

Keller Williams Research

This Month in Real Estate

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Commentary.....	2
The Numbers That Drive Real Estate.....	3
Recent Government Action.....	9
Topics for Buyers and Sellers.....	14



Budding Signs of Recovery

Budding signs of recovery continued last month. The encouraging news arrived in a number of closely followed economic indicators. On Thursday, October 29, the U.S. Commerce Department stated the country's recession has officially ended, at least as leading data indicates.

U.S. GDP expanded 3.5 percent in the third quarter, the first period of quarterly growth in more than a year. A strong bounce in housing sales activity in September, mainly due to first-time buyers' efforts to claim the tax credit before it expires for November 30, pointed to stabilization in the housing sector. And more good news this week as an extension to the Home Buyer Tax Credit is working its way through a congressional vote. Many believe this bill will emerge later in the month, possibly with provisions to include some existing homeowners and higher income earners.

The recovery will continue to develop in small steps. The Recent Nobel Prize winner in economics, Paul Krugman, praised the progress, stating the most severe part of the crisis has now subsided and “the end of the world has been postponed.” Moving forward, trade imbalances and mounting levels of government debt, as well as high levels of unemployment, will need to be addressed. For now, governments including the United States will continue to provide stimulus support until the major economies are firmly on solid ground.

The Numbers That Drive Real Estate



Home Sales

In Millions

Existing home sales bounced back strongly in September with much of the increase being attributed to the rush of first-time buyers trying to claim the tax credit before the end of this month. Sales jumped 9.4 percent to 5.57 million units over August sales of 5.09 million, marking five gains in the past six months and is 9.2 percent above levels seen last year. Sales activity is at the highest level since July 2007 when sales hit 5.73 million.

