



Latest Data Indicates That the Shore Market Remains Highly Segmented New Construction and +\$1m Home Sales Set Records, Existing Home Prices Remain Stable, and Atlantic City House Prices (Possibly) Have Hit Bottom.

February 26, 2015: While most housing markets in the rest of the country continue to make steady progress towards recovery, the Jersey Shore's continues to behave with schizophrenic uncertainty. The most recent numbers show that both house prices and sales are either surging, remaining flat, or even falling, depending upon where you look.

According to the latest data provided by Berkshire Hathaway HomeServices, the typical home's¹ value at the South Jersey Shore fell by a scant 0.2% in Q4, but ended the year up a net 1.9%. However, this average result is all but rendered meaningless given the wide dispersion in house price changes across different Shore communities.

From most negative to most positive, the average change in house prices by community in 2014 Q4 were: Ventnor (-4.3%), Longport (-2.4%), Somers Point (-1.2%), Sea Isle City/Strathmere (-0.6%), Brigantine (-0.5%), Wildwood (-0.2%), Avalon/Stone Harbor (+0.6%), Cape May (+0.8%), Ocean City (+0.8%), Atlantic City (+1.7%) and Margate (+2.9%).

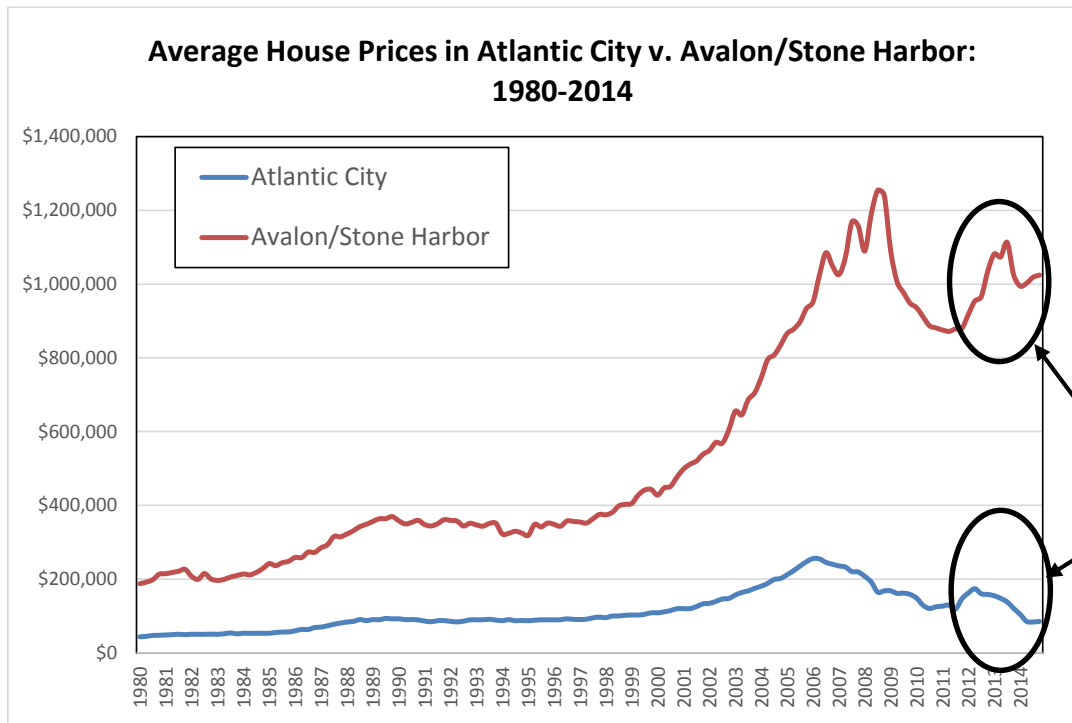
Although house prices may have been largely flat in Q4, sales volume continues to remain exceptionally strong. 851 houses and condos homes changed hands during the last quarter; up from 799 sales in the previous quarter and also up from 696 sales in the same quarter one year ago. Notably, sales activity at the Shore is currently above the peak years of the housing boom in 2006-2007, when sales in these communities averaged between 600 and 700 transactions per quarter.

