

**Keller Williams Research**

# **This Month in Real Estate**

**Released: December 4, 2009**

<b>Commentary.....</b>	<b>2</b>
<b>The Numbers That Drive Real Estate.....</b>	<b>3</b>
<b>Recent Government Action.....</b>	<b>9</b>
<b>Topics for Buyers and Sellers.....</b>	<b>15</b>



# Steps to Recovery

Small steps to economic recovery continued last month. Among the positive readings was the report of a third quarter GDP growth rate of 2.8 percent, which followed four consecutive quarterly declines. This advance comes in well ahead of that of our Canadian neighbors, whose economy was once anticipated to be the first country out of recession, and by significant margin. Canada posted marginal 0.4 percent growth. Unemployment fell in November for the first time since April 2008. A strong rebound in home sales activity from year ago levels also points to a firmer stabilization.

With the extension of the \$8,000 federal housing tax credit into spring 2010, first-time buyers will now have an additional few months to purchase their dream homes. Expansion of the income restrictions now gives possibilities for higher earners to participate too. And the \$6,500 tax credit now available to established homeowners with five consecutive years or more in their homes broadens the opportunity landscape. This in turn will allow the housing market more time to find a more solid footing on a sustainable recovery.

Although economists continue to debate the overall shape of the recovery, it is widely agreed that the U.S. economy will take a long time to rebound. Unemployment is expected to remain high for several quarters and the number of underemployed is expected by some economists to remain a drag on growth prospects. On the brighter side, according to some economists, a slow and steady growth will likely fair better for the long-term well-being of the economy. Slower, sustained growth can help prevent dangerous asset bubbles, like the recent housing and technology bubbles, from growing and bursting.