Seasonally Adjusted Home Sales



Latest data release: October 23, 2009

Source: National Association of Realtors

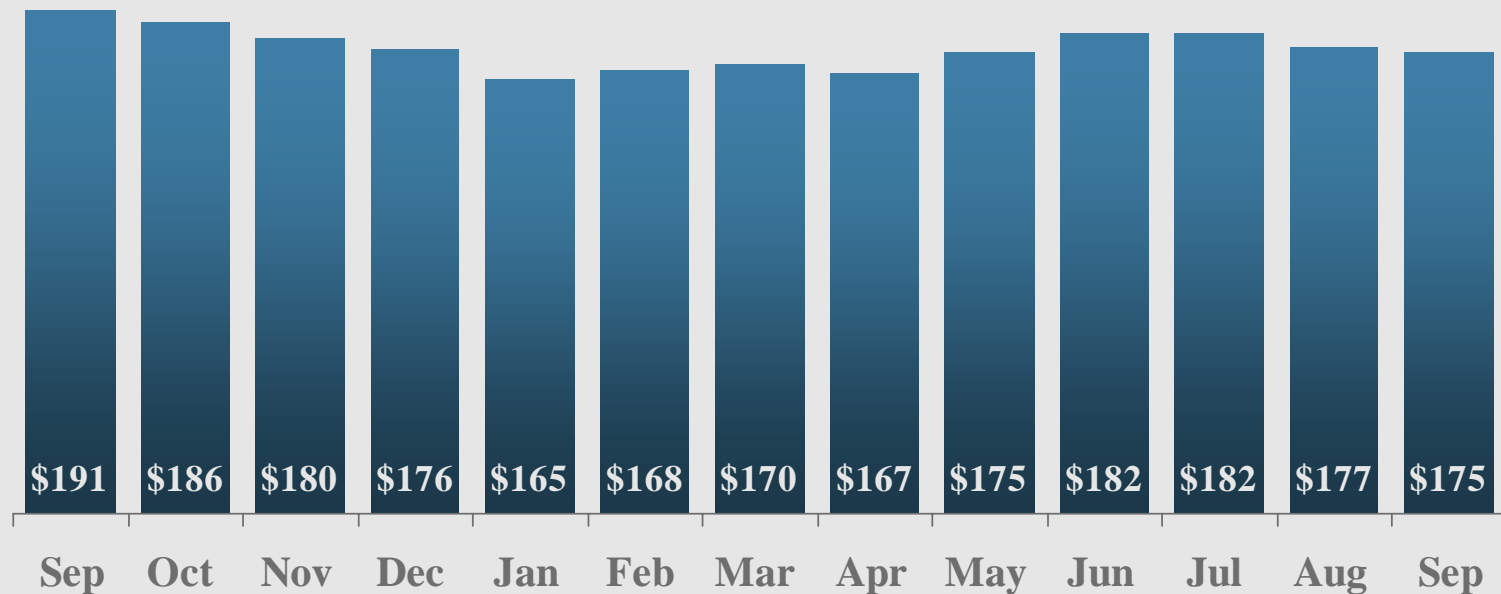
KW Research 4

Median Home Price

In Thousands



Existing-home price was \$174,900 in September, 6 percent higher from its low in January but still 8.5 percent below September 2008. Distressed properties, which accounted for 29 percent of all transactions in September, continue to hold down the median price, as they typically sell for 15-20 percent less than traditional homes.



Latest data release: October 23, 2009

Source: National Association of Realtors

KW Research 5

Inventory

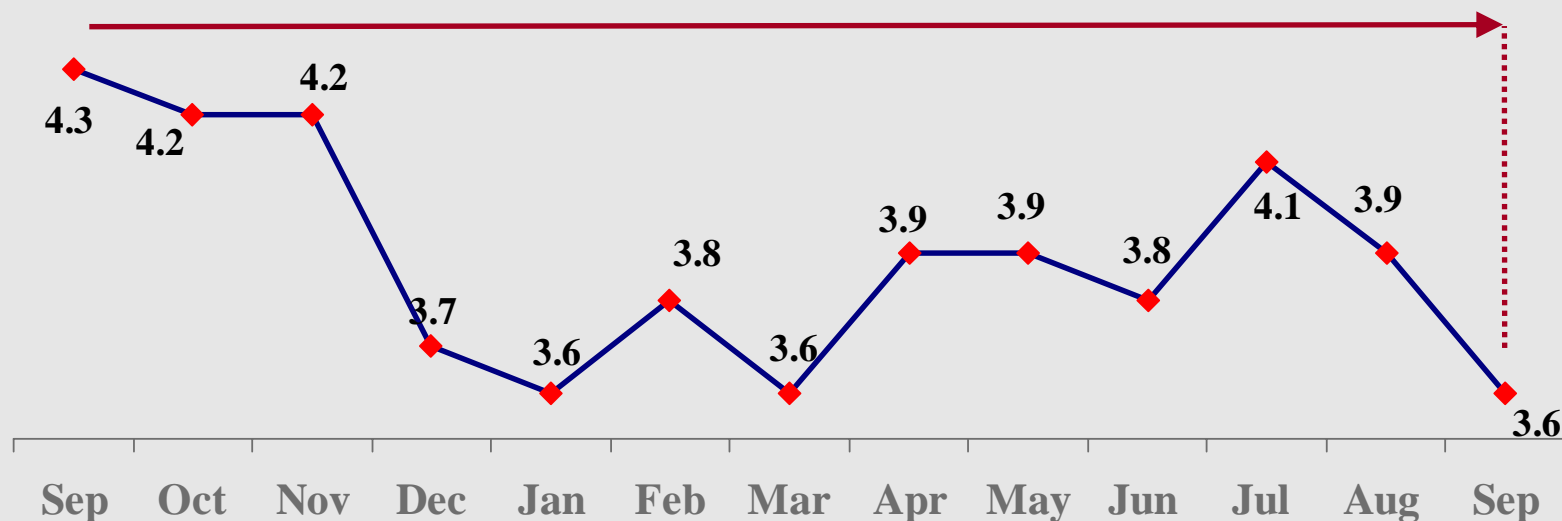
▪ *Number of homes available for sale*

In Millions



The current housing supply is the lowest seen in two and a half years. Total housing inventory at the end of September fell 7.5 percent to 3.63 million existing homes available for sale, representing an 7.8-month supply at the current sales pace, down 16.1 percent from August's 9.3-month supply. Compared to a year ago, there are now 15 percent fewer homes on the market. According to Lawrence Yun, NAR chief economist, "If we could continue to absorb inventory at this pace, home prices would return to normal, modest appreciation patterns next year."