The state of the Shore's housing market can currently best be characterized by the word "disparate":

- Prices have been recovering in some communities, while falling in others.
- Existing homes are performing differently than new homes.
- Some townships are seeing significant amounts of new construction, while others are not.

One of the biggest examples of disparate performance is found by comparing Atlantic City to almost anywhere else. After being buffeted with the one-two punch of Hurricane Sandy in late 2012 and then the rapid closings of several major casinos, Atlantic City's house prices have been in freefall. At the same time, house prices in other Shore markets have made significant recovery since the recession. For example, consider the following chart, which compares average house prices in Atlantic City to Avalon/Stone Harbor from 1980 through 2014:

¹ Note: this analysis includes condos along with houses, which are a significant percentage of the housing stock at the Shore.



Over the last several years, Avalon/Stone Harbor's house prices have regained significant value, while Atlantic City's have continued to drop.

From 2006 through 2010, the average house price in Atlantic City fell by a whopping 75%, while Avalon/Stone Harbor's declined by a more modest 28%. However, while Avalon/Stone Harbor's house values have since made a significant recovery, Atlantic City's values have (after a brief and small increase in 2012) continued to drop precipitously.

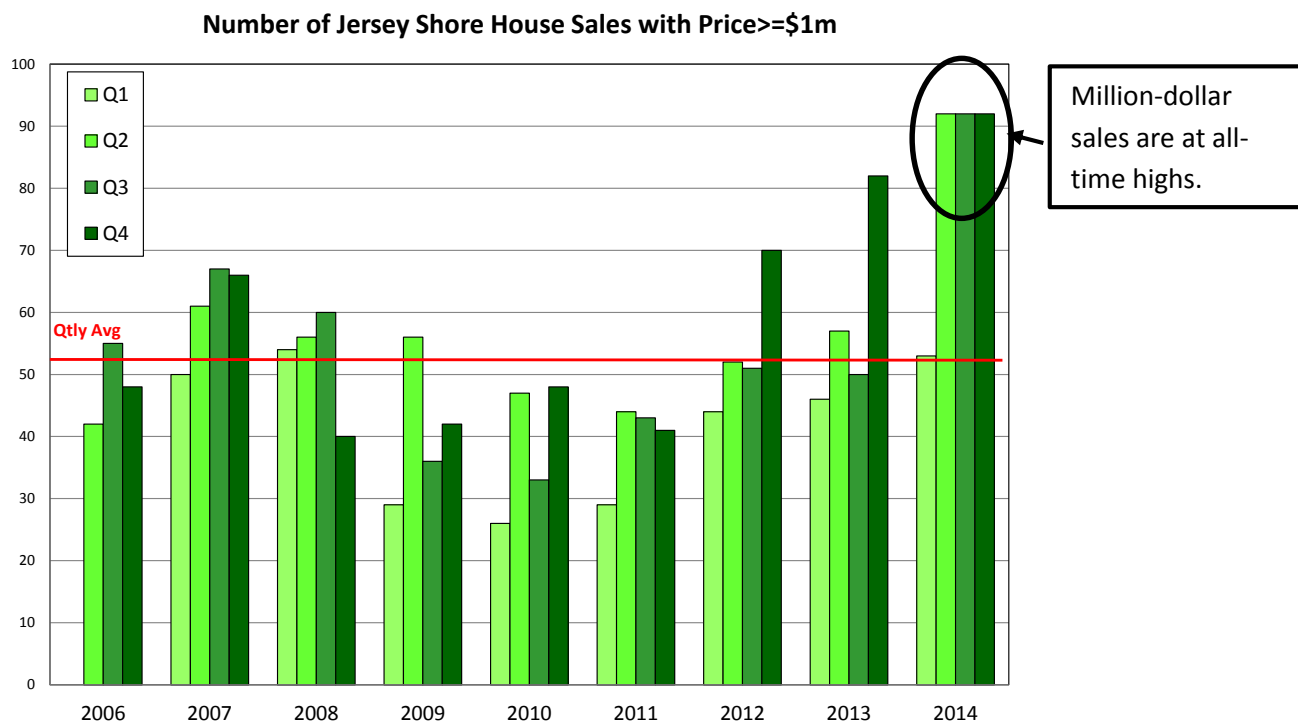
Currently, Avalon/Stone Harbor's house values are 15% above where they were when they hit bottom in 2010, while Atlantic City's are an astounding 114% below their peak of nearly a decade ago. To put this into context, Avalon/Stone Harbor's house prices are currently at the same level as they were in 2006, while Atlantic City's house prices are back to where they were in 1994. Or, to put it another way: the two cities are currently separated by a dollar difference in a typical home's value of nearly a million dollars, despite being separated by a geographic difference of only 20 miles.

