# THIS MONTH IN REAL ESTATE

## U.S.

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KW Research

# Commentary

The housing market was off to a rocky start as the second half of the year began. Much of the volatility, however, was anticipated and attributed to the now-expired tax credit. Despite softened sales this last month, home prices continued to gain - thanks in part to record low jumbo loan rates, which are fueling more interest and activities in the higher end of the market.

Meanwhile, the economy still has a lot of ground to cover before achieving its full, sustainable recovery. Consumers, while remaining on the cautious side, have increased their spending, which is supported by a gradual improvement in income.

The stagnant job market continues to be a cause for concern, but overall, financial conditions have improved. Mortgage rates continued to set new record lows last month. Coupled with lowered home prices, the favorable affordability condition is drawing investors back into the market.

In light of a recovery that started more than a year ago, which is now showing signs of slowing, the Federal Reserve stands ready to boost the economy if necessary by providing additional stimulus via its monetary policy tools.

# The Numbers That Drive Real Estate




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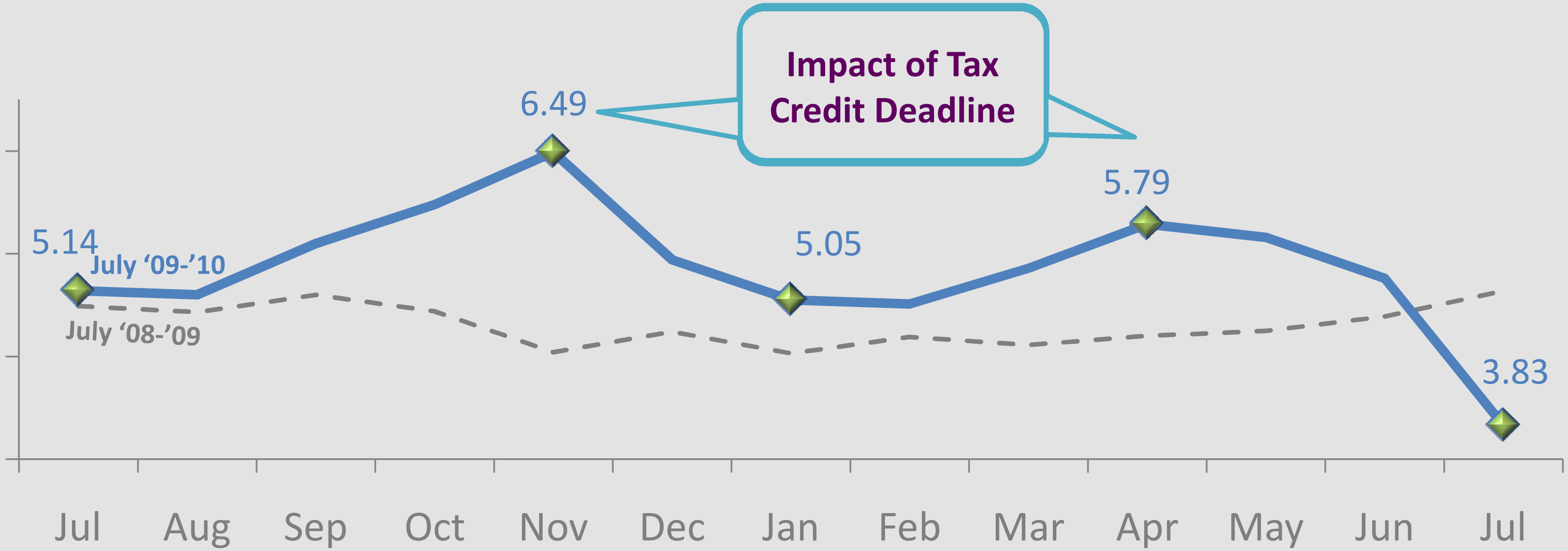
# Home Sales
*In Millions*

For the first time in 14 months, home sales fell below year-ago levels. On a monthly basis, sales activity dropped 27% from June and 25.5% from a year earlier. Although the drop exceeded expectations, it is undoubtedly due to the expiration of the tax credit. Lawrence Yun, NAR chief economist, said, “given the rock-bottom mortgage interest rates and historically high housing affordability conditions, the pace of a sales recovery could pick up quickly, provided the economy consistently adds jobs.”



