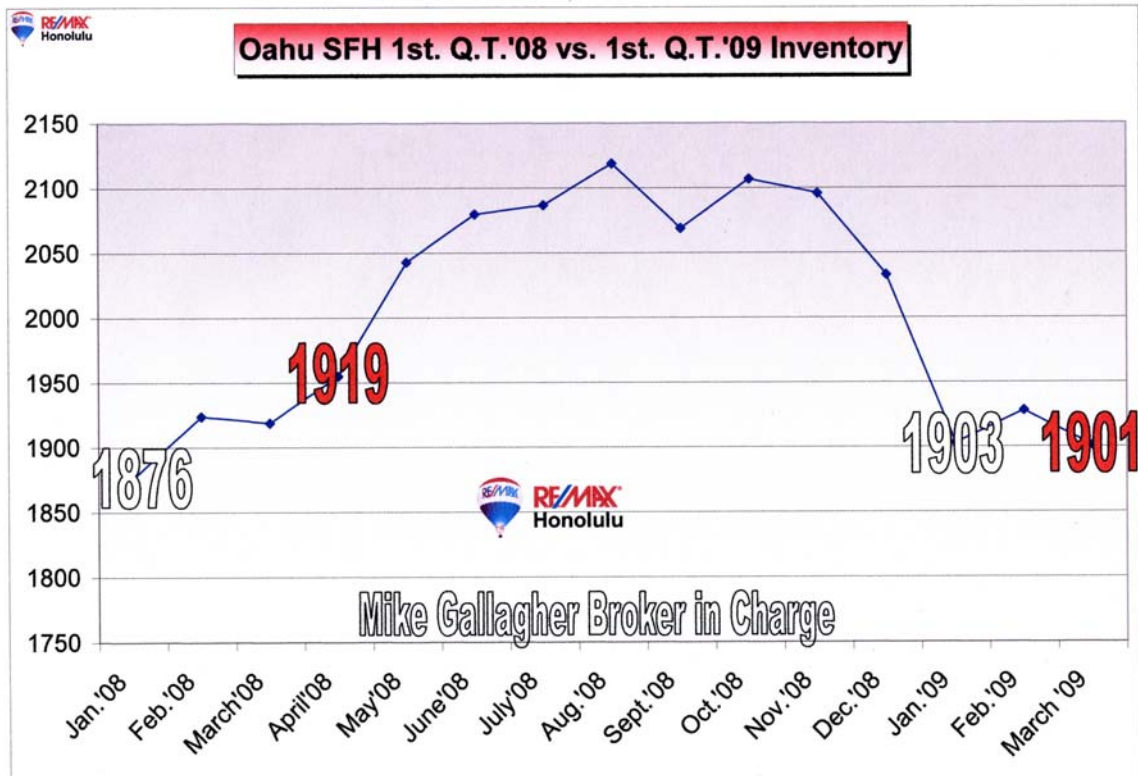


709 new listings and 248 solds.

