



THIS MONTH IN REAL ESTATE

U.S.

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Commentary

Gradual improvement in the housing market continues at a steady pace without government support. Six months after two consecutive years of tax incentives for buyers; starting in July 2008 with a \$7,500 repayable first-time buyer tax credit, extending to a \$8,000 nonrepayable first-time buyer tax credit in January 2009, and ending in June 2010 with the expanded credit to repeat buyers; the market has shown remarkable improvement from the initial drop this past July. With mortgage rates remaining near historic lows and home prices having generally stabilized, economists are expecting further strength in 2011.

Consumers are showing some signs that they're feeling better: a significant boost in the food and services industry implies they are eating out more, vacations are back on the rise as spending on travel and tourism increased 8% in the third quarter, and household net worth has risen notably thanks to a strong stock market even as they continue to shrink their debt.

As the economy improves, current stimulus efforts by the government and the Federal Reserve Board are expected to gradually wind down, which typically means rising interest rates. Meanwhile, buyers continue to benefit from historically favorable buying conditions and sellers enjoy increased stability in the market.



The Numbers That Drive Real Estate

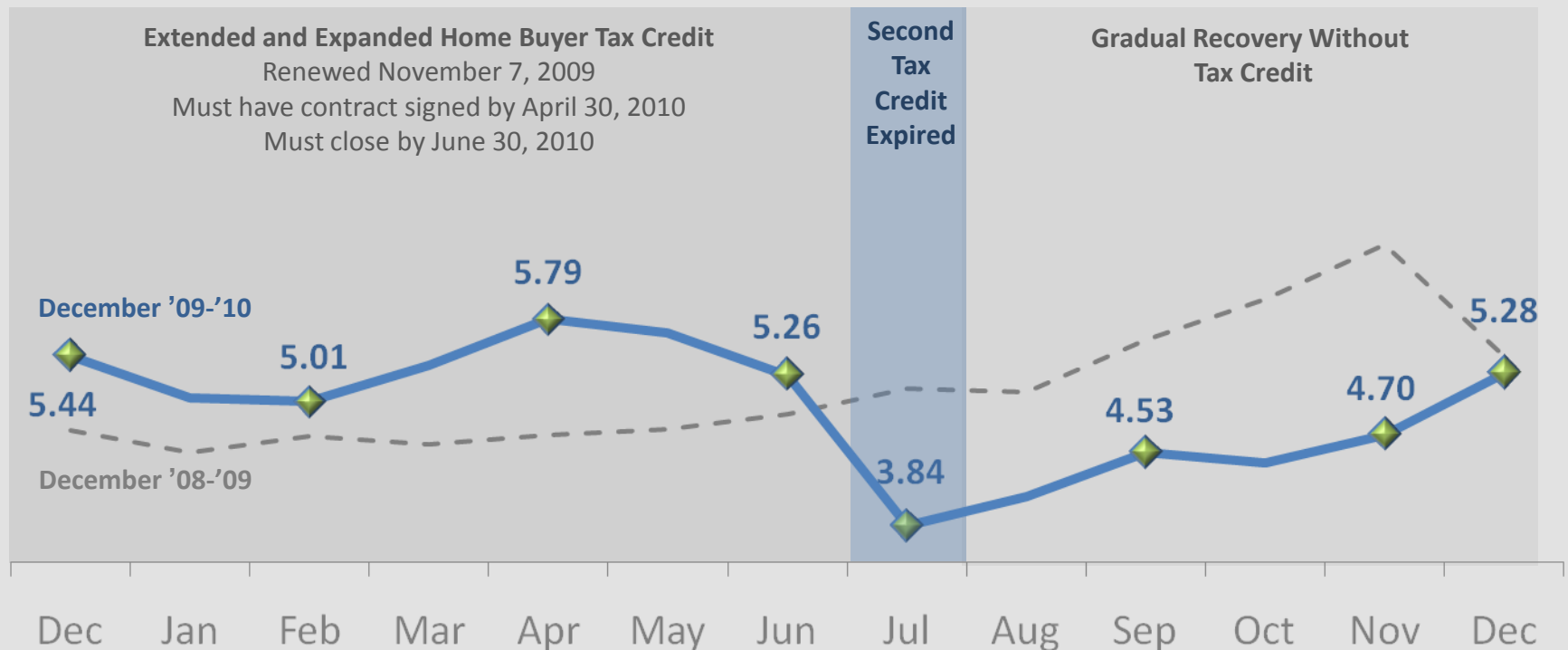
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Home Sales

In Millions

The uptrend in existing home sales activity continued through December, increasing by a substantial 12.3% from a month ago. This marks the fifth monthly increase in the past six months and indicates a recovery that's gaining a firmer footing. While home sales remained 2.9% below the level seen last year, the market's upward momentum, despite the absence of the tax credit, is a welcoming sign.