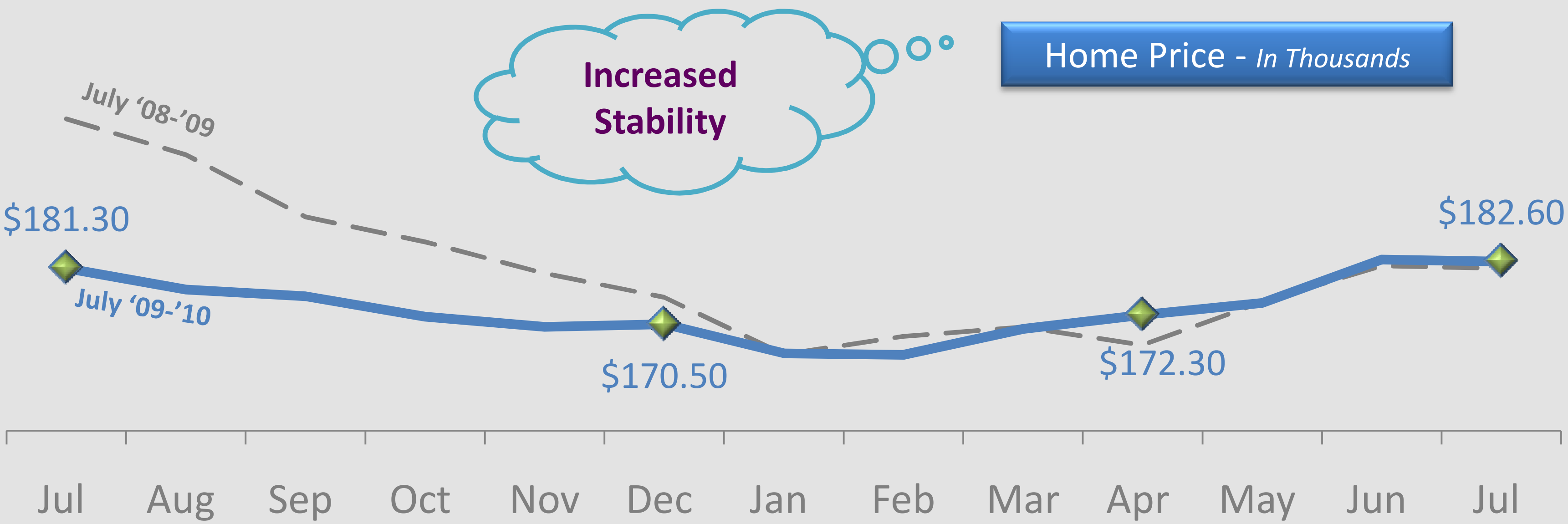

Seasonally Adjusted Home Sales - *In Millions*

Latest Data Release: August 24, 2010
Source: National Association of Realtors

# Home Price

*In Thousands*

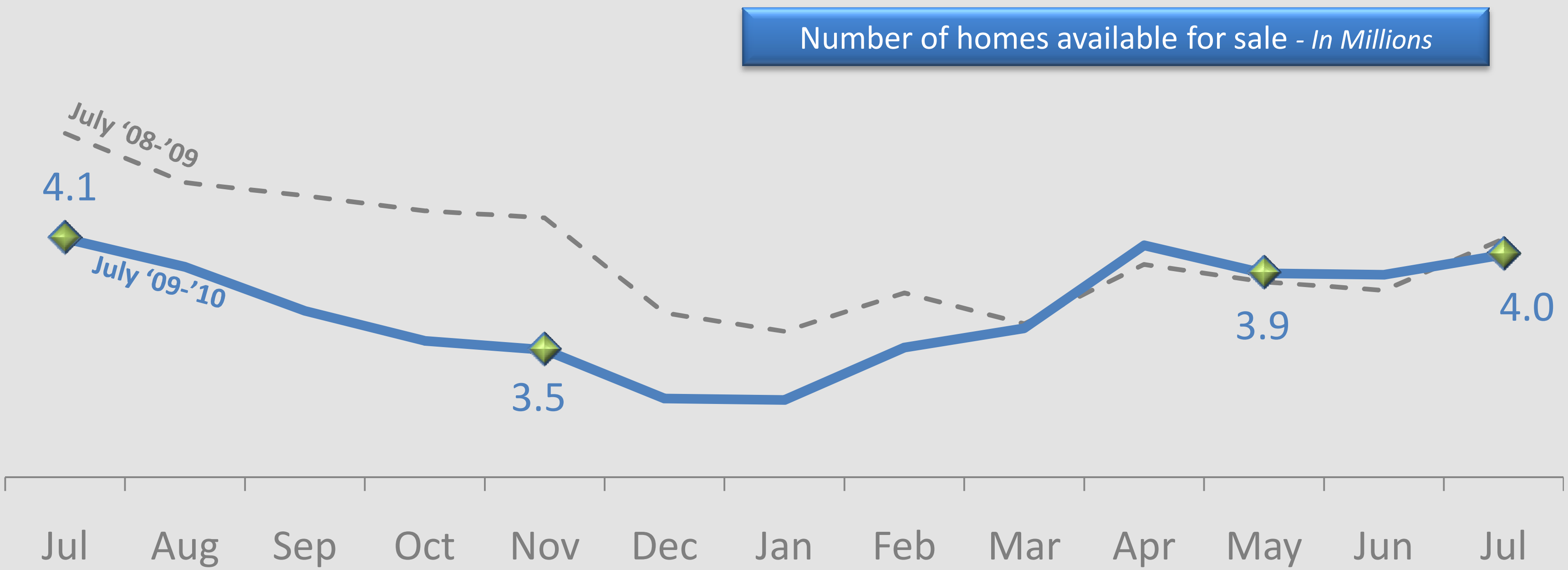
July’s median home price was virtually unchanged at $182,600. This was down 0.2% from June and 0.72% from a year ago. Home values have been stable for the past 18 months due in part to the tax credit. Experts believe that home prices will continue to be stable going forward. Historically, low