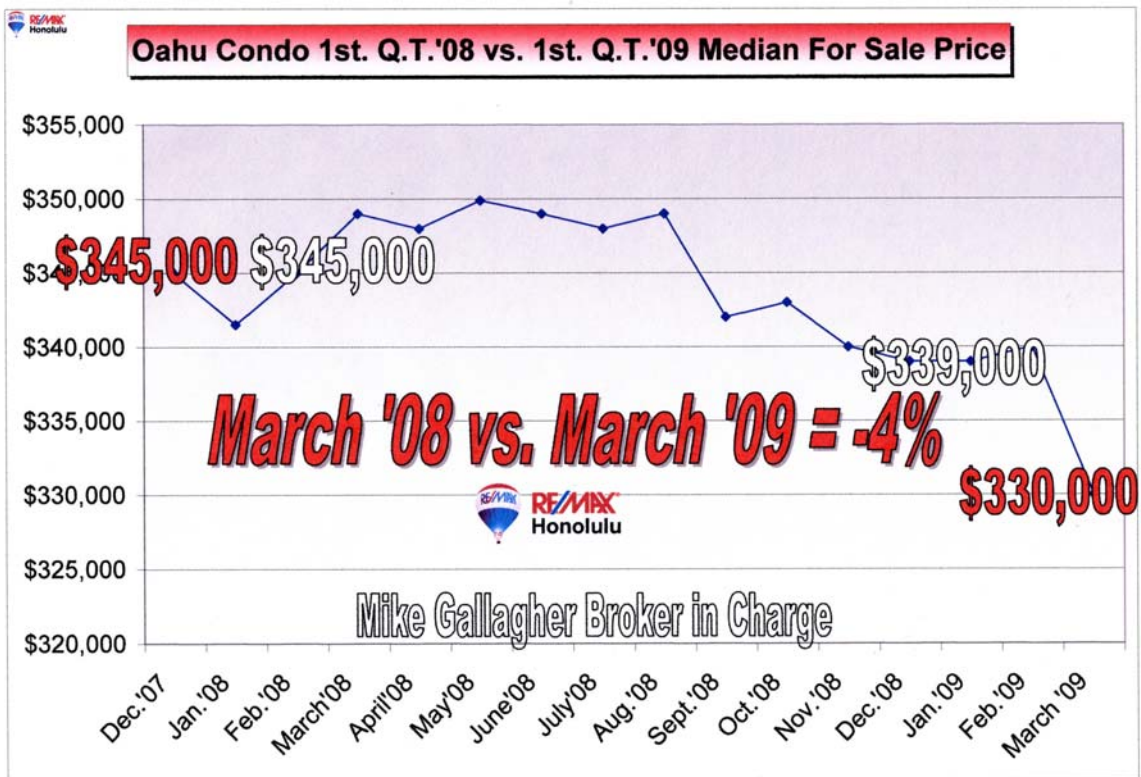
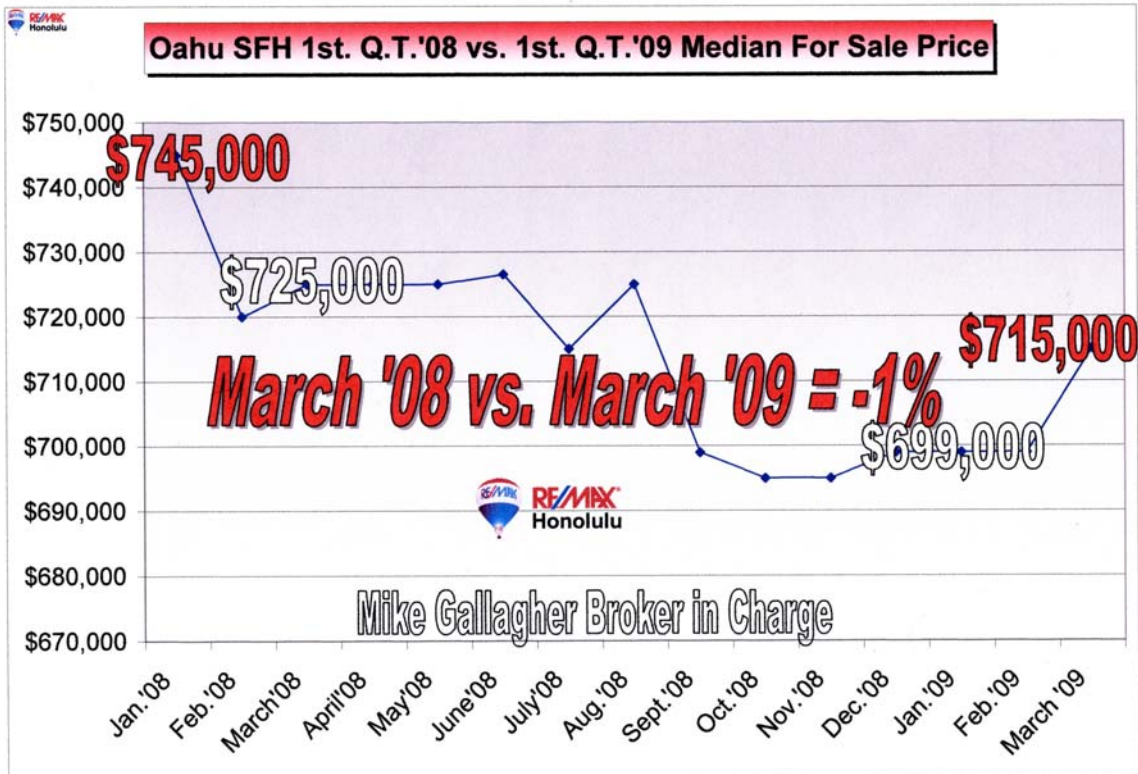




Again, please note that in the immediate future months of Summer the % decreases each month will become less but after September they will once again increase beyond the stated 1st. Quarter drop on this Condo graph above of -15%. Also remember that in all cases of Median Prices as the 'gap', 'spread' between the SFH's Medians and the Condo Medians increases we will see a steeper decline in the SFH's decreases.



Almost no changes in either graphs. This is good news for the market. Will it continue? I think not. Go back to the New Listings vs. Sold graphs.



