REAL ESTATE

THE CAPE IS CALLING

Still kicking yourself for not buying that Cape vacation home years ago? Well, market forces and foreclosures are presenting a second chance, as one intrepid couple discovers.

BY KRIS FRIESWICK

WITHIN REACH? The median price for a single-family home in Barnstable County has dropped by 8.7 percent since the real estate peak in 2005.

PHOTOGRAPH BY PANORAMIC IMAGES/GETTY

If you're thinking of purchasing a vacation home on Cape Cod any time soon, stop. Abandon your plans. It's a total sellers' market. Trust me, you can't afford anything you'd want to live in. And the traffic – I mean, do you want to sit in three hours of traffic each way every weekend? Look elsewhere for your vacation home, like New Hampshire or the lakes region of Maine, wherever . . . just not the Cape. Really. You'll be very disappointed.

OK, I'm lying. Statistics, market trends, and reality on the ground make buying a Cape vacation home one of the no-brainer investment decisions of 2008 for those with a 20 percent down payment and pristine credit to meet banks' new stricter requirements and no need to sell an existing home in this tough market. That's why my husband and I are spending most our weekends house hunting. We are relaxed, sipping our piping-hot to-go coffees, politely yielding the way to the other house hunters where Route 6 goes from four lanes to two. In a month, I fear I'll find myself in a drag race to the Sagamore Bridge. (That's why I lied.)

Despite my exaggerated fears, the vacation home buying activity is more likely to resemble a horse race than a drag race. Housing values aren't expected to reverse their slide for another year, based on the latest economists' data. This means that Cape buyers today aren't flippers, investors, or speculators. Today's house hunters are buying because they love the Cape, not because they want to make a quick buck. They'll make money eventually, when things turn around, but this market offers something far more precious: a chance to fulfill a dream that had previously been far from reach – a vacation home on the Cape.

Due to a recent inheritance, my husband and I now quite unexpectedly find ourselves among this group of buyers. When the money came to us, we thought about investing it in a financial portfolio. But you can't watch the sunset from the deck of your mutual fund. You can't walk to the beach from your ETF. You can't host rockin' all-night parties in the backyard of your high-yield CD. So we now find ourselves compulsively scanning the Multiple Listing Service in search of "The House."

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+ONLINE

CHAT

Get expert advice on buying on the Cape from realtors Ed McKenna and Maria Lamb this Monday, live, at noon on boston.com.

There are many reasons why the Cape currently represents a nearly irresistible buying opportunity. First, it's gorgeous down there, in case you haven't been. It possesses some of the finest beaches on earth. "I can feel myself relax the minute I cross the Bourne Bridge," says Courtney French of Norwood, who, with her husband, Warren, purchased a vacation home in Mashpee in October. "I feel like I'm coming home. We can't wait for summer."

Since no one is making any more land on the Cape (and the ocean claims a little of it each year), the amount of buildable property is dwindling. Conservation rules are making it next to impossible to expand many existing homes, says Ed McKenna, an associate with Buyer Brokers of Cape Cod-Berard Associates in Barnstable. Until very recently, the prices of homes on the Cape reflected all of these factors. Which is to say, prices were beyond the reach of most families seeking an affordable second home.

Since the real estate peak in 2005, the median price for a single-family home in Barnstable County (everything on the Cape side of the canal) dropped by 8.7 percent, according to data from the Warren Group, which tracks New England real estate transactions. (These figures do not include foreclosure deeds.) That's a hit, to be sure, but to put it into perspective, prices dropped up to 30 percent in the county in the 1989-1993 real estate crash, recalls John F. Meade, the Barnstable County register of deeds. That crash, which he also witnessed as registrar, was fueled by rampant speculation, overbuilding, and the savings and loan crisis. "I look at this market, and I don't think it comes close to where it was in the early '90s," says Meade. "Back then, you could pick up a great place near the water. They were all over the place and for a reasonable price. I haven't seen that in this market."

What Meade has seen, and we've seen firsthand in our weekly travels to the Cape, is a flood of properties that sold below $200,000 – a real rarity for these parts. "In 2004 and 2005, you didn't see anything less than $300,000," he says. "I'd look at my daily transactions, and everything went for $300,000-plus. Then in the last year or two all of a sudden, you're seeing lots of $200,000-range sales and even some in the $100,000 range." A sector of the market in which Meade has noticed a sales slowdown is the $500,000 to $1 million range. "We're just not seeing those deals, and those were really moving in the early 2000s."

He notes that properties in the high end of the market, $1 million-plus, have been relatively unaffected by the downturn. Many have held their value or continue to appreciate. Others have been in families for a long time or were purchased largely for cash, so their owners still have equity and, even if the home value has decreased, it's unlikely the house is worth less than what, if anything, is owed. These owners have no need to bail out of their properties in this less-than-stellar market.

Our love of the Cape initially interested us in buying a vacation home there. The rate of property foreclosure in Barnstable County – among the highest in Massachusetts – sealed the deal. It's not that we want to buy a foreclosed property – you usually can't make a full inspection prior to making a bid, all sales are "as is," and, often, previous owners must be evicted – but we are interested in the aftereffects of those foreclosures.