jumbo loans for higher-priced homes have led to an increased and more normal activity in the higher end of the market, which helps boost average home prices overall.



# Inventory - *Number of homes available for sale*

## *In Millions*

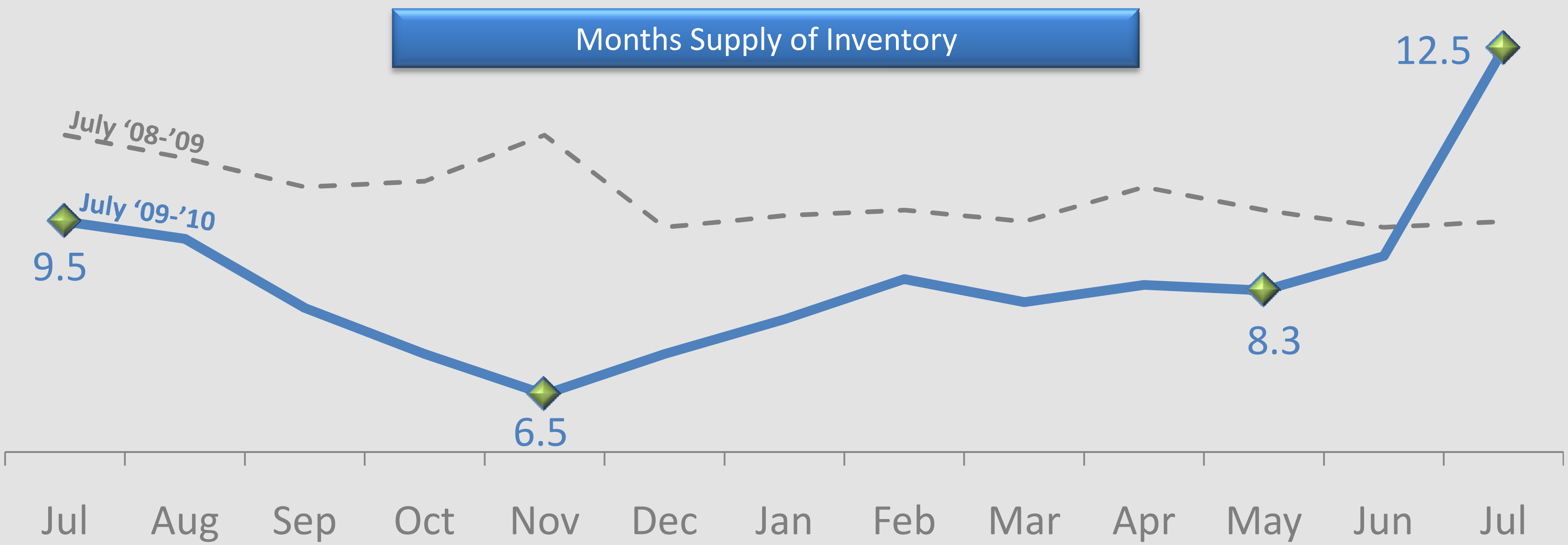
Total inventory remains close to where it was last month. It has edged up 2.5% to 4 million from 3.9 million. This is about where inventory levels were a year ago however, inventory levels are up from their low at the beginning of the year.