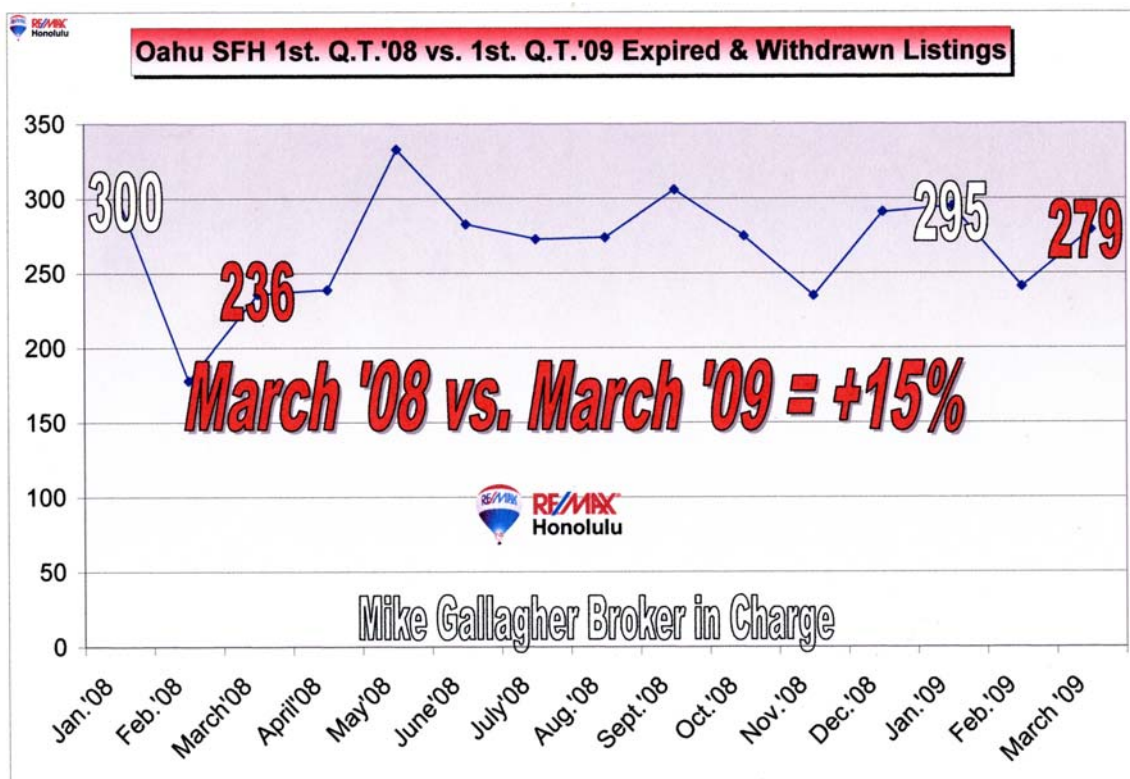
There are 'bargains' galore out there but has the market reached it's bottom?
No.

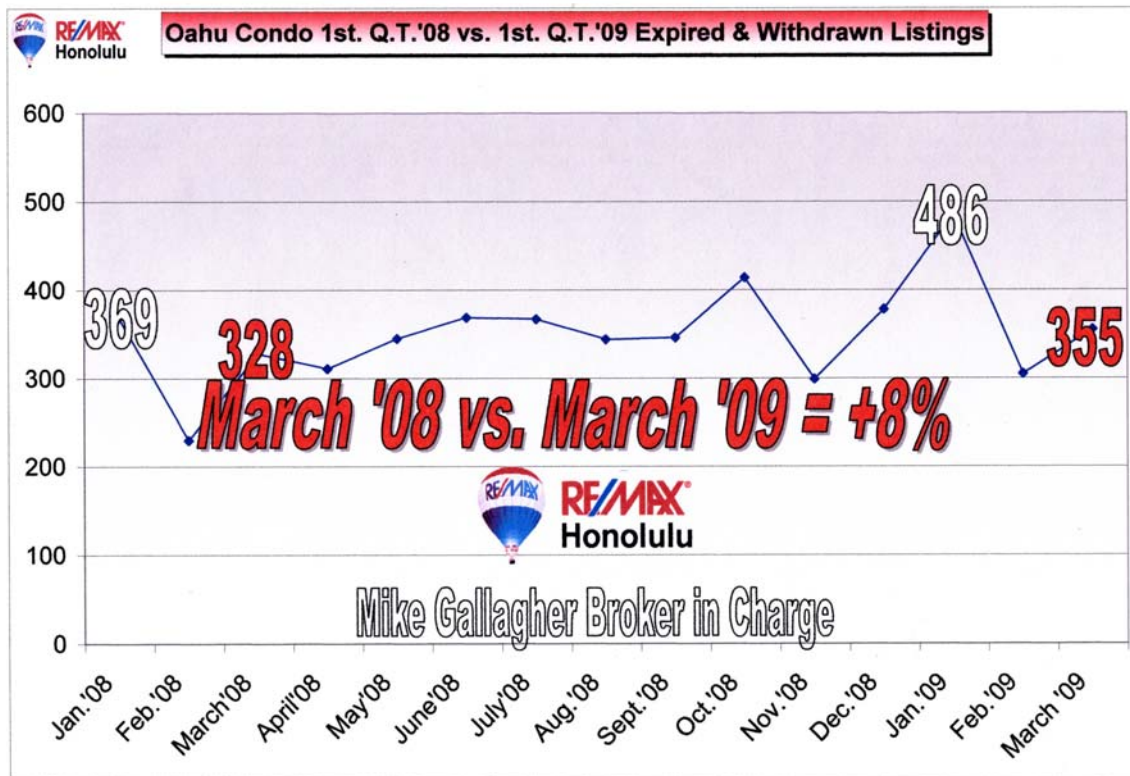
Is it a good time to invest in real estate? Yes.