# The Numbers That Drive Real Estate

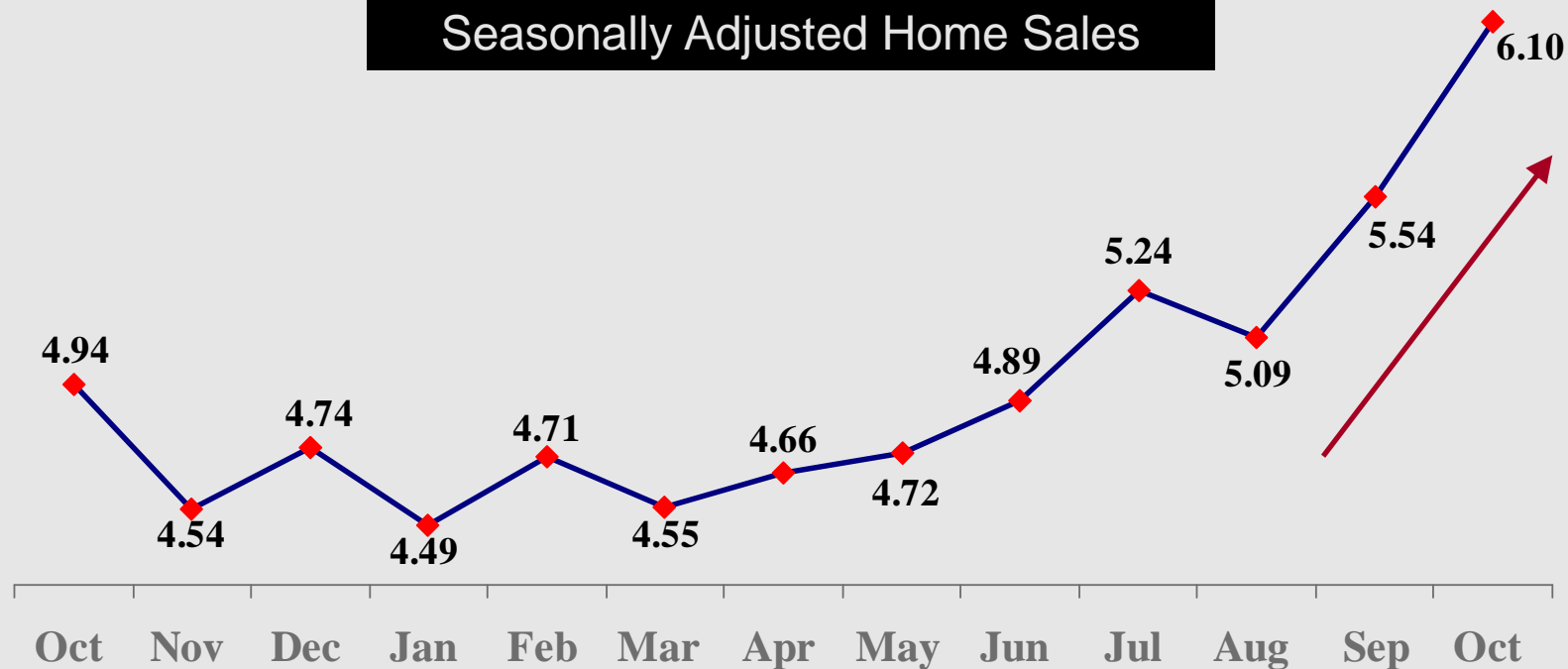


# Home Sales

## In Millions

Existing home sales recorded another strong gain in October with many buyers rushing to beat the deadline for the first-time buyer tax credit scheduled to expire at the end of November. Sales surged 10.1 percent to 6.1 million units over September sales of 5.54 million and are 23.5 percent above the 4.94 million-unit level seen last year. Sales activity is at the highest level since February 2007 when it reached 6.55 million.

Seasonally Adjusted Home Sales



Latest data release: November 23, 2009

Source: National Association of Realtors

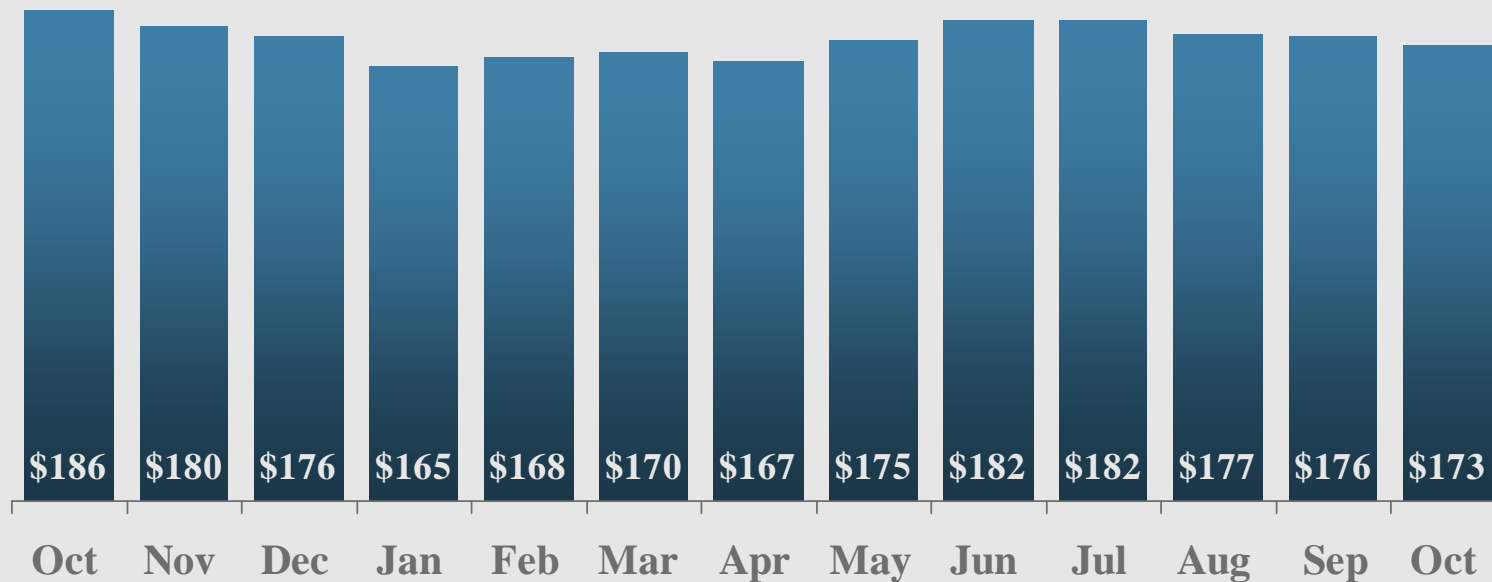
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# Median Home Price

## In Thousands



Low home prices are contributing to extremely favorable affordability conditions. Existing-home price was \$173,100 in October, 5 percent higher from its low in January but still 7.1 percent below October 2008. Distressed properties, which accounted for 30 percent of all transactions in October, continue to hold down the median home price, as they typically sell for 15 to 20 percent less than traditional homes.