# Months Supply *of Inventory* -

*Number of months it will take to sell all homes on the market if homes continue to sell at current pace and no new ones enter the market*

Although the total number of homes on the market remains stable, the number of months worth of inventory has jumped due to lower home sales and fewer buyers in the market. Months supply jumped 40% from 8.9 in June to 12.5 in July. This represents a great opportunity for buyers who have not yet purchased or who are considering a second home or investment property. Important to note is that experts anticipate stable prices and do not expect this to be an ongoing trend, because the increase is due to the impact of the tax credit expiration.

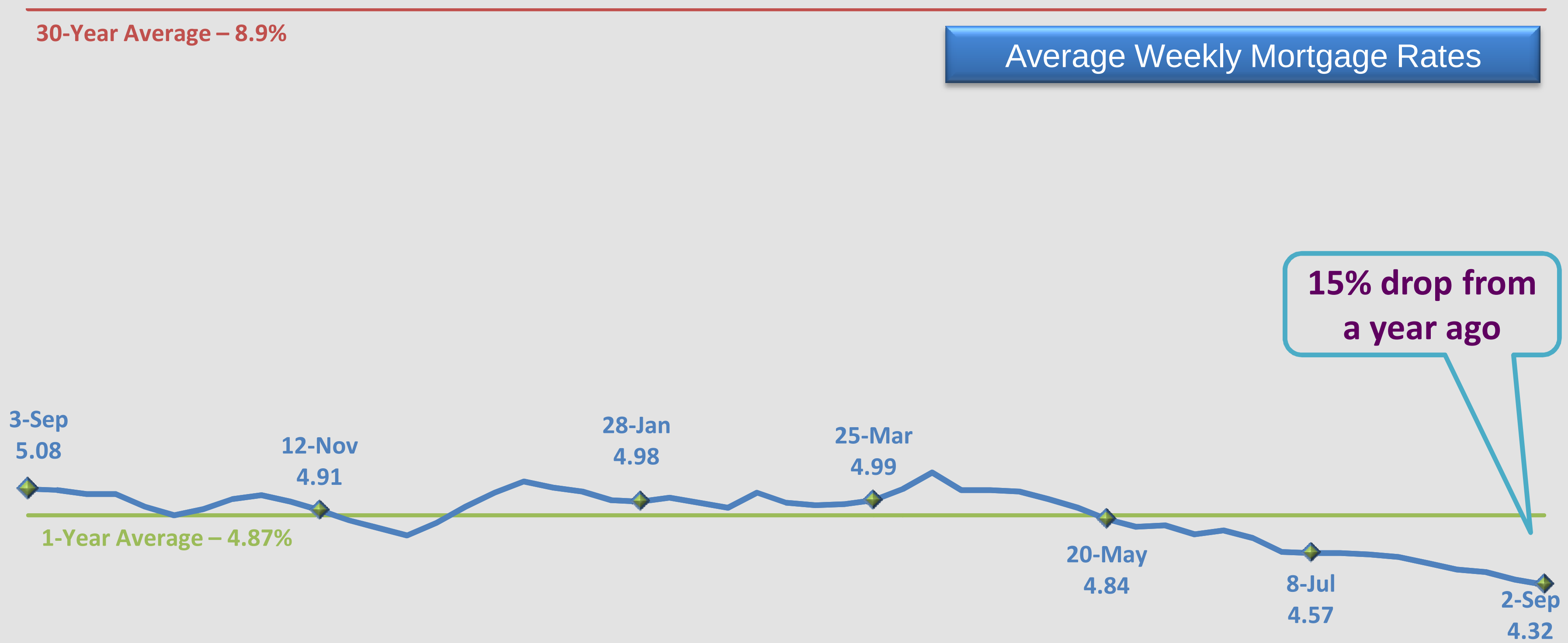



Latest Data Release: August 24, 2010
Source: National Association of Realtors

# Mortgage Rates

## *30-Year Fixed*

Mortgage rates continued to set new record lows in August as consumer confidence softened and unemployment remained elevated. This provides real savings in interest and monthly payment for buyers and refinancers. As economic activity picks up, rates will rise to keep inflation in check.