But, after eight years of nearly continuous declines, Atlantic City experienced its first quarter of positive house price appreciation in the most recent period of 2014 Q4. This may signal that its housing market—and its economy—is finally stabilizing, especially when considered in the context of other recent news:

"There is some evidence that AC may have hit bottom. Casino revenue increased in January for the first time in 8 years. Stockton University just purchased the Showboat and will turn it into a college campus while keeping one of the three towers open as an operating hotel. Bass Pro Shops is set to open in about 90 days. There is also more than \$500 million in new projects either approved or near final approval that are mostly residential units designed to lure people back into the city. The City's budget is about to be overhauled with dramatic cuts in spending which will force it to become more efficient. We may see the beginning of the turn-around this year."

-Michael Busler, Ph.D.,
Professor of Finance, Richard Stockton College of New Jersey

Another example of disparity in the Shore's housing market is in the sales of million-dollar homes. Currently, sales of houses and condos priced at a million dollars or more are running at all-time highs. In each of the last three quarters of 2014, there were 92 such sales in each quarter—well above even the peak years of the previous decade's housing boom.



A key reason for this surge in million-dollar sales is that it is being driven by a commensurate surge in new construction, which current economic conditions at the Shore are forcefully pushing to be skewed towards the higher end of the price spectrum. The catalyst for this is actually Hurricane Sandy. The damage caused by Sandy in late 2012 fell disproportionately on older, more depreciated homes that were built during a time when less stringent building codes prevailed. As a result, they suffered greater physical destruction than other, more modern homes, which resulted in many (if not most) of these older homes being torn down and their sites redeveloped.

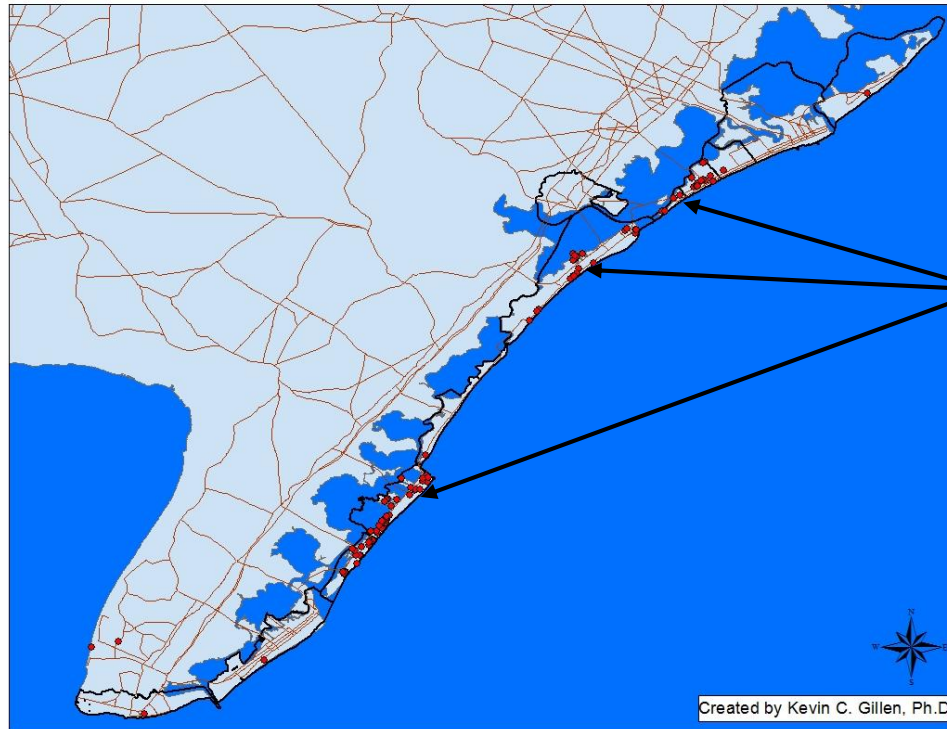
However, the high cost of land at the Shore, combined with the relatively high cost of (union) construction labor and the additionally higher costs imposed by today's more stringent building codes have forced developers to build homes at higher-than-otherwise price points in order to be able to recover these high development costs. The result is that recent new construction has been driven upwards to the +\$1m segment of the market. As a point of fact, sales of million dollar homes and sales of newly constructed homes currently have such significant overlap, they are frequently the same thing².