Latest data release: November 23, 2009

Source: National Association of Realtors

KW Research 5

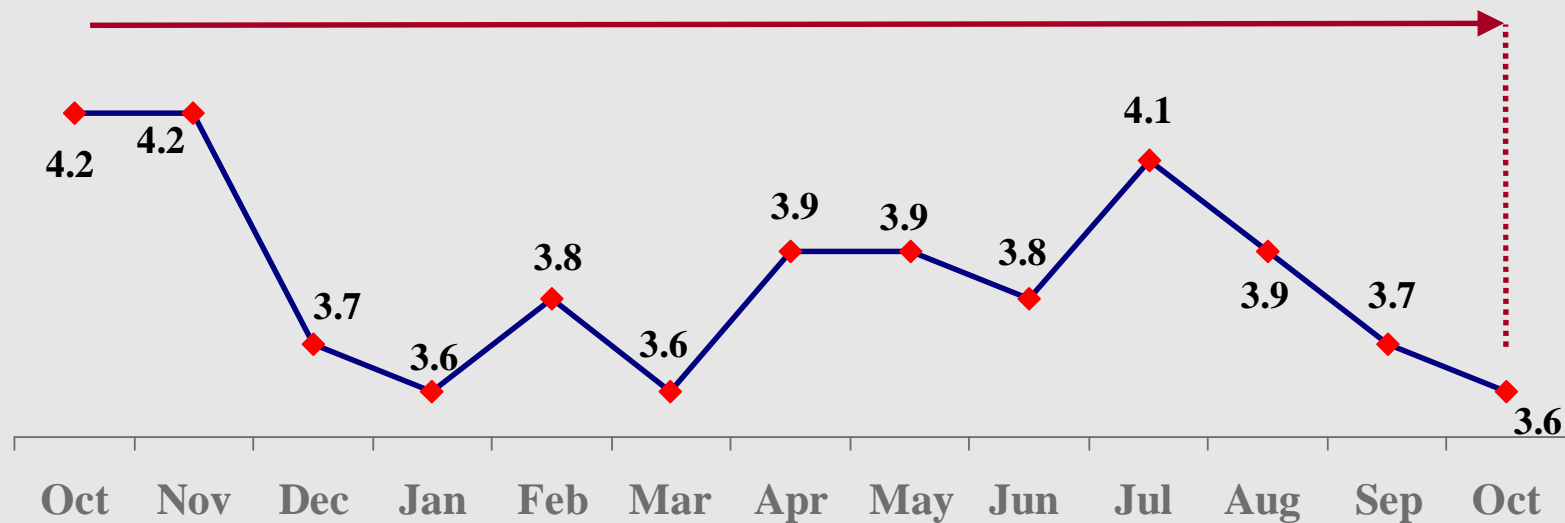
# Inventory - *Number of homes available for sale*

## In Millions



“We are getting closer to a general balance between buyers and sellers,” according to Lawrence Yun, NAR chief economist. The supply of homes is now at **the lowest level in more than two and a half years**. Total housing inventory at the end of October fell 3.7 percent to 3.57 million existing homes available for sale, representing a seven-month supply at the current sales pace, down from September’s eight-month supply. Compared to a year ago, there are now 15 percent fewer homes on the market.

