THIS MONTH IN

REAL ESTATE

U.S.

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KW Research

Commentary

January began the new decade with indications that the economy is beginning to gain traction. Real GDP grew by 2.2 percent in the third quarter of 2009 and preliminary signals point to a continued positive trend for the following quarter. GDP is a measure of total economic growth for the country in a year.

A dip in home sales in December was due in large part to timing. First time buyers that would have liked to close in December but qualified for the tax credit bumped their timeline up in order to cash in. News of the credit's extension reached many of them after their plans to close in December were set.

Interest rates are back below 5% and home prices are up compared to last year. The government continues to attempt to minimize the impact of troubled homeowners by continuing to improve its foreclosure prevention program and has also taken steps to help foreclosure buyers purchase faster.

Although the unemployment rate is expected to stay high as jobs increase modestly, experts expect the economy to continue to grow in 2010.

The Numbers That Drive Real Estate

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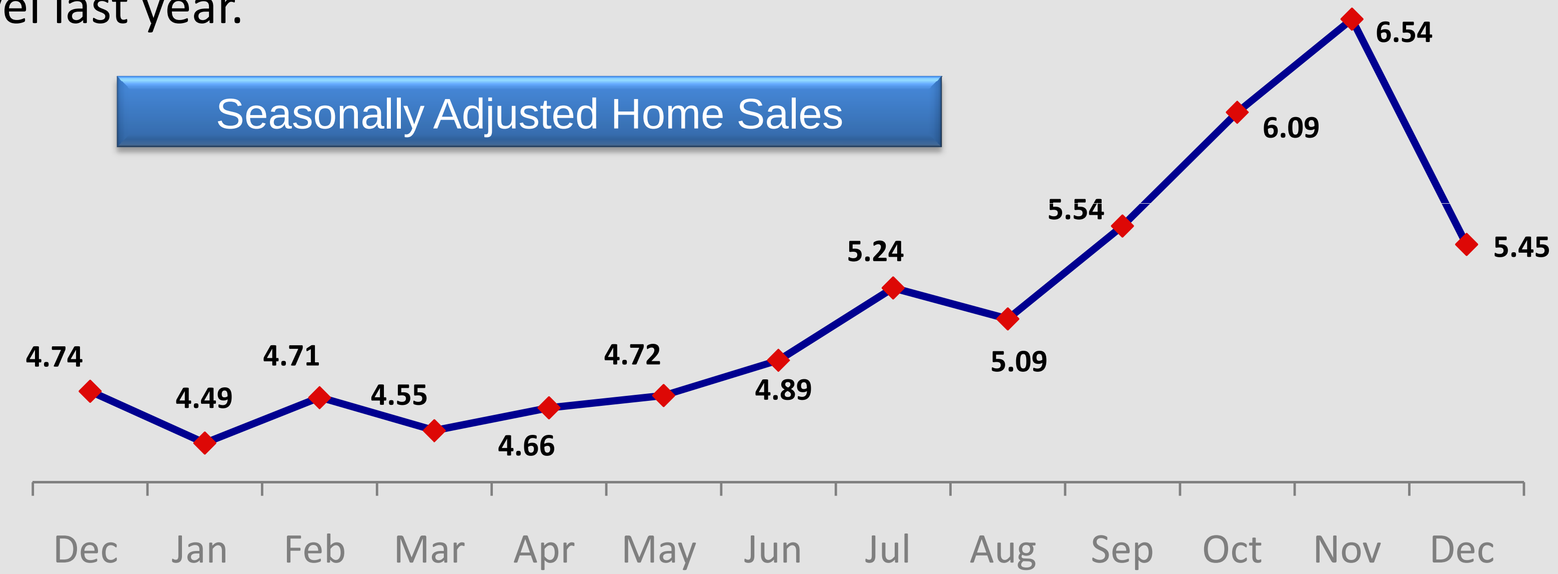
Home Sales
In Millions

After a rising surge for three straight months, existing home sales slowed in December after first-time buyers rushed to meet the original November tax credit deadline and evidenced by first timers accounting for 51% of sales in November compared to 43% in December. "It's significant that home sales remain above year-ago levels, but the market is going through a period of swings driven by the tax credit," said Lawrence Yun, NAR chief economist. December sales of 5.45 million remain 15 percent above the 4.74 million-unit level last year.