Number of Homes Available for Sale



Latest data release: October 23, 2009

Source: National Association of Realtors

KW Research 6

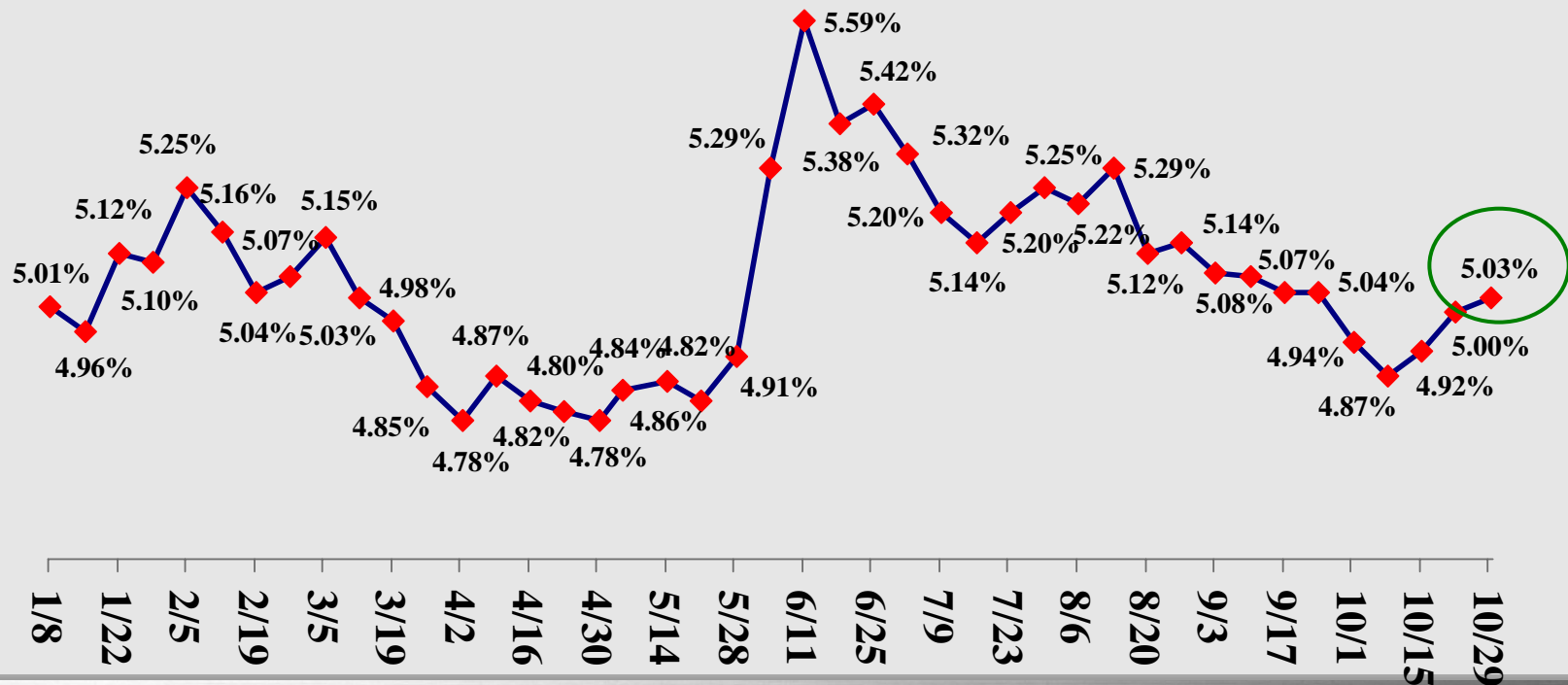
Mortgage Rates

30-Year Fixed



Rates for 30-year fixed loans continue to hover around 5 percent. While having risen above the ultra-low 4.78 percent reached in the spring, rates remain at attractive levels for people looking to buy a home or refinance. As an economic recovery is underway and concerns over inflation come back, experts expect mortgage rates will likely go up.