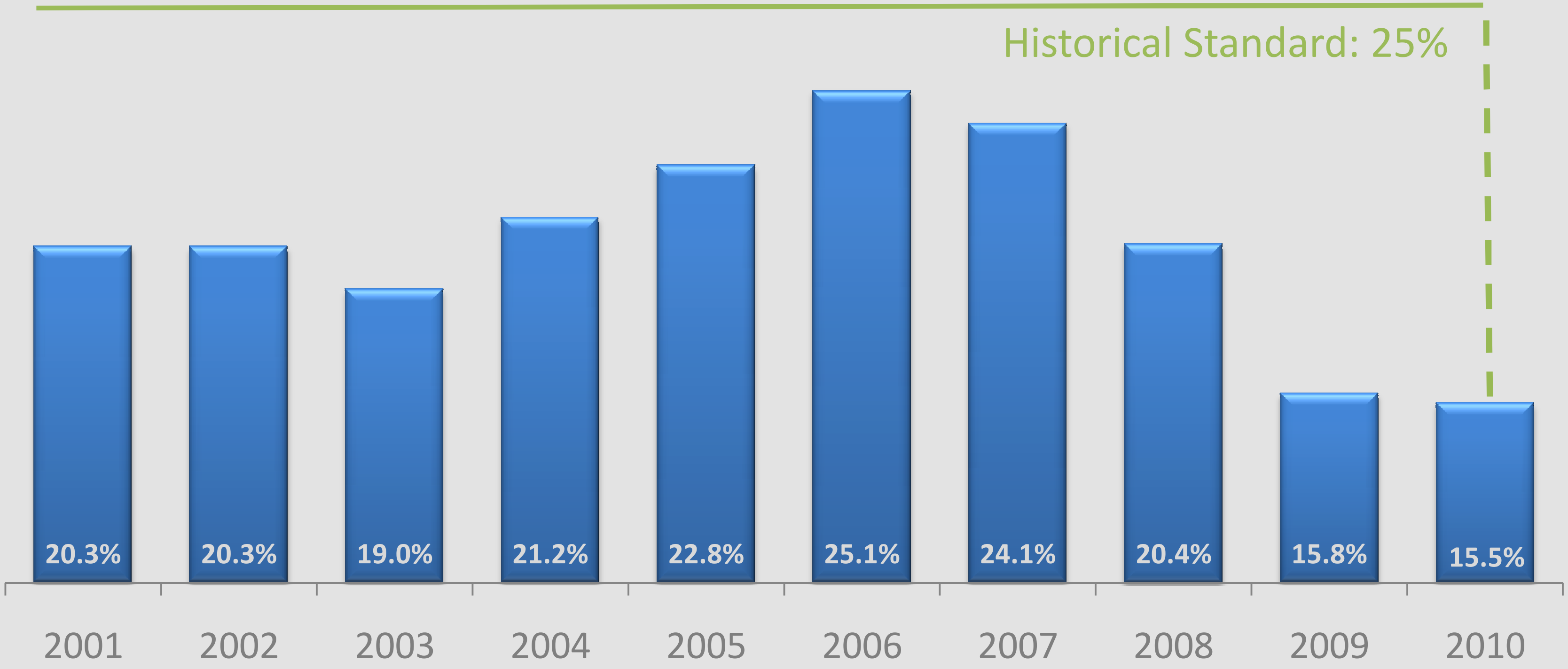



Source: Freddie Mac

# Affordability - *The percentage of a median family's income required to make mortgage payments on a median-priced home*

## *Percentage of Income*

Housing remains highly affordable, and prospective home buyers stand to benefit from the lowest mortgage rates in decades, as well as advantageous home prices. The home price-to-income ratio continues to remain well below the historical average of 25%, but stabilizing home prices are beginning to draw affordability back up toward more normal levels. The ratio now stands at 15.5%.




Affordability as of July every year. Calculations assume a 20% down payment.

Source: National Association of Realtors

# Recent Government Action



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# Financial Reform

*What it means for consumers*

The Wall Street Reform and Consumer Protection Act was signed into law in late July. Before the pains of the financial crisis were just a thing of the past, Congress passed the biggest financial reform measures since the Great Depression. While much of the bill covers Wall Street measures and regulations, there are several changes consumers should be aware of. The following are the top measures related to financing for consumers:

1. **Mortgages.** Lenders must determine if borrowers will be able to meet monthly obligations including mortgage, taxes, insurance, and assessments. Borrowers of adjustable rate mortgages must qualify at the highest rate. Additionally, lenders won't be able to incentivize mortgage brokers to make higher-rate or riskier loans.