If you are over 50 years old, you will most likely never see interest rates like we have now again...ever.

If you are in the market for a home and find the right one for you, my advise is to buy it only if...you intend to hold onto it for the next 5-7 years. This will allow you to find a great home at a great price at never to be seen again interest rates.

If you are under the age of 30 years old by the time you reach retirement and you have taken this opportunity to invest in today's market...you will do very well for yourself in terms of equity and capital appreciation.





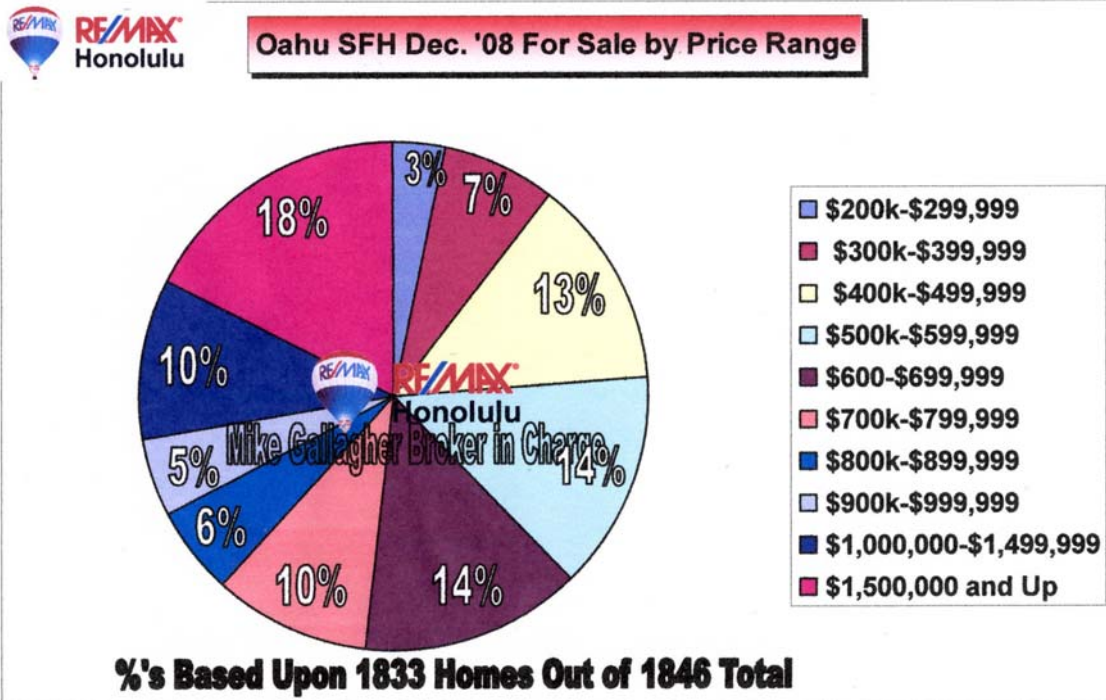
Now we all know that the Condo numbers are much higher than SFH's in terms of sales volume and number of listings For Sale. When we take a look at the Expired and Withdrawn Listings of each we now see that the SFH's increase in % is much larger than the Condos. This might suggest that currently there are many price changes taking place in the SFH market and in future months we will see more decline in SFH prices.

Withdrawn Listings usually indicate a price change downwards. The home is on the market. It is not selling. The agent goes to the Seller and asks for a price reduction in the form of Price Change Form typically. In many cases, especially if the home has been on the market for an abnormal amount of D.O.M. the home is Withdrawn and put onto the market again a few days later.

