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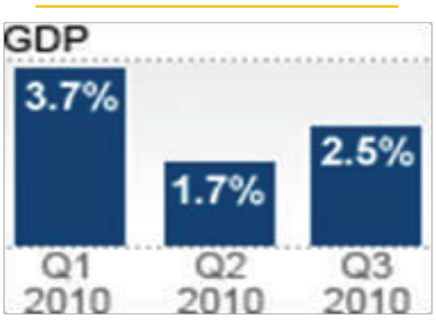
Real Estate Trends For Realtors, Homeowners and Professionals

January 2011

Happy New Year To All

The new year is a time for everyone to count their blessings. This is tough to do when it has been a rough few years for the economy, the markets and housing. Sometimes during rough times it helps to maintain some perspective. The stock market? Sure the Dow is below where it was in late 2007, but it is up over 70% from its trough in 2009. And the Dow was below 3,000 twenty years ago. House prices have dropped significantly in the past few years, but twenty years ago the average house price was below $100,000, or approximately 50% below where it is today. As weak as the economy is right now, it is growing. Consumers are starting to spend and we are creating jobs whereas just last year we were losing an average of 500,000 jobs per month. While the effects of this devastating recession will be felt for years to come, the economy is now growing.

This economic growth leaves us in quite a conundrum. The recession is over, however, economic growth is too slow to bring down employment significantly. And the real estate markets will not recover without solid employment growth. If we use more government stimulus right now, this would be positive for the economy. However, this means we would be piling up more debt and raising the long-term threat of inflation. The resulting higher rates would slow down economic growth. This is why the markets seem to be quite conflicted over the agreement to extend the tax cuts. Looking ahead, we have said many times during the past few years that this recovery will be a slow one with many stops and starts. This type of recovery will extend the pain for many. The good news? It is more likely to be a longer, more sustainable recovery in the long-run. So while tiny steps may not seem like much, we believe when we look back two years from now, the progress will be significant. Here is looking for a better 2011 than 2010, which was better than 2009...



Homeowners Are Richer

The average homeowner has a net worth that is about 41 times greater than that of a renter, according to a report from the National Association of Realtors®. Homeowners' net worth averaged between $150,000 and $200,000 this year, according to the NAR.

...41 Times Greater Net Worth

The trade group for Realtors® said homeowner equity accounts are a substantial part of that net worth. NAR based its research on results from a 2007 Federal Reserve Survey that provides a snapshot of family income and net worth in conjunction with basic demographic makeup. The Fed survey is conducted once every three years. Homeowner net worth back in 2007 was 46 times greater than that of renters, reflecting the economic conditions before housing price declines and a decreasing equities market. The average net worth of a homeowner was above $200,000, while the average net worth of a renter in 2007 was $5,000. It is interesting to see that while many media outlets have questioned the advantages of purchasing in today's markets, the numbers supporting owning are quite clear...

Source: Housing Wire

Selected Interest Rates

December 16, 2010

30 Year Mortgages——4.83%
2010 High (April 8)—— 5.21%
2010 Low (Nov 11)—— 4.17%
15 Year Mortgages——4.17%
5/1 Hybrid ARMs——3.77%
1 Year Adjustables——3.35%
10 Year Treasuries——3.48%

Sources—Fed Reserve, Freddie Mac
Note: Average rates do not include fees and points. Information is provided for indicating trends only and should not be used for comparison purposes.

The Forecast For Real Estate in 2011

Freddie Mac analysts point to five features that they believe will likely characterize the 2011 real estate markets:

- ♦ *Advantageous home loan rates.* With Fed observers expecting the central bank to keep the federal funds rate at its current target range of 0% to 0.25% for most or all of 2011, advantageous rates will be a feature of the 2011 market. Thirty-year fixed-rate loans are likely to remain below 5.0% throughout the year, and initial rates of 5/1 hybrid adjustable-rate loans will likely remain below 4.0% in 2011.
- ♦ *House prices have hit bottom.* Prices are likely to begin a gradual, but sustained recovery in the second half of 2011.
- ♦ *Housing will remain affordable.* With affordability high, many first-time buyers will be attracted to the housing market next year, likely translating into more home sales in 2011 than in 2010.
- ♦ *Refinances will dwindle.* Many eligible borrowers have already refinanced. While fixed-rates are likely to remain low, they will move up gradually.
- ♦ *Delinquency rates will decline.* Based on the last several business cycles, the share of loans that are 90 or more days delinquent or in foreclosure proceedings generally crests within a year of the start of the recovery in payroll employment. Payrolls began to rise last January, and by the spring delinquency rates had begun to fall...

Source: Freddie Mac

Did you know…

Green Street Advisors, a research firm, reported that its commercial property price index rose 2 percent in November and was up 30 percent from the industry low in 2009. "Half of the decline in values that occurred from 2007 to 2009 has been eradicated. Nevertheless, values remain roughly 20 percent shy of their peak," said Mike Kirby, director of research for Green Street. Unlike many indexes, which are based on closed transactions, Green Street records transactions as they go under contract....
Source: Green Street Advisors

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