2. **Credit Reports.** All consumers will no longer have access to government-mandated free annual credit reports. Consumers who are denied a loan or who are not offered the best interest rate will receive free copies of their credit scores. Credit scores and reports will be available for purchase through a credit bureau or myFICO.com.

Sources: *The Wall Street Journal*, *USA Today*, myfico.com

# Financial Reform

## *What it means for consumers*

3. **Credit and Debit Card Changes.** Most notably, merchants may start incentivizing consumers to pay with cash, debit, or check. There may be changes to credit card rewards programs.

4. **Consumer Financial Protection Bureau.** This new bureau will regulate consumer loans including mortgages, credit cards, student loans, payday loans, and check-cashing companies. Auto loans and insurance lending will be excluded.

The government's goal of creating safer and easier to understand lending practices is to benefit the long-term strength of the economy.

For more information, see the following links:

- http://www.myfico.com/crediteducation/articles/financial-services-reform.aspx
- http://www.usatoday.com/money/perfi/basics/2010-06-25-financial-regulations-consumers_N.htm

Sources: *The Wall Street Journal*, *USA Today*, myfico.com

# Topics for Home Buyers, Sellers, and Owners




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# Build Equity Faster

Many are taking advantage of the incredible historically low interest rates by opting for a 15-year mortgage. These loans present a great opportunity to pay down debt on an accelerated timeline.

If buyers can afford the higher monthly payment, they might want to consider taking advantage of this special time in interest rate history.

Buyers can be on a fast track to equity for their next home, retirement, or simply to be debt-free. Assuming a $200,000 mortgage, the following table includes a break-down of cost and equity buildup after 7 years:

| Term | Rates | Payment | Equity from Mortgage in 7 Yrs |
|---|---|---|---|
| 30 year | 4.2% | $978 | $26,763 |
| 15 year | 3.5% | $1,430 | $80,040 |
| Difference | 0.7% | $452 | **$53,277** |

Source: *The Wall Street Journal*

# Local Lender's Rates

Consumers would be wise to do some shopping around for interest rates on mortgages.

Since the financial crisis began, many of the big banks consolidated and merged - Wells Fargo and Wachovia, for example - increasing the "big banks" combined market share. With fewer players in the game, rates don't need to be as competitive as before the consolidation to get the same amount of business.

Smaller local or regional banks can offer significantly advantageous rates. Of course, each loan situation is different and depends on a variety of factors, but don't forget due diligence – it could save big bucks in the long run.

Source: *The Wall Street Journal*

# Your Local Market

Although it is important to stay informed about what is going on in the national economy and housing market, many different factors impact the real estate market in your own area.

**Talk to your KW associate for assistance interpreting the conditions in your local market.**

KW associates are equipped with the knowledge and information to help you navigate through the home-buying or selling process in this challenging market.

# About Keller Williams Realty

Founded in 1983, Keller Williams Realty, Inc., is an international real estate company with more than 77,000 associates and 677 offices across the United States and Canada. The company began franchising in 1991 and, after years of phenomenal growth and success, became the third-largest U.S. residential real estate firm in 2009.

The company has succeeded by treating its associates as partners and sharing its knowledge, policy control, and company profits on a system-wide basis.

By focusing on helping associates realize their fullest potential, Keller Williams Realty is known as an industry leader in its family culture, unmatched education, profit sharing business model, phenomenal coaching program, and technology offerings.

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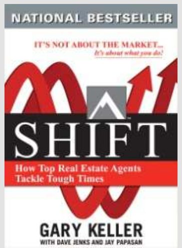


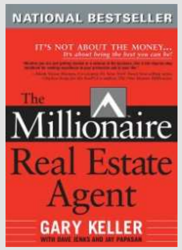


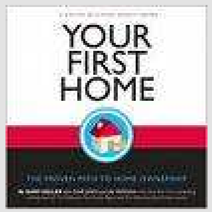


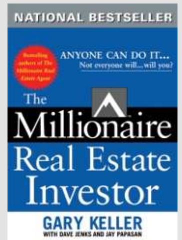

THIS MONTH IN

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