But the increase in the development of high-priced homes has not been uniformly distributed across all Shore communities. While the general costs of development are relatively the same across most Shore towns, the general prices that people can—and are willing to—pay still varies quite dramatically from one locality to the next. This is because they are driven by the relative income levels and personal preferences of the particular residents, as well as the underlying strength of the local economy. Or, to put it more succinctly: not all homebuyers in Shore communities want—or even can—buy million-dollar homes, even if currently prevailing costs are allowing only those types of homes to be built.

The source of this assertion is the following chart, which shows the spatial location of recent +\$1m home sales. As can be observed, the construction and sale of such homes is concentrated in the relatively affluent communities of Margate/Longport, Ocean City and Avalon/Stone Harbor:

² The increase in million-dollar sales has not translated into significant increases in the house price indices because the house price indices are estimated via a regression, which controls for changes in the physical characteristics of homes that sell in one period versus another. The fact that million dollar sales are substantially up while the house price indices are only modestly up implies that these same million-dollar homes would have sold for only a bit less a few years ago than they are selling now. In other words, the change in the nature of the housing stock is larger than the change in the overall demand for Jersey Shore homes.

Sales of +\$1m Dollar Homes in 2014 Q4



But sales—and construction—of million-dollar sales homes are disproportionately concentrated in the three communities of Margate/Longport, Ocean City and Avalon/Stone Harbor.

Ultimately, the disparities between housing market performance in different Shore communities would seem to be driven by the relative dissimilarities in the incomes and preferences of the actual local homebuyers:

"The significant differentials in market performance are due to fundamental differences in the typical homebuyer in each market. The million dollar plus buyer is a relatively affluent second home buyer coming from the Philadelphia area or NJ suburbs. The typical Atlantic City buyer is more likely to be a relatively less affluent primary homebuyer and/or someone looking for weekend getaways with convenient proximity to the casinos. The AC casino closings have dampened the demand for property in that area, while the southern Shore communities are much less dependent upon Atlantic City and much more dependent upon a strong national and Philadelphia economy."

-Stephen C. Booth

Broker of Record, Vice President and Regional Manager
Berkshire Hathaway HomeServices Fox & Roach Realtors
Ocean City, NJ

Going forward, the outlook for the Shore housing market would seem to indicate that such disparities should continue, but at a diminishing rate. Structural economic forces will continue to drive Atlantic City's repositioning, and the high cost of development will continue to push other Shore communities to alter their development plans accordingly. Scarce land, growing population and the high costs of construction will logically push most new development towards the higher end of the price spectrum. In the longer run, the relative differences between both the character and the pricing of the housing stock across different Shore communities should become less pronounced as greater convergence prevails. While the timing of this is uncertain, the ultimate outcome would seem to be less so.

As always, future updates to this report will continue to report on these trends as they develop.

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