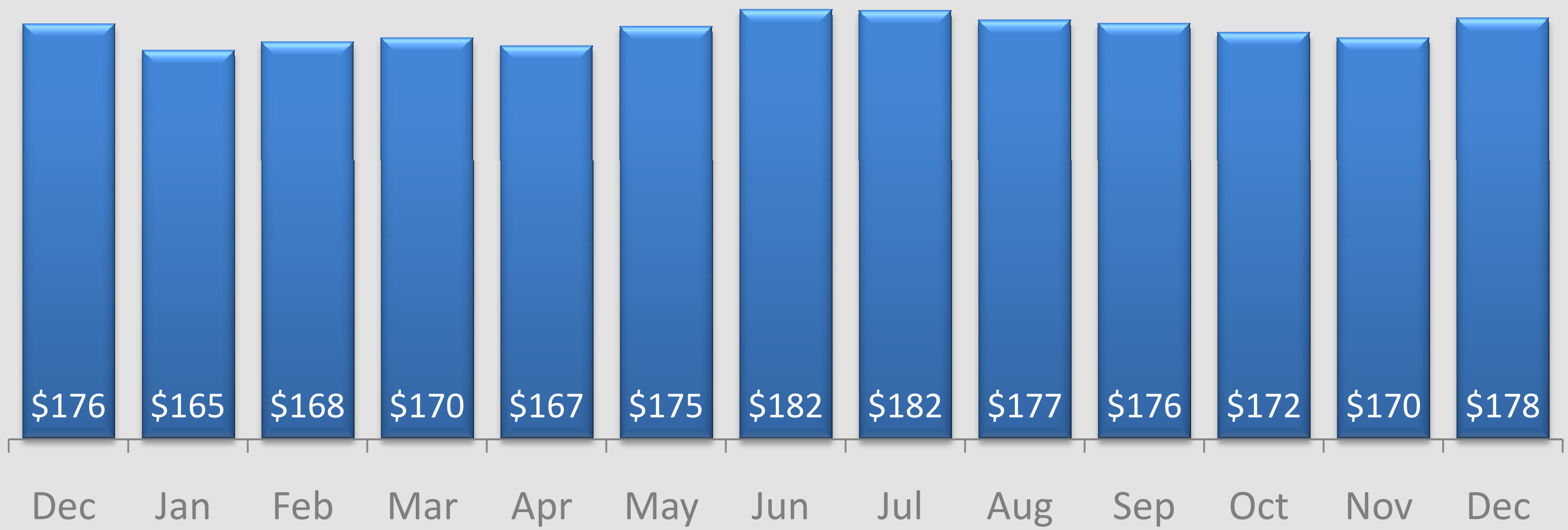
Latest Data Release: January 25, 2010

Source: National Association of Realtors

Median Home Price

In Thousands

Existing-home price was $178,300 in December, 1.5 percent higher than December 2008 and 8.2 percent above its low in January 2009. It was the first year-over-year gain in median price since August 2007, attributable to an increase in the number of mid- to upper-priced homes in the sales.



