



REALITY CHECK: IS THE WORST OVER?

Real Estate Forecast: Sunny with a strong chance of sales.



Though we aren't sending out the celebratory party invites just yet, there are a lot of strong signals that are leading the real estate community to believe that the "worst of times" may have past.

In fact, over the last few weeks we have seen dozens of stories published both in real estate trade and consumer publications that reveal some interesting

facts about a potential turnaround in the economy and housing sector. What could this mean for you as a consumer? Read on.

What Industry Analysts Are Reporting

- According to a May 22, 2008 *RealtyTimes* article entitled, "Real Estate Outlook: Worst is Over," "The housing market offered some immediate hints of that recovery with new home starts up by 8.2 percent last month [April, 2008] and building permits up by 5 percent."
- According to Yahoo News' May 15, 2008 "Home Sales Prices to Pick up in Second Half of 2008," article, Lawrence Yun, Chief Economist for the National Association of Realtors said, "There are many reasons for people to get into the housing market today and very few reasons not to. With the plentiful supply of homes for sale at affordable prices, interest rates approaching 40-year lows, and the strong track record of housing as a good long-term investment, conditions are ripe for buyers. Those are the facts, plain and simple."
- Brett Arends of *The Wall Street Journal* reported in his May 17, 2008 "Home Buyers, Start Your Engines," article, "If you were thinking of buying a home, start looking. The latest data from the housing market shows that sellers, after months and years in denial, are finally giving in to reality and slashing prices... the process, long delayed, is now well underway."
- One of the country's most prestigious groups of market forecasters, the National Association of Business Economists, says housing and consumer credit conditions will stabilize and begin improving as the year moves on. Equally important, said Ellen Hughes-Cromwick, chief economist at Ford Motor and president of the association: The entire U.S. economy will "slowly return to health" this year.
- During NAR's Midyear Legislative Meetings and Trade Expo held May 15-17, 2008, NAR Chief Economist Lawrence Yun reported that "home sales have stabilized over the last seven months and should increase slightly in the second half of 2008."

Bright News in Mortgage: Welcome News for Buyers

And if that news wasn't good enough for real estate, late last month Fannie Mae reported it was scrapping its declining markets policy which previously required borrowers to put up an extra 5% down payment when purchasing homes in areas deemed "declining markets."

Under the policy change, borrowers will get loans up to 95% loan-to-value, even in markets in which prices have been falling. Prior to the change, borrowers could only get loans up to 90% to give lenders a 5-percentage-point cushion to protect against possible price declines in the future.

The previous controversial policy kept some would-be home buyers from taking action because they could not come up with the funds to make the increased down payment. Others may have avoided buying because they were afraid to do so if prices were still declining. By eliminating this policy, Fannie Mae will instead require 3% down payments for conventional, conforming mortgages processed through its Desktop Underwriter automated underwriting system and 5% minimum down payments for loans process manually, *Inman News* reported.

The new policy, which took effect June 1, should be welcome news for many of your buyers, especially first time buyers. NAR President Richard F. Gaylord said the easing of this policy is good news for the industry: "This means consumers across the country will have access to safe, affordable financing with down payments of only 5% on most mortgages, with 100% financing available on some loan products, and we could see an upturn in home sales this summer."

NAR Chief Economist Lawrence Yun concurs noting, "I would encourage buyers who were disappointed by poor mortgage options to take another look at the market because the lending changes are significant," he said. "Also, a recent notable drop in interest rates on conforming loans will help consumers in high cost markets..."





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“To be sure, when you go to sell your current home, you will likely get a modest price. Since 2006’s second quarter, real estate has fallen 10.2 percent, as measured by the S&P/Case-Shiller U.S. National Home Price Index. But your new, grander house will also be relatively inexpensive, so you’re effectively cranking up your real estate exposure when the market is well below its peak.

“In other words, trading up to a larger home or a better neighborhood is really about wanting to consume more real estate.

“Still, like any thrifty shopper, you want to buy when there’s a sale – and that is what today’s market offers.”

“It’s like going from a Honda to a Mercedes,” says Charles Farrell, a financial adviser with Denver’s Northstar Investment Advisors. “It’s a lifestyle choice. As long as it doesn’t cut into your ability to accumulate capital for retirement, this is probably a pretty good time to upgrade.”

So What Could This Mean For You?

If Yun’s predictions are correct, the housing market will strengthen and prices are likely to begin a steady upswing in the coming months.

Lancaster Online’s May 18, 2008 “Housing Slump can be a Boon to Buyers,” included a quote from Coldwell Banker President and Chief Operating Officer Jim Gillespie who said, “This is the absolute best time in my 33 years in real estate to buy a home. Interest rates are still low, inventory levels are high and prices are stable. You should not try to time the market. People who try to time the market get burned.”

The key to any degree of stabilization in the housing market is, of course, the balance between supply and demand. What I can tell you based on my experience is that the market is showing some very early signs of building momentum.

Over the last few weeks we’ve seen a real up-tick in buyer interest and homes going into contract. It seems in most markets, housing prices have adjusted to a point where they are “fair” and it seems buyers are responding. As a result, especially thanks to the recent Fannie May declining markets policy change, people who couldn’t afford a home a few years ago are coming back into the market.

If You’re Ready to Move-Up, Now May Be the Time

I recently came across an article published online by the *Wall Street Journal* on March 16, 2008 entitled “Opportunity knocks in sinking housing market” that synopsised the move-up market quite well. It read:

“If you’re hankering after a larger home or a house in a better neighborhood, this could be your chance to trade up on the cheap.

My Recommendation: Carpe Diem!

If you have been sitting on the sidelines waiting to enter the market, there may not be a better time than now. Prices in some markets may not have hit their lowest point, but they probably aren’t far off. In many areas, only the pace of sales has been affected while prices have held firm and in some cases, have gone up.

Waiting for the absolute bottom to hit before buying puts you at risk of missing it and getting caught up in a market on the upswing, which, based on what many industry analysts are reporting, may be on the horizon sooner than originally predicted.

As your real estate professional, I would welcome the opportunity to counsel you on the opportunities available in today’s market and help you take advantage of them before it is too late.

Please call me today so we may get started.



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