Fresno County housing market opens to newbies

Price plunge means 70% of households can afford entry-level homes.

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By Sanford Nax / The Fresno Bee

Adolph Dominguez could only afford a house south of Ashlan Avenue when he left for Iraq six months ago.

A month after his return, he's shopping for property near Woodward Park and other high-end neighborhoods in north Fresno.

"This is the sharpest price drop I've seen. A house drops in price every day," said Dominguez, an Army reservist and first-time homebuyer who receives e-mail notifications when a house falls under $200,000.

After being shut out of the market during the real estate boom, first-time homebuyers are now large and in charge. Home prices have fallen so far in Fresno County that 70% of households could afford an entry-level home in January, according to the California Association of Realtors. That is up from 39% at the height of the housing boom in 2005 and the highest percentage since the index began in 2003.

The California Association of Realtors defines an entry-level home as a house equal to 85% of the prevailing median price. The affordability rate calculates the percentage of households with income sufficient to buy that house with a 10% down payment.

Today, foreclosures dominate the marketplace, making up a whopping 74% of all the deals in Fresno and Clovis last month and driving down the median price of existing homes to $135,000. That is down more than $100,000 from January 2008, said Jared Martin, president of the Fresno Association of Realtors.

Lower home prices are leading to a surge in sales. A total of 560 existing houses were sold in Fresno and Clovis in January, almost double the 291 transactions a year ago.

And the trend is likely to continue this month: 815 houses were under contract to be sold. Those pending sales were up from 316 in January 2008.

Stronger activity is good news and, experts say, an important step toward market equilibrium.

"It's huge," Martin said of the 70% affordability figure. "It doesn't get any better."

And the first-time homebuyer -- a person who has not owned a home in at least three years -- is expected to help stabilize the market by snapping up excess inventory.

Eventually, real estate agents say, their increased participation will drive up home prices. The first-timers also aren't expected to suffer the fate of other first-timers from previous years because of tightened credit requirements.

Still, there are issues, and the market has a long way to go before those in the industry will talk of recovery.

Martin said prices have fallen too far and that, in many cases, houses are undervalued. Bank-ordered appraisals often come up lower than agents think they should.

Some foreclosures are getting 12 to 15 offers the first day, which is an indication they are priced too low.

"We've told [banks] to stop dropping the prices," said Bill Pfeif, who specializes in selling bank foreclosures. "I'm trying to tell them to stay firm."

In addition, buyers who think they are getting a steal with a foreclosure often wind up paying thousands to bring the houses up to a livable condition. Martin has an investor client who has bought 20 foreclosures as rentals. The investor typically spends $30,000 to $50,000 in addition to the purchase price to bring them up to rental standards.

That is one of the frustrations of looking in this type of market, Dominguez says. He's looked at about 95 foreclosures, finding few in move-in condition. "The houses look nice on the outside, but once you get inside ..." he said, trailing off.

Sometimes windows are broken, graffiti lines the walls and ovens are torn out.

Dominguez's bank won't issue a loan on a house that isn't in move-in shape, so he continues to search.

But he's not worried because prices aren't destined to rise anytime soon.

"Unfortunately, more foreclosures are popping up every day, creating more opportunities for first-time homebuyers," he said.