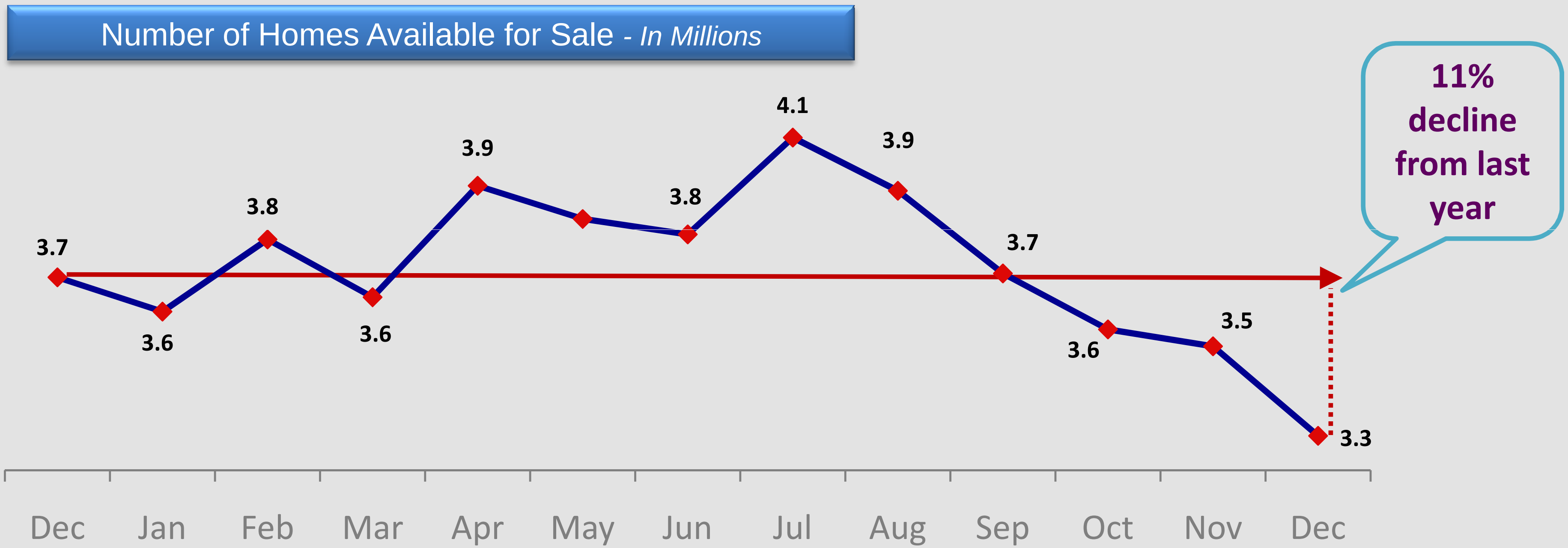
Latest Data Release: January 25, 2010

Source: National Association of Realtors

Inventory - *Number of homes available for sale*

In Millions

The supply of homes continued to shrink, falling 6.6 percent to 3.29 million, representing a 7.2-month supply at the current sales pace. Compared to a year ago, there are now 11 percent fewer homes on the market. This is the lowest level of competing homes on the market since March 2006.