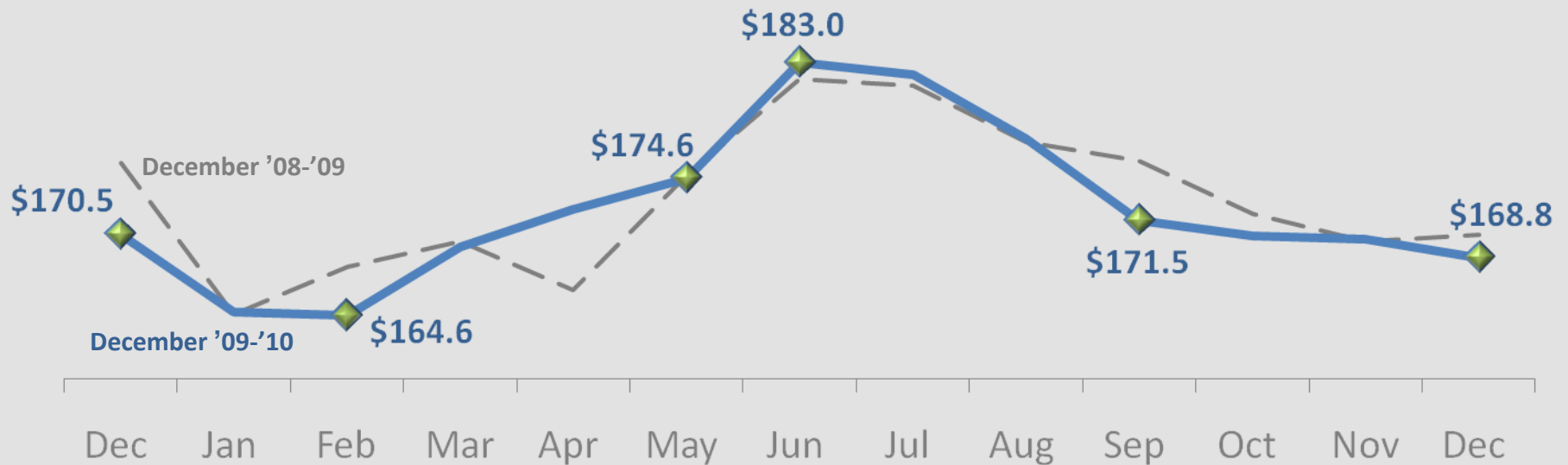


Home Price

In Thousands



Home prices softened in December: median home prices edged down slightly to \$168,800, 1% below the year-ago level. Contributing to this is a larger share of distressed homes sales which accounted for 36% of sales in December. This is compared to 33% in November 2010 and 32% in December 2009. Prices continue to hold steady and mortgage rates remain historically low, offering favorable buying opportunities.



Inventory - *Number of homes available for sale*

In Millions



The number of homes on the market continued to shrink. There are now 3.56 million homes on the market, down 4.2% from 3.72 million in November. More and more buyers are taking advantage of today's exceptional affordability conditions. Expected improvements in lending standards and job growth will present consumers with great opportunities to buy their first home, move up, or invest.