Number of Homes Available for Sale



Latest data release: November 23, 2009

Source: National Association of Realtors

KW Research 6

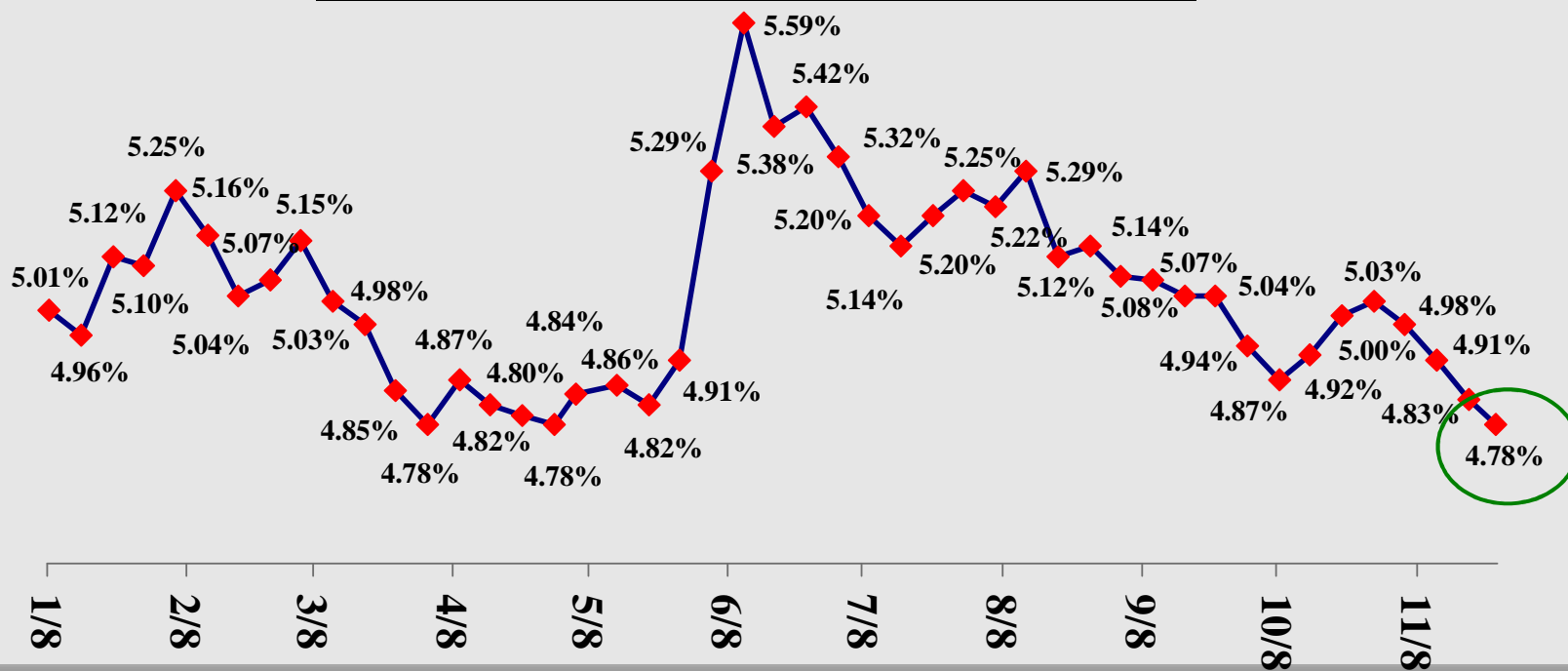
# Mortgage Rates

## 30-Year Fixed



Remaining at attractive levels for people looking to buy a home or refinance, historically low interest rates are boosting the market. Rates for 30-year fixed loans fell to 4.95 percent in October from 5.06 percent the month before. During the week ended November 25, rates again dropped to the low 4.78 percent reached in the spring. As the economy enters its recovery phase and concerns over inflation come back, mortgage rates are expected to go up.