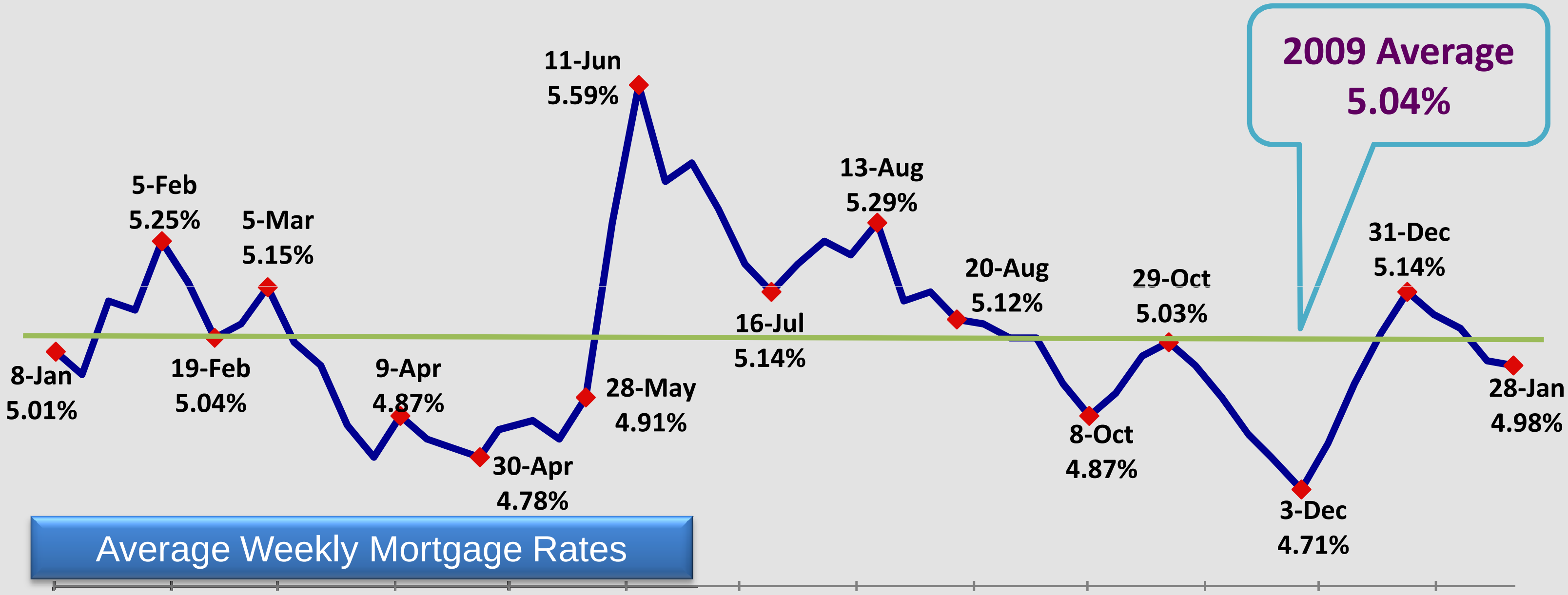
Latest Data Release: January 25, 2010

Source: National Association of Realtors

Mortgage Rates

30-Year Fixed

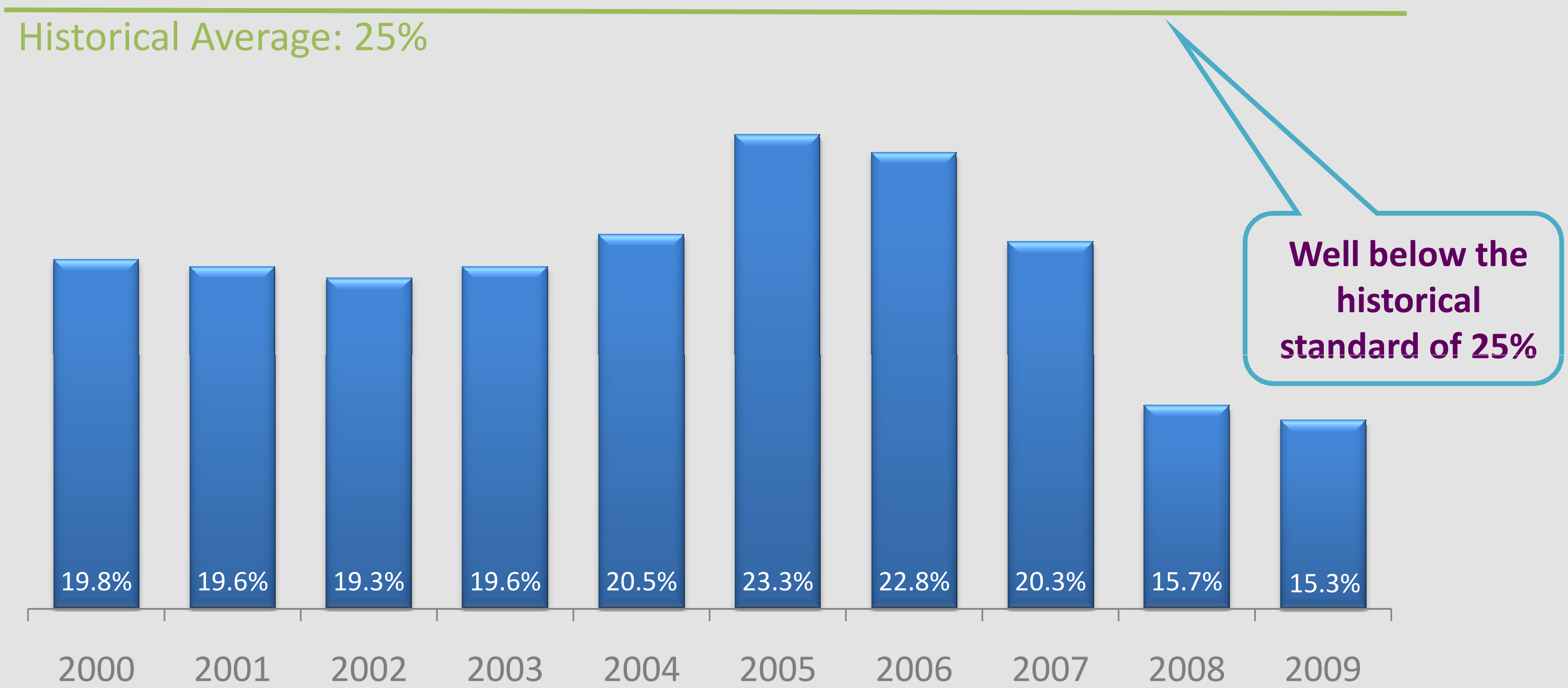
Mortgage rates have moved back to less than 5 percent, which have been categorized by industry experts like Freddie Mac chief economist Frank Nothaft as “near a record low.” This move that may help boost home loan demand and lend support to the housing market recovery. On January 28, the average 30-year fixed-rate mortgage was 4.98 percent.