Two things happen when foreclosures spike. The first is that since many of those foreclosure auctions end without a bid large enough to cover the cost of the existing mortgage, the bank ends up retaining ownership. The bank must then market the property, often through a realtor, just like a regular home – only much, much cheaper – and bank-owned properties are now flooding the Cape. Bank-owned properties allow a full inspection and price negotiation, as do short sales (when an owner about to be foreclosed upon sells the property at a price that is approved by the bank).

The second effect of a high foreclosure rate is a price drag on all properties for sale. "Comparables," also known as → PAGE 58

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"comps," are the sample properties that buyers and sellers use to determine the offering price for homes, and that bank appraisers use to determine whether the house is worth the purchase price and the mortgage they will write. In many communities, foreclosures are becoming the dominant comps in certain price brackets (in Hyannis, this is true in the $200K-and-under range), which is driving down the fair market value of properties not in foreclosure. It's a bummer for homeowners selling, but it is a powerful negotiating tool that a savvy buyer is a fool not to use. Add in historically low 30-year fixed mortgage rates, and it truly is a perfect time for buyers.

"We were happy about the amount of house we could buy for the price range we were looking in," says French, who ended up buying a three-bedroom, two-bath Saltbox near a freshwater pond in Mashpee for $295,000. The asking price was originally $350,000.

Some towns are softer than others, of course. The farther out the Cape you go, the firmer the market becomes, and there are pockets all along Route 6 that have retained their value. Median single-family home prices in Bourne dropped 16 percent between 2005 and 2007, but Chatham values have merely flattened. Cotuit never stopped appreciating in value. Hyannis home values are getting creamed. How 2008 will play out is anyone's guess, but given the ripple effect of the subprime debacle, increasingly tightened access to loans, and overall decline in property values, no one expects things to truly turn around until the first few months of 2009. That's just fine with us.

WE WANTED TO BUY A HOUSE SOMEWHERE on the elbow of Cape Cod – Chatham, Harwich, Orleans, and Brewster – towns that were expensive to begin with and that have mostly held their value. However, there are short-sale and bank-owned properties coming on the market every week, and when they do, we pounce. Many other homes have sat unsold for far longer than their owners expected. The owners are finally starting to lower their prices in response. Most of the properties we have seen have had at least two price reductions in the past few months.

The first thing we did before we set foot on the Cape was to determine what we were willing to spend, including assumptions about taxes, maintenance, utilities, and the occasional surprise expense (like a roof or boiler repair). We guesstimated that the mortgage payments would be about three-quarters of what we expected to lay out in monthly expenses. Secondly, we got a preapproval letter from our current mortgage company based on those preliminary assumptions. Our third step was to recruit the help of a buyers' broker who would represent us but still receive her commission from the seller. We chose Maria Lamb of Buyer Brokers of Cape Cod-Berard Associates. She specializes in the lower Cape, lives in Chatham, right smack in the middle of the towns we're exploring, and knows most of the available properties by heart.

After our first visit, we dialed in what we wanted (no more than a half-mile from the ocean, at least three bedrooms, a deck and yard, at least 1,000 square feet but no bigger than 1,800) and what we'd pay ($400,000 max and hopefully well below that). Lamb went to work, scouring the MLS for suitable properties, doing drive-bys to determine if they were worth our time, and giving us the real history of many of the "new" listings. A well-worn real-estate trick involves taking an old listing off the market, repricing it, and putting it back on the MLS as a "new listing," which will place it near the top of the many listings vying for your attention.

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The first house we looked at was exactly what we wanted, an adorable three-bedroom Cape, huge backyard, a half-mile from the beach in Harwich, sold fully furnished with items that we actually liked. Many vacation homes come furnished – some with beautiful pieces, some in a style best described as Early Frat House. But we didn't feel right about bidding on the first thing we saw. We wanted to see what we could get closer to the ocean. During the rest of the weekend, we learned the truth of the old adage "location, location, location." A $400,000 house will get progressively smaller, uglier, and more run-down the closer you get to a major body of water. It seemed to us that the listing agents who showed us these hovels, some of which had rooms barely big enough to turn around in, were banking on the fact that people will still buy anything close to the beach. "They still have a bubble-icious mind-set," Lamb told us.

McKenna, Lamb's co-worker, seconds that motion: "There are still a lot of listing agents who have to . . . reeducate . . . their clients about what the current values of properties are. Many are still living in 2005."

The good news is that we could nonetheless find plenty of options for under $400,000. We are also continually surprised by the number of new listings coming on the market every day. These are generally homes owned by people who have to sell (although each summer, Lamb tells us, many vacation homeowners put their houses on the market just to see if they can snag an outrageous offer from a visiting New Yorker who falls in love with the Cape). Many homes are already vacant. If they're not bank-owned, this tells us that the sellers are carrying at least two mortgages and will be more open to aggressive negotiations. We're also pleasantly surprised at the high quality of the properties that are more than 1 mile from the ocean – huge homes priced well below our threshold. About half of the homes we looked at that were within a half-mile of the ocean came with a rental history – a list of names of people who had already rented the home and were interested in doing so again – meaning renting out our vacation home would be easy if we wanted help paying the bills. However, new buyers are not obligated to honor rental reservations made with the prior owner as long as that is stipulated in the purchase and sale agreement – despite what one listing agent tried to persuade us of.

We're heading back down for a two-day house-hunting trip. We're in no rush to make what, in the final analysis, is still a huge investment. We are confident, though, that one day very soon, we'll find "The House."

See you on Route 6. ■