Average Weekly Mortgage Rates





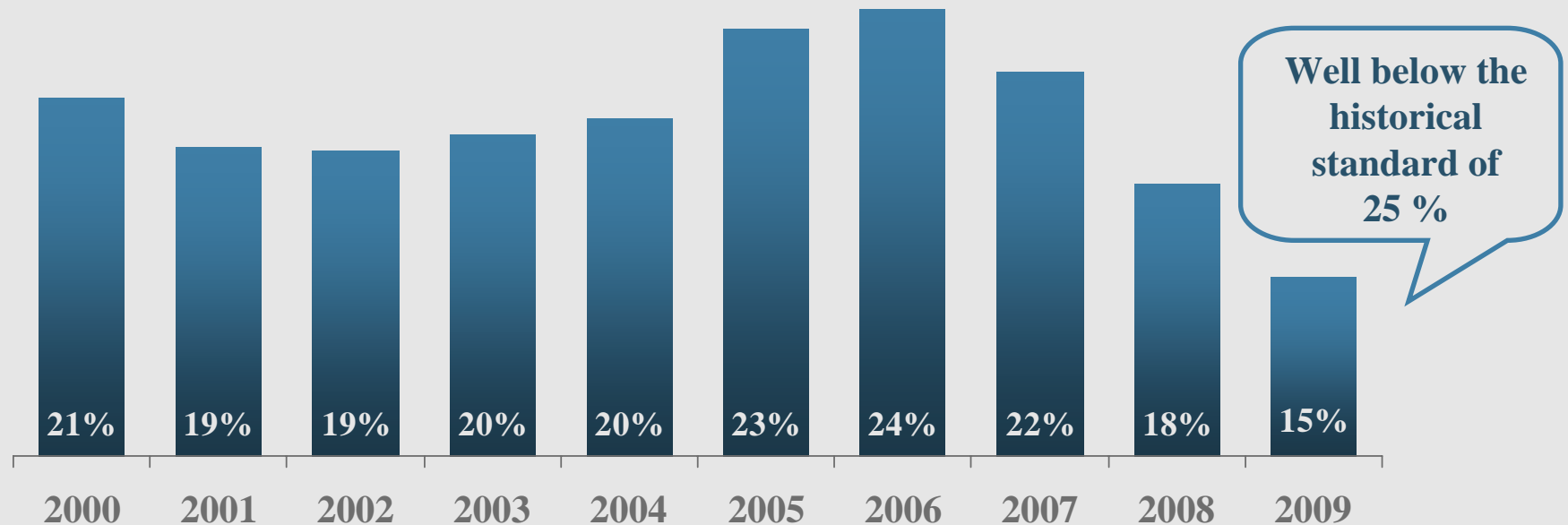
Affordability

% of Income

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

Historically high affordability conditions coupled with the first-time buyer tax credit are boosting home sales. Home buyers continue to benefit from low home prices as well as unprecedented mortgage rates. "Potential first-time buyers can take heart in that affordability conditions this year are the highest on record dating back to 1970," according to NAR President Charles McMillan. So far this year, the home price-to-income ratio has fallen well below the historical average of 25 percent. The ratio now stands at 15 percent.

Percent of Income Required for Mortgage Payments on a Median-Priced Home



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

Source: National Association of Realtors

KW Research 8

Recent Government Action



First-Time Home Buyer Tax Credit Update

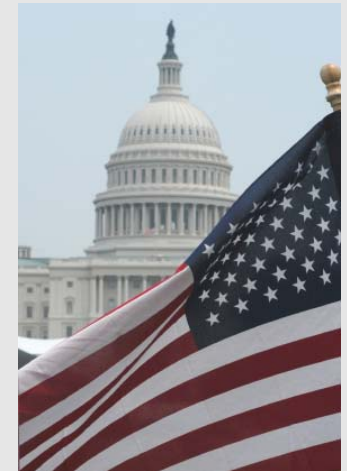
October 2009



As the deadline for the First-Time Homebuyer Tax Credit crept closer, it became a clear priority on the Hill. An extended and expanded home buyer tax credit is a part of a larger bill that also extends unemployment benefits. **This bill was signed by President Obama on Friday, November 6.**