Affordability - Percentage of Income

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

Affordability remains at record levels, supported by the lowest mortgage rates in decades, low home prices, as well as the first-time buyer tax credit. 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.



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

Source: National Association of Realtors

Recent Government Action

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FHA Tightens Lending Requirements

The Federal Housing Administration (FHA) insured almost 30 percent of all purchase loans and 20 percent of refinances from September 2008 to September 2009, up from about only 2 percent of all loans three years earlier. The influx of loans combined with falling capital reserves, which cushion against rising defaults, has led the FHA to announce several measures to strengthen its economic vitality.

On January 20, the FHA announced it will do the following:

1. **Raise Insurance Fees -** In exchange for FHA backing, borrowers pay an up-front premium. Previously it was 1.75% of their loan. It's now risen to **2.25%.**

   Sales price of: \$200,000 x 1.75% = \$3,500
   Sales price of: \$200,000 x 2.25% = \$4,500
   \$1,000 additional

2. **Cap Seller Contribution to Buyer's Closing Costs -** Sellers can contribute a maximum of **3%**, down from 6%, of the sales price to the buyer's closing costs. The higher cap created risk by incentivizing homes to sell at a substantially marked-up price to compensate for contribution. 3% is still a significant proportion to closing costs.

   Sales price of: \$200,000 x 3% = \$6,000 in closing costs

3. **Require Higher Down Payments for Poor Credit -** Beginning this summer, borrowers with a credit score below 580 will need to make a down payment of at least **10%**. The FHA will still provide a viable alternative to the 1% of FHA borrowers who fall in this category, whereas most lenders' credit score cutoff is 620.

Sources: *The Wall Street Journal*, Keller Williams Realty Research *First-Time Buyer Survey*

FHA Tightens Lending Requirements

These changes will likely have the **biggest impact on first-time buyers**. First-Timers are about half of all buyers in the market right now. According to a Keller Williams Realty Research study, 73% of first time buyers put down less 3.5% or less. 3.5% is the minimum down payment for financing to be backed by the FHA.

Concerns have been expressed about how these changes will **happen alongside two other noteworthy changes** this spring:

1. The expiration of the home buyer tax credit
2. The end of the Federal Reserve's purchase of mortgage-backed securities (which has helped keep rates low over the past year)

The good news is the FHA, an integral player in the market, has stepped up to protect itself so it can continue helping first-time buyers, those with less cash for a down payment, and those with less-than-perfect credit obtain home loans. Additionally, these proactive measures aim to protect the agency from needing taxpayer funds from the government.

Paperwork Streamlined for Modifications

During 2009, 900,000 troubled homeowners began trial loan modifications under Obama's *Making Home Affordable* program. However less than 67,000 went from the trial phase to a permanent modification. One of the main culprits for borrowers not qualifying for the permanent modification is paperwork.

In an effort to streamline paperwork, the Treasury released the following **simplified paperwork requirements**:

1. **A form requesting a modification**
2. **Authorization for the bank to obtain tax information from the IRS**
3. **Proof of income, i.e. two recent paystubs**

Beginning June 1, lenders must collect the paperwork *before* beginning the trial modification period.

These changes are aimed at increasing the number of people who can avoid foreclosure and stay in their home. Short sales can provide an alternative for those who don't qualify. As the number of defaults and foreclosures slow, home prices are expected to stabilize and normalize the market.

Source: *The Wall Street Journal*

FHA to Help New Foreclosures Sell Fast

FHA has announced it will lift the 90-day seasoning requirement for one year. The FHA ‘s 90-day “seasoning” provision requires that a home sold to an FHA buyer must be owned for at least 90 days by the seller before closing. This is intended to prevent buyers from purchasing property from “flippers” at an overly inflated value.

In the current climate, quickly selling foreclosures has risen in importance while the prominence of “flippers” has dramatically decreased. Acquiring, rehabbing, and reselling a foreclosure often takes fewer than 90 days. Banks have been reluctant to sell foreclosures to FHA buyers if they would need to push closing back to meet the FHA requirement.

The policy change will allow FHA buyers to purchase HUD-owned and bank-owned properties along with private sales faster. There are additional stipulations; for more, please visit the press release.

Quickly moving foreclosures out of the bank’s hands and into those of home buyers is an important step in stabilizing home prices, neighborhoods, and communities leading toward a healthy housing market.