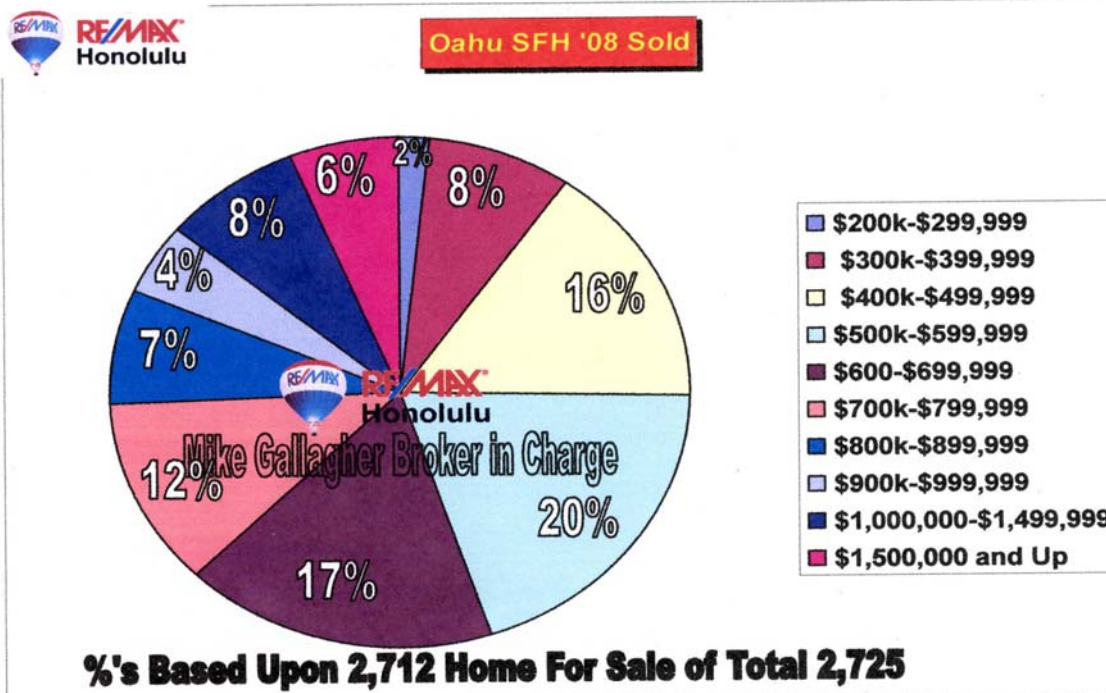
In Expired Listings the home simply is not going to sell at it's current price or conditions and the home is taken off of the market. These homes can be in many cases priced at a lower price and put back onto the market as well.

Now let us take a look at price ranges around the Island and see what is happening.

Median Sold Price of SFH's-March '09: \$715,000



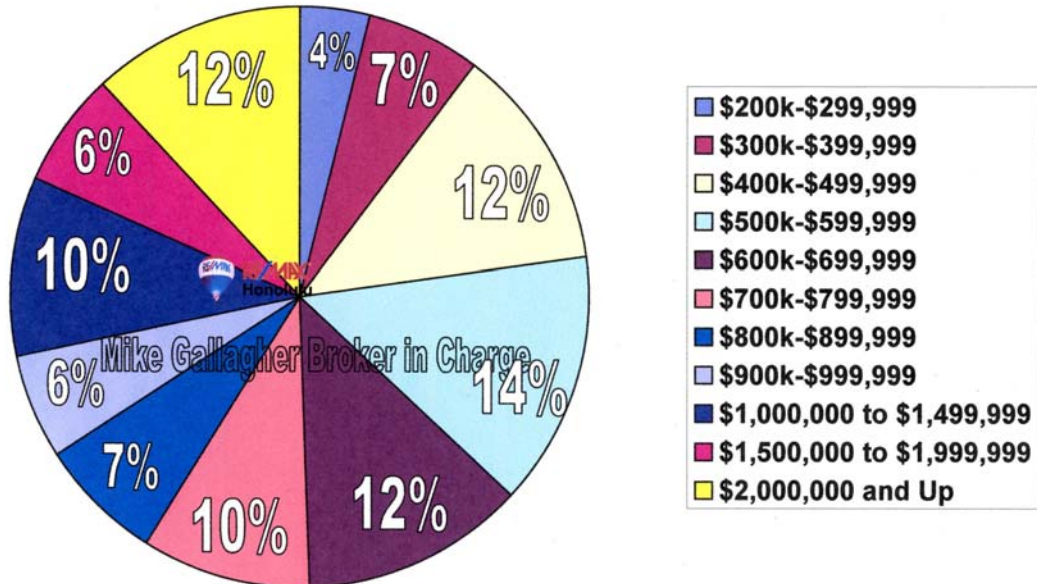
28% of the inventory For Sale is priced at \$1,000,000+



Only 14% of the inventory priced at \$1,000,000+ Sold in '08.
That is a difference between For Sale and Sold %'s of -50%.