The bill essentially remains intact but has a handful of important changes:

1. Existing homeowners who lived in their previous home for 5 out of the last 8 years will be eligible for up to a \$6,500 credit.
2. The income limits have been bumped up \$50,000 to \$125,000 for individuals and up \$75,000 to \$225,000 for couples.
3. Those who qualify will have until the end of April, 2010 to find their new home and have a signed contract on it. They will have until the end of June to close.
4. Military, foreign services and intelligence employees with extended active service may qualify for a few special provisions, including an extra year to take advantage and they may not need to repay the credit if they move during the first three years.

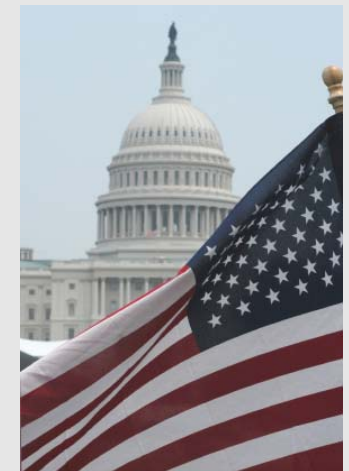


First-Time Home Buyer Tax Credit Update

October 2009



	Previous	New
Effective Date	<ul style="list-style-type: none"> ▪ January 1, 2009 	<ul style="list-style-type: none"> ▪ November 7, 2009
Deadline	<ul style="list-style-type: none"> ▪ Must <i>Close</i> before December 1 	<ul style="list-style-type: none"> ▪ Contract signed before May 1, 2010, must close before July 1, 2010 ▪ Members of the uniformed services, foreign services, and intelligence employees who served an extended service of 90 days will have until April 30, 2011 and June 30, 2011.
Income Limit	<ul style="list-style-type: none"> ▪ <u>Individual</u>: \$75,000 ▪ <u>Couple</u>: \$150,000 	<ul style="list-style-type: none"> ▪ <u>Individual</u>: \$125,000 ▪ <u>Couple</u>: \$225,000
Amount	<ul style="list-style-type: none"> ▪ <u>First-Timers</u>: maximum of \$8,000 or 10% of sales price ▪ <u>Prior Owners</u>: \$0 	<ul style="list-style-type: none"> ▪ <u>First-Timers</u>: Unchanged ▪ <u>Prior Owners</u>: \$6,500 if lived in prior home for at least 5 consecutive years of past 8 years

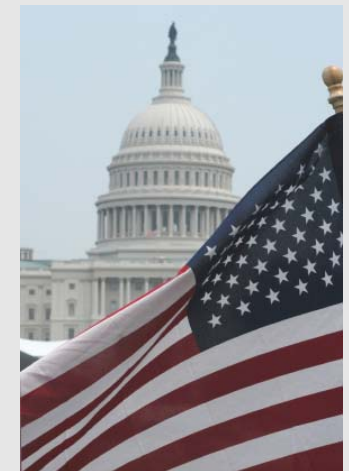


First-Time Home Buyer Tax Credit Update

October 2009



	Previous	New
Other Restrictions	<ul style="list-style-type: none">▪ Home must be primary residence for at least 3 years	<ul style="list-style-type: none">▪ Buyer must be at least 18 years old and not classified as a dependent for tax purposes▪ Home must cost less than \$800,000▪ Home must be primary residence for at least 3 years. If home is sold or buyer moves, before 3 years, must re-pay full amount of credit. Exception for military, foreign services, or intelligence with extended 90 days service overseas.
How to claim	<ul style="list-style-type: none">▪ If purchased in 2009, by amending 2009 tax return or claiming on 2010 tax return	<ul style="list-style-type: none">▪ If purchased in 2010, by amending 2010 tax return or claiming on 2011 tax return



Could HVCC be on its way out?



