

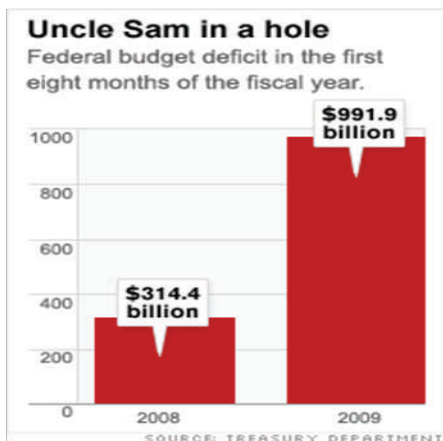
Questions, Questions

We begin the summer season with many questions on our mind. We know the economy is no longer free falling, but will it actually turn around or will we just stagnate for the time being? In the real estate market there is plenty of excess inventory to work off. On the other hand, wholesale inventories have fallen for the past eight months and this could portend a pick-up in manufacturing.

Gas prices have risen above \$2.50 per gallon and this brings up another question. Will the summer driving season be muted because of these higher prices and the weaker economy? Typically a weaker economy translates to less flying but more driving vacations in the summer. However, higher gas prices could soften the trend.

It is not too soon to start thinking about back-to-school sales. Yes, the kids have just started summer vacation in certain parts of the country, but they will be going back to school during the middle and end of the summer. This is an important season for retailers and it remains to be seen if consumers will open up their pocket books.

Finally, we have been speaking of the danger of higher rates, especially with regard to the real estate market. We believe that the markets are likely to be "self-correcting" in this regard. If rates slow the economy down, then rates will ease back down, at least temporarily. If high gas prices keep people from driving, they will also ease back, at least temporarily. Of course, we are not predicting these things will happen. With so many questions to be answered, prognostications are not likely to be of any great value. We say, let the summer games begin!... □



Commercial Market Rebound?

With prices down and defaults by owners increasing, small investors in commercial property are returning to the market searching for properties to buy, says Dana Brody, a practitioner with Grubb & Ellis in Los Angeles.

Buyers Returning

Brody says even though there are some eager buyers, the market remains slow because buyers are holding out for better deals and few sellers are willing to take lowball offers.

Richard Ziman, manager of a \$630 million real estate investment fund, says waiting may be a good idea. For those determined to buy, he suggests making a supportable offer. He advises calculating how much it would cost to build the target property, the replacement cost, and offering that. Ignore the value of the land, he says.

The kinds of properties on Ziman's buy list include mobile home parks, industrial buildings, and small retail centers anchored by grocery or drug stores. He also warns investors away from mom-and-pop operations. "Mommies and poppas are dying," Ziman says. Sources: Los Angeles Times and Bloomberg News.... □

Selected Interest Rates

June 18, 2009

30 Year Mortgages—5.38%
2008 High (July 24)—6.63%
2008 Low (Dec 31)—5.10%
15 Year Mortgages—4.89%
5/1 Hybrid ARMs—4.97%
1 Year Adjustables—4.95%
10 Year Treasuries—3.83%

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.

Affordability Soaring

Home price declines have sent affordability soaring. Prices have fallen so far that the average U.S. home is now undervalued by 12.2%, according to a new report from IHS Global Insight. "The good news is that the declines are happening as consumer confidence is rising and housing sales and [building] starts seem to be bottoming out," said Jeannine Cataldi, senior economist for IHS in a statement accompanying the study.

"The bad news is that job losses continue at high rates, housing inventories are still elevated and consumers, while becoming somewhat more confident, are still wary in the face of economic uncertainty." The IHS study, House Prices in America, reported that, of the 330 markets it tracked, homes are under-priced in 248. That contrasts sharply with four years ago when only 108 markets were undervalued. One-time bubble markets are now going through sales renaissances, according to Cataldi. "In Las Vegas and Phoenix, people are going in and snapping up foreclosures," she said. "They often rent them back to the former owners. Source: CNN/Money... □

Did you know...

◆ The Universities around the country are acquiring troubled condominium projects to use as student housing. In New York, Columbia University paid \$67.6 million for a condo in the Bronx that was to be called the Arbor. It now will house graduate students. In Columbus, Ohio, Capital University paid \$4 million for a building originally developed for ages 55 and older. It will house 60 juniors and seniors in good academic standing. With condo sales off 46 percent from the peak in June 2005, these sales are better than nothing for developers. For universities, it's a great deal, too. "This is a bonanza of an opportunity ... for universities to acquire the space they desperately need," says Dan Fasulo, managing director of Real Capital Analytics. Source: The Associated Press... □

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