Average Weekly Mortgage Rates





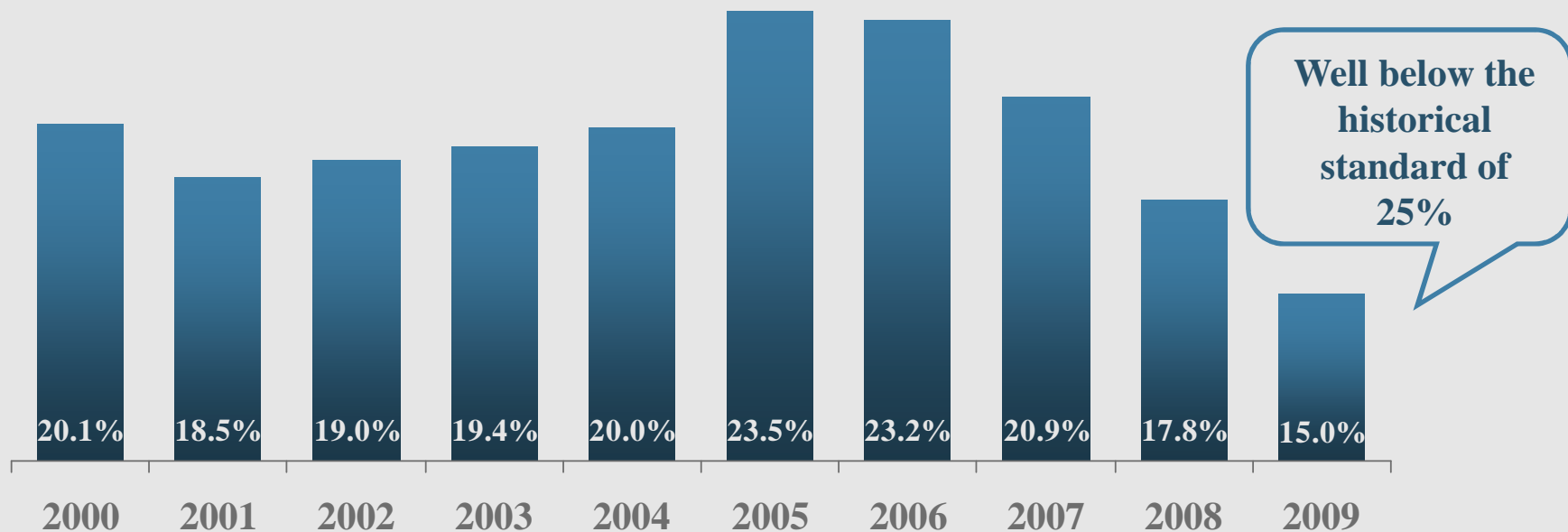
# Affordability

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

## % of Income

Unprecedented interest rates, low home prices, as well as the first-time buyer tax credit are lifting the housing market. All these factors combined are “adding to the buying power of the typical family, with affordability conditions this year at the highest on record dating back to 1970,” according to Lawrence Yun, NAR chief economist. 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 October every year. Calculations assume a 20% down payment.

Source: National Association of Realtors

KW Research 8

# Recent Government Action

# Government Pressures Lenders Foreclosure Prevention Program

December 2009



The federal government is cranking up the pressure on lenders to increase the number of borrowers who receive completed mortgage modifications as well as releasing guidelines for short sales.

Although 650,000 borrowers have received trial modifications, only a small, undisclosed percentage of those have qualified for final modifications. Mortgage executives estimate 25-35 percent of those in trial will qualify for the final ones.

Reasons for a trial modifications to fail:

1. Reduced payment isn't low enough
2. Borrower suffered additional financial setback
3. Borrower didn't provide a hardship affidavit or other documents
4. Loan did not pass a "net present value" test  
(The test asks - is modification or foreclosure more costly to the investor?)



The Treasury Department will appoint officials to monitor actions of the largest servicing companies daily. It will also require mortgage companies to report to the administration plans to increase the number of completed modifications.

# Short Sale Guidelines Foreclosure Prevention Program

December 2009



Short sales are when the lender accepts less than the borrower owes on a loan. They can provide a higher sales price and are less harmful to communities than foreclosures but can be difficult to complete. Second liens, such as a second mortgage on the home, add extra layer of complication which this program addresses. The borrower will be fully released of obligations and future debt liability after participating in this program.

The guidelines are aimed at those who are eligible for the loan modification program but:

1. Do not end up qualifying
2. Become delinquent on modification
3. Request a short sale or deed-in-lieu

The program will offer the following incentives for successfully completed short sale or deed-in-lieu of foreclosure:

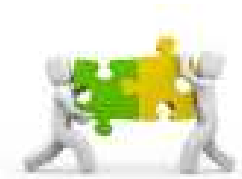
Borrower.....	\$1,500
Lender.....	\$1,000
Second Lien-holder.....	\$3,000*

\* From proceeds of the sale in exchange for releasing liens

The stakes of a successful foreclosure prevention program are high. Experts on the housing market and the economy are troubled by the high levels of foreclosures that disrupt neighborhoods and put downward pressure on home prices, causing trouble for both the stability of the housing market and financial institutions.