Oahu SFH March '09 For Sale by Price Range

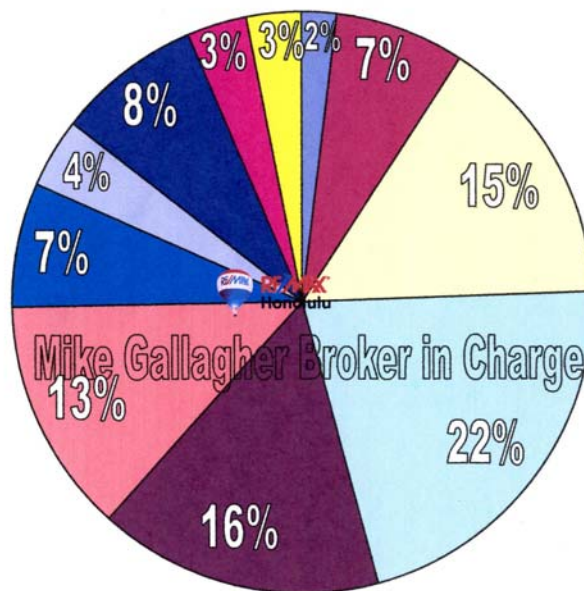


%s Based Upon 1867 For Sale Out of Total 1883

At the end of March '09 the inventory For Sale of \$1,000,000+ priced homes was 28% so in effect there has been no change between December '08 and March '09 in this price range.



Oahu SFH Solds by Price Range Jan.-March '08



\$200k-\$299,999
\$300k-\$399,999
\$400k-\$499,999
\$500k-\$599,999
\$600k-\$699,999
\$700k-\$799,999
\$800k-\$899,999
\$900k-\$999,999
\$1,000,000 to \$1,499,999
\$1,500,000 to \$1,999,999
\$2,000,000 and Up

%s Based Upon 663 Homes Sold Out of 666 Total

The % sold in the \$1,000,000+ price range was 14%. Again, there was no change between December '08 and March '09.

Will this change this year?

Yes.

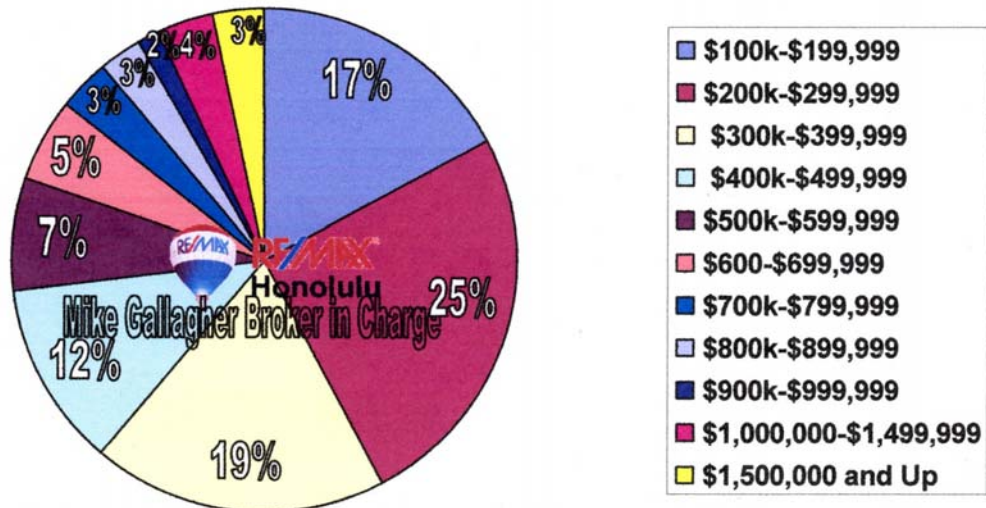
I think we will see a significant change in the 4th Quarter of '09.

Now, are we beginning to see how long it takes for market changes to take place?

Median Sold Price of Condos-March '09: \$330,000



Oahu Condo Dec. '08 For Sale by Price Range

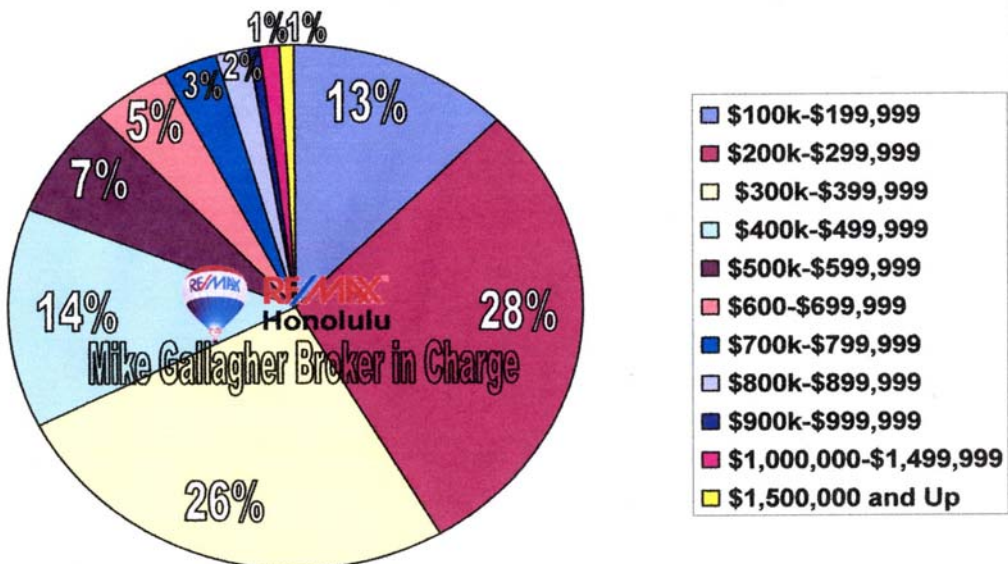


%s Based Upon 2376 Condos For Sale Out of Total 2422

The % of inventory For Sale of Condos priced \$500,000+ in '08 was 27%.



Oahu Condo '08 Sold by Price Range

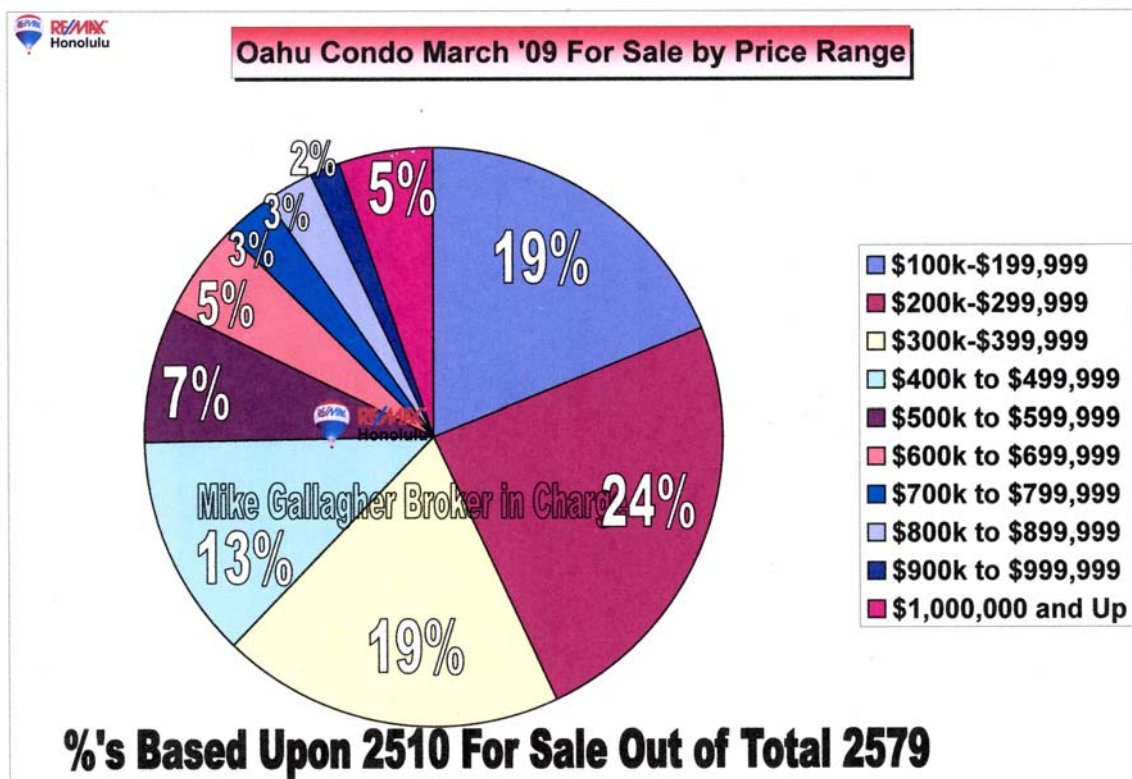


%s Based Upon 4,119 Condos Sold of Total 4,171

The % of inventory priced \$500,000+ that sold in '08 was 19%.
This is a difference between For Sale and Sold in \$500,000+ Condos of -30%.

All things considered, if the 'high end' for SFH's is \$1,000,000+ and there is a -50% difference between what is listed in this price range and what is sold and the 'high end' for Condos is \$500,000+ and the difference between listed and sold is -30% then we might 'assume' that the market for \$1,000,000+ Single Family Homes has deteriorated to an greater extent. I believe this is true.

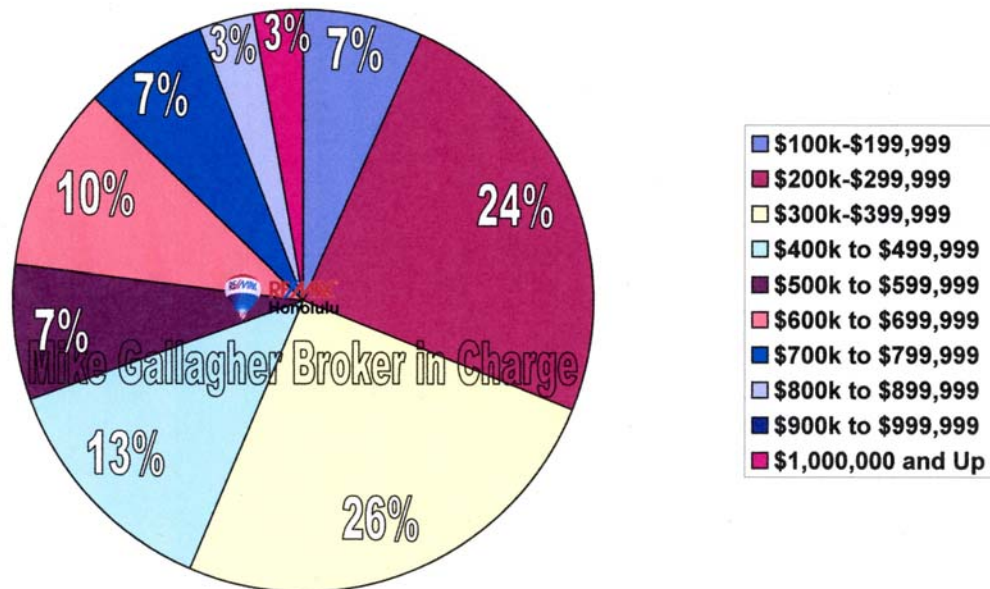
We now are seeing purchases across the Island predominantly in the lowest price ranges.



25% of the inventory for sale is \$500,000+



Oahu Condo Sales by Price Range Jan.-March '08

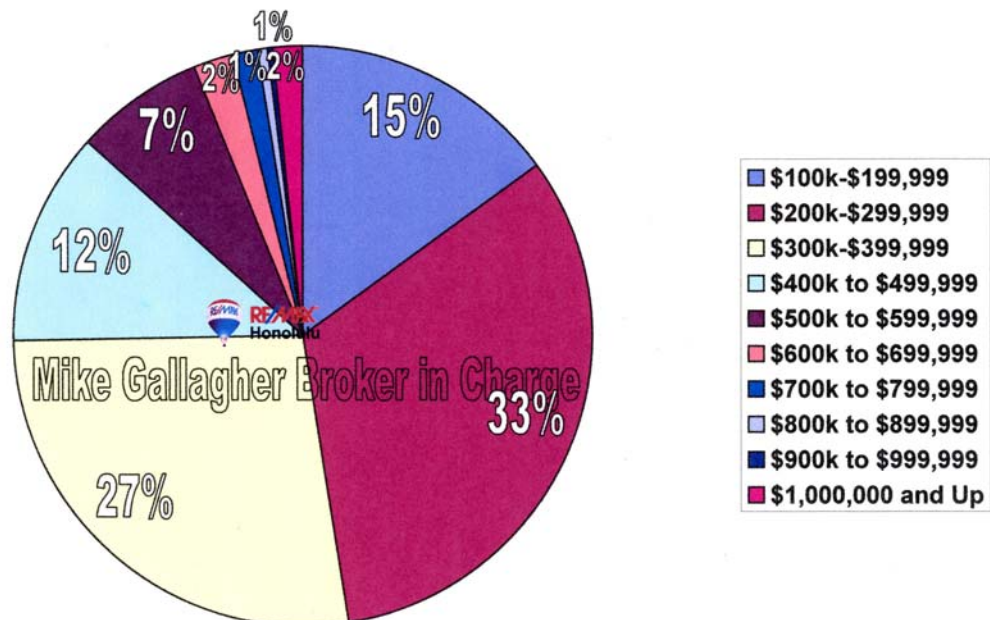


%s Based Upon 402 Condos Sold Out of 404 Total

30% of the inventory priced \$500,000+ was sold at the end of March '08.



Oahu Condo Sales by Price Range Jan.-March '09



%s Based Upon 551 Condos Sold Out of 567 Total

13% of the inventory priced \$500,000+ was sold at the end of March '09.

Now we just look at the differences between Jan.-March '08 Solds and Jan-March '09 we see a difference in solds in \$500,000+ Condos of -57%

Once again...Condos lead the way.

I sincerely hope that you have enjoyed and learned something from this article. This is almost the whole reason why I write these columns.

I also want you to know that not every agent knows the stats and only 10% of the agents sell over 90% of the homes on Oahu. I am in the Top 7% Nation Wide. If you want to know “What is Really Happening in Oahu Real Estate”, call me for a consultation.

I wish you all much Aloha,

Mike Gallagher
Broker in Charge-RE/MAX Honolulu
Ethics Complaints Review Committee Member

808-384-905 / Mikeg@hawaii.rr.com
www.hawaiirealestatestatistics.com