Source: U.S. Department of Housing and Urban Development

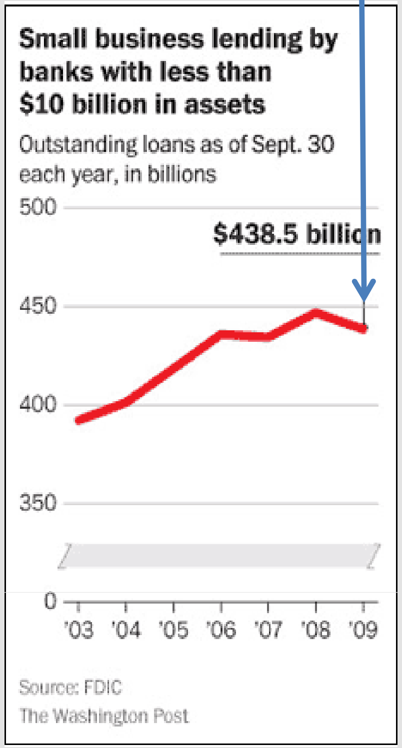
Obama proposes $30B for Small Business Loans

Small businesses are a major driving force of the economy. **More than 95 percent of businesses in the United States have less than 500 employees.** They tend to have less capital "cushion," which can make it more difficult to weather a recession. However, the number of small businesses generally is not significantly impacted by recessions.* Unemployed workers turn to entrepreneurship as an alternative, driving innovation and growth. Available funds are a critical part of this by helping existing businesses to bridge the gap and start-ups to grow and expand.

President Obama announced plans to create jobs through aiding small business during the State of the Union Address. The first steps in this direction have been announced but will need Congressional approval. The initiative would **open up $30 billion of the federal money for community banks** who commit to **increasing small business lending**. Participating banks would pay the government a 5%-1% dividend on the capital they receive depending on the level of lending. Others have discussed the possibility of having the Small Business Administration lend directly rather than going through community banks.

Supporting small business will be an important component to lowering unemployment and an overall firmer economy, but the method is up for discussion. Look for continued discussion of small business lending and steps toward improving it this year.

$8B (2%) decrease in small business lending from September 2008 to September 2009.



*In the 1990-1992 recession, 1,068,124 small businesses were closed. 1,085,737 were created. A net of more than 17,000 jobs were gained. In 2001, more businesses were closed than opened, but in the following two years, there was a net gain nearly 55,000 small businesses.

Topics for Home Buyers, Sellers, and Owners

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Pricing Research

Here is a **sneak peek** at conclusions from **KW Research's** most recent *Home Seller's Survey.* The full report will be available in March.

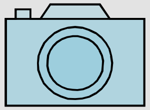
Price it right.

- Sellers who listed their home at the price originally recommended by their agent sold it:
  - **38** days **faster**
    - This would save a mortgage payment *and* taxes and insurance, for example: For a $200,000 home with a 20% down payment and 6.5% interest rate, the principal and interest alone would be $1,101*
  - For **2.25% higher**
    - 2.25% of $200,000 is $4,500*
  - With **1 less** price **reduction**
    - The average price reduction was $11,042.

* Averages based on national survey data. Actual dollar amounts are for example only.

Staging Stats

Staging can be an important component, not only in selling a home but also in attracting buyers to tour it in person. Even with all of the commonly accepted advantages of staging, only about **1 in 3 sellers stage their home.**



Pictures of the home, that are then posted online and viewed by potential buyers, often look their best if the home has been staged.

The National Association of Realtors *2009 Profile of Home Buyers and Sellers* found that, as a result of viewing a home online:

- 77% of buyers drove by or viewed the home
- 61% walked though the home
- 22% requested more information

Top reasons for not staging include the following: Seller did not believe was necessary, or he/she didn't want to incur costs.

The Keller Williams Realty Research *Getting The Home Sold* study found it typically took between **2-6 hours to stage** a home and **cost an average of $523**, including the cost of a staging professional and items purchased or rented.

The average increase in list-to-sell in staged homes: 1.08%
The average cost of staging: $523
Potential benefit based on a $200,000 home:
$2,160 -523 = $1,637

The study found staged homes had **more showings** and a **higher list-to-sell** percentage than those that were not staged. Staging had advantages at all price points, but the finding showed that staging is **particularly important** for homes **over $600,000.**

Source: Keller Williams Realty Research *Getting The Home Sold*

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 you navigate 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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