October 2009

The Consumer Financial Protection Agency has been in the works in Congress for several months. This agency will look out for consumers, protecting them from unfair financial practices, overseeing credit cards and loans. Soon after its creation, the Consumer Financial Protection Agency would bring the Home Valuation Code of Conduct (HVCC) to an end.

The HVCC slipped in under the radar earlier this year. It was the result of a settlement between the New York attorney general and Fannie Mae and Freddie Mac to conduct fair and appropriate appraisals. HVCC actually created a lot of confusion, many improper appraisals, and much frustration from contracts falling through from inaccurate appraisals.

The current code would be replaced by one with a similar goal that allows for public comment and is consistently applied across all federal agencies.

This will give the public the opportunity to weigh in on what has and has not worked from experience. This will hopefully get closer to a code that truly protects consumers, ensures fair values, and prevents future bubbles.



Higher Loan Limits Extended

October 2009

With the onset of the financial crisis, credit markets that were not backed or insured by the government froze. Mortgages that are backed by the government and purchased by Fannie Mae, Freddie Mac, and Ginnie Mae are called “conforming loans”. One type of non-conforming loan is the “jumbo loan”. Traditionally, jumbo loans are mortgages that are greater than \$417,000.

Since the crisis began, tightened lending practices have made this type of loan harder to secure. Jumbo loans currently come with substantially higher costs from larger down payments and higher interest rates. This has led to a 70% decrease in jumbo loan origination since 2007 and a greater inventory of homes in jumbo territory.



As part of the stimulus bill earlier this year, the conforming loan limits were raised to 125% of median home prices to a limit of \$729,750 for 2009 and were set to expire at the end of the year. On October 29, the increased loan limits were extended through 2010. This means it will be easier for sellers whose homes fall in this category and cheaper for buyers to secure financing next year, compared to if the government let the limits expire.

Topics for Buyers and Sellers





Unemployment Worries Addressed

Peace of Mind Home Buyers Worried about High Unemployment

The average duration that unemployed workers are out of a job is currently more than six months, near the highest level since the bureau started tracking the figure in 1948. The total number of unemployed people stands at 15.1 million. 5.4 million of those have been looking for work for more than 27 weeks.

With incentives in the housing market, including very low interest rates, a large selection of homes for sale in many markets, and highly affordable home prices, concerns about the job market and possible unemployment have held back many potential buyers.

Here are a few suggestions for potential buyers and current homeowners:

1. **Buy well within your means.** Although home buyers often want to buy a home they can see themselves growing into, stay within a conservative percentage of what you currently make. If you had to take a part-time instead of a full-time job, if your salary or hours were cut, or if you become a one-income household instead of two, make sure your monthly payment would still be attainable.



Unemployment Worries Addressed *(cont)*

Peace of Mind Home Buyers Worried about High Unemployment

2. **Put down a large down payment.** Not only will your monthly payments be less, but the equity from the down payment creates a buffer zone. If you put 20% down when you purchase your home and home prices in the area drop 5%, you still have at least 15% equity in your home. For sellers, this built-up equity provides flexibility-should you need to sell in a hurry.
3. **Have an emergency fund.** Experts advise everyone, not just homeowners, to have an emergency fund of *at least* six months' worth of expenses. This fund should be saved in a liquid account, like a money market or savings account, for easy access if needed quickly. With the average time to find a new job currently above six months, seven or more months of savings is a good goal.
4. **Pay down other debts.** Lowering or eliminating debt service is always a good move and is particularly wise in the current job climate. If you were without a job and income, lower fixed monthly expenses help ease your financial burden and stretch the money in your emergency fund.

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 area.

Talk to your Keller Williams agent for assistance interpreting the conditions in your local market.



Keller Williams associates are equipped with all the knowledge and information to help navigate you through the process of buying or selling a home in this challenging market.

About Keller Williams Realty



Founded in 1983, Keller Williams Realty, Inc., is an international real estate company with more than 74,175 associates and 693 offices located across the United States and Canada. The company began franchising in 1991, and following 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 shares its knowledge, policy control, and company profits on a system-wide basis.

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. The company provides associates with all the tools needed to grow and thrive in today's market.

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