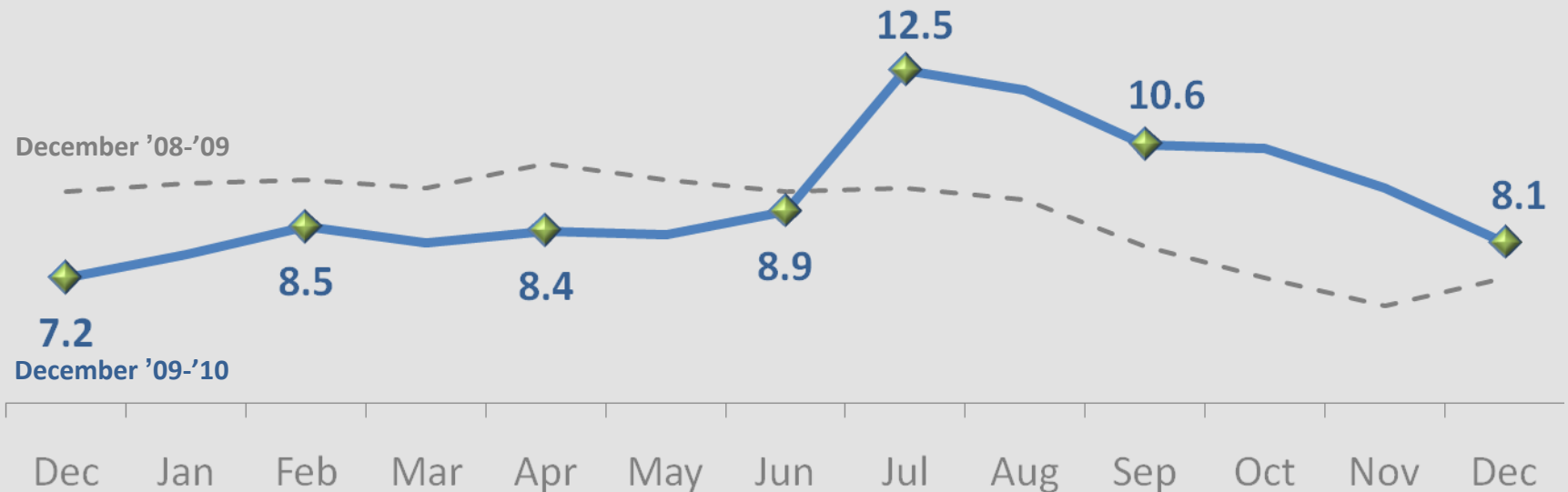


Supply of Inventory

In Months



The surge in home sales and a shrinking inventory pared down the month's supply to 8.1 months. This is down 1.4 months from November but remains 0.9 months above last year at this time. While still at a relatively high level historically, months of inventory has declined steadily from its peak of 12.5 months in July and is now back to pre-tax credit expiration levels.



Mortgage Rates

30-Year Fixed



Mortgage rates are inching up but remain historically low. This trend continues to support home buying, as it translates to significant savings for buyers. As overall economic recovery remains on track, rates are expected to rise to keep inflation in check.

Historical Average – 8.9%

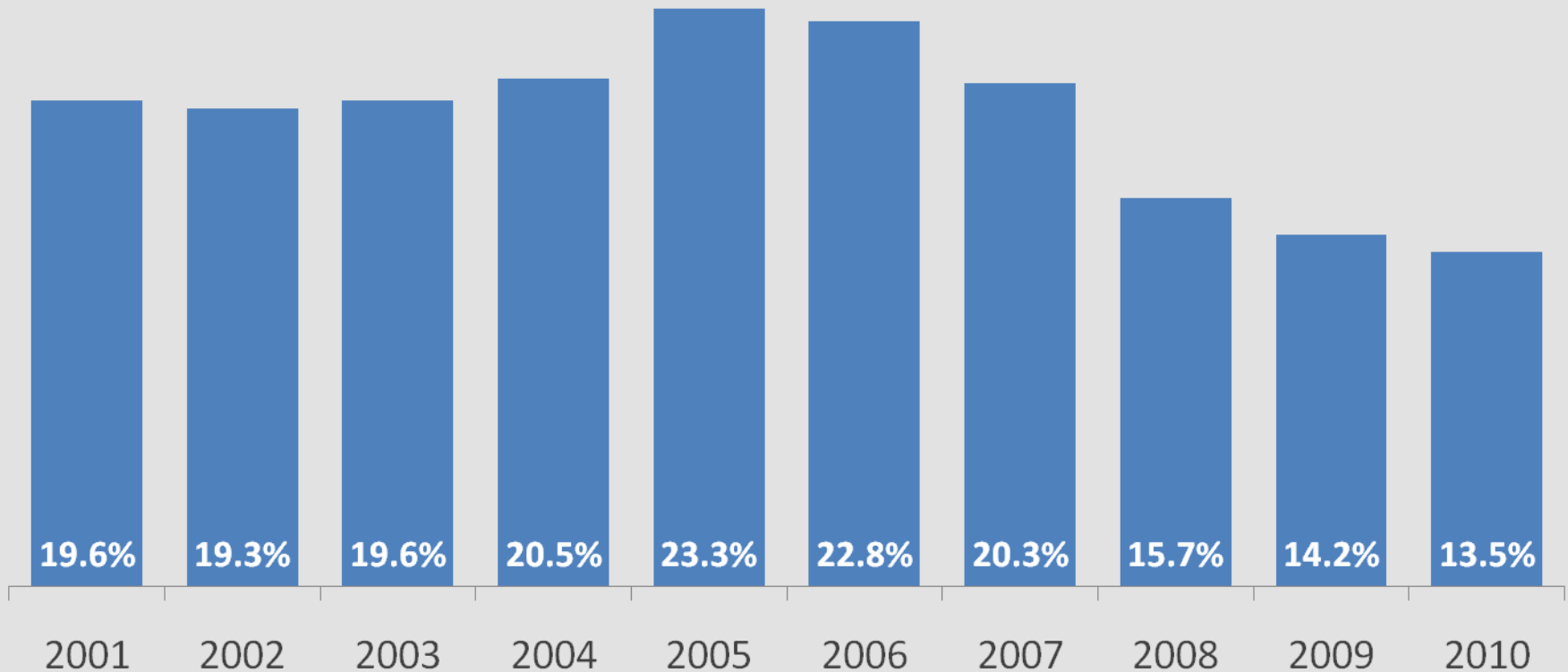




Affordability - *Percentage of Income*

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

Housing affordability was near the record in December. The relationship between mortgage rates, home prices, and family income is the most favorable on record for buying. The home price-to-income ratio continues to remain well below the historical standard. Stabilizing home prices and rising interest rates are expected to reverse the recent affordability trend.



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

Source: National Association of Realtors



Recent Government Action

'