# REO & Neighborhood Support New Fannie Mae Policies

November 2009



In many markets dominated by distressed properties, buyers jumped off the fence in droves and as a result the number of homes for sale in the first tier of the market decreased significantly. When a new foreclosure becomes available for sale, it often is snapped up by investors with cash on hand, leaving the average home buyer looking for a place to live out of luck.

Fannie Mae introduced a new “First Look” initiative to address this and aid in the stabilization of neighborhoods.

1. During the first 15 days a Fannie Mae REO is on the market, only buyers who will live in the home and public entities committed to the best interests of the community may purchase it.
2. Buyers will have 45 days to close, up from 30 days.
3. Earnest money requirement may be reduced.



This will hopefully give the average home buyer a greater chance of purchasing foreclosures and provide support to hard-hit neighborhoods, because owner-occupants are more invested in the long-term vitality of a community whereas investors typically are more invested in their monetary return from the property.

Another Fannie Mae initiative, “Deed-for-Lease,” further supports neighborhoods by allowing foreclosed-on owners or their tenants to lease the property for twelve months. Depending on state laws, once a bank has seized a foreclosed property there can be a lengthy time before they are legally allowed to sell it. This will likely prevent vacant homes from vandalism and promote upkeep of the home, neighboring home prices, and the community.

# Increased Credit Scores New Fannie Mae Policy

November 2009



Fannie Mae is raising its minimum credit score from 580 to 620. This risk management measure will help protect Fannie Mae from future defaults and foreclosure by raising their standard and accepting less risky loans.

While risk management is a sound and healthy approach for an entity that the economy depends on, this underscores the importance that potential home buyers check their credit report early in the process, allowing more time to clear up any errors.

Earlier this year, Experian, one of three major credit-reporting bureaus, began exclusively providing complete credit report information when purchased directly from Experian or obtained from the government annual credit report.

# FHA Signals Efforts to Manage Risk

December 2009



In an effort to secure its financial health, the Federal Housing Administration plans to require borrowers to have more “skin in the game” soon. Over the past three years, FHA’s market share has boomed from about 2 percent of all new loans to about 30 percent of all new loans this year and 20 percent of refinances. The escalating volume that the administration is currently handling calls for stricter requirements as evidenced by FHA’s capital ratios falling to nearly 0.5 percent well below the minimum of 2 percent.

The agency is still analyzing the levels and time frames it wishes to tighten its standards but they expect to:

1. Increased minimum down payments
2. Increase minimum credit scores
3. Increase insurance premiums
4. Lower the amount of seller concessions



As one of the major players in the mortgage market, the health of FHA is imperative to the housing market and flow of credit to home buyers, as well as to the health of the overall economy. Taking measures to safeguard the agency from needing a government tax payer-funded bailout is a notable risk management measure.

According to a Keller Williams research study, the typical first-time buyer put down 3.5 percent this year. Those who want to take advantage of the tax credit before the April 30 contract, June 30 closing deadline may want to beef up their savings and check their credit report now in anticipation of any changes.

# Topics for Buyers and Sellers

# First-Time Home Buyer Survey



## *What are other first-time home buyers doing?*

The tax credit extension and expansion in November has fueled new discussion about home buyers and the housing market in 2010. Here's a look at first-time buyers in 2009.

1. The median **age** is **28**, significantly down from where it was four years ago at 32.
2. **Location or Neighborhood** was the No. 1 “must-have” for **36%** of buyers.
3. **2** out of **3** sellers paid at least part of the buyer's **closing costs**.
4. **76%** used their **own savings** for the down payment.
5. **1** in **4** had help from their **family** for the down payment.



For details on the tax credit, check out [www.kw.com/kw/2009taxcredit.html](http://www.kw.com/kw/2009taxcredit.html)

# Distressed Property Buyers



**As elevated levels of distressed properties are expected to continue for the next few years, here is a glimpse of buying a distressed property.**

1. **27%** of foreclosures\* were purchased by **investors**.
2. **47%** of distressed\* properties were purchased by **first-time buyers**.
3. **89%** of those first time buyers that purchased a distressed property were motivated by the **\$8,000 tax credit**.
4. **7** in **10** agents have seen an **increase** in **multiple offers**.
5. Approximately **3** out of **5** agents discuss the **differences** between buying distressed and traditional properties at the **buyer consultation**.



*\* Distressed – Short Sale and REO, Foreclosure – REO Only*

# 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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