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Cash, investors helping to drive NWA housing market

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story by Kim Souza

ksouza@thecitywire.com ^[1]

One in three homebuyers in Northwest Arkansas paid cash for residential properties last month and between 7% and 12% of local home sales were purchased by institutional investors, according to Irvine, Calif.-based RealtyTrac.

Economists warn that without these cash and institutional buyers the housing market turnaround would be greatly muted.

Cash transactions are up slightly from a year ago and the investor infusion has been seen across the nation for months. These two dynamics have helped hoist demand upward at the same time home inventories remain quite low.

LOW INVENTORY

Northwest Arkansas had an inventory of 3,675 homes listed for sale at the end of July, according to Paul Bynum of Mount Data. He said there were 341 new homes and 3,334 existing properties in that overall inventory, which also includes Sebastian and Crawford counties.

Bynum reports home inventories are down 49% from their peak in the fall of 2007 and stable with last year's levels.

"We have gotten so low on inventory that we are going to see more building activity as a matter of course," said Kathy Deck said, director for the Center for Business and Economic Research at the University of Arkansas. "This is a healthy balance between supply and demand."

During the first half of 2013, 797 new houses in active subdivisions became occupied, up 2.6% from the 777 that became occupied in the second half of 2012, according to the most recent Skyline Report released Wednesday (Aug. 28).

"Low inventory of homes available for sale is proving to be a double-edged sword in many local housing markets that have bounced back quickly from the real estate slump," said Daren Blomquist, vice president at RealtyTrac. "Home prices are accelerating rapidly in these markets thanks to the combination of low supply and strong demand."

But as prices rise along with interest rates, home affordability also becomes a bigger factor. Blomquist also said when the percentage of cash deals increase, it's an indication that demand is good, but those who need financing could be left out in the cold.

ON THE RISE

Mortgage rates have risen more than a full percentage point since early May. Interest on the 30-year fixed rate mortgage averaged 4.58% in the week ending Aug. 22, according to FreddieMac.

Interest rates were as low as 3.35% in the first week of May. Rates have spiked on investor speculation that the Federal Reserve will begin tapering its \$85 billion-per-month bond-buying program as soon as September.

Local home builders agree that rising interest rates will mean many consumers can afford to purchase less home in the future as they have to stay within a certain monthly budget.

When you add that to the fact that new home prices are naturally moving higher as the cost of goods and contract labor has risen from a year ago, it's no surprise economists predict new home sales will suffer in back half of this year.

Earlier this summer Tim McGuire, of Cornerstone Construction in Bentonville, said material costs were 4% higher than a year ago and contract laborers were in shorter supply given the uptick in new projects going up in the region.

Existing home prices continue to rise a slower rate, according to the Case Shiller Index, released earlier this week.

"National home prices rose more than 10% annually in each of the last two quarters," says David Blitzer, chairman of the Index Committee at S&P Dow Jones Indices. "However, the monthly city by city data show the pace of price increases is moderating."

In Benton County, median home sales prices rose 4.2% in July from a year ago. For the first seven months of 2013 the median sales price of \$152,000 surged 7.8% higher than the same period last year, according to Mount Data.

Washington County reported a median sales price of \$154,00 in July, up 6.39% from a year ago. For the year-to-date sales in 2013, the median price rose 10% from the same time last year, according to Mount Data.

"We can't always predict when interest rates will change or when the price of properties might change. But the current supply of available housing is at one of the lowest points we've seen in this market since we've been measuring it and builders are adding to that supply in a slow, measured way that will hopefully prevent sudden pricing changes. Mortgage lenders are not expecting interest rates to decline in any meaningful way in the near future, so securing a home loan or refinancing a loan right now might make good financial sense," said Johnese Adams, senior vice president and mortgage loan manager for Arvest Bank in Fayetteville.

EXPECTED SOFTENING

"I think there is a risk of a softening housing market," warned Robert Shiller, Yale economics professor and co-creator of the Case-Shiller home price indexes, on CBNC Tuesday morning (Aug. 27).

He said housing has been a "speculative market" thanks to the prevalence of real estate

investors that include Wall Street institutions and house flippers. Last week he warned that rising rates will hurt home prices as the increasing cost of borrowing cuts into buyer demand.

The local real estate market has seen higher prices and more sales through the first seven months of this year, but that growth has slowed a bit since the robust first quarter results.

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Pending sales are a leading indicator for transactions that will be reported in the next 60 days. Bynum reported 768 pending sales in this local market as of the end of July, which compared to 595 pending transactions a year ago.

Industry veterans like George Faucette, CEO of the local Coldwell Banker franchise, expects dampened price growth to occur in the next quarter as more foreclosures come back into the marketplace from the backlog created two years ago from federal litigation.

In Benton County roughly one in four homes sold last month, were either bank-owned foreclosures or short sales in lieu of foreclosure. Distressed sales rose from 8% a year ago, according to RealtyTrac.

In Washington County the numbers were lower as just 3% of the July home sales were deemed distressed, down from 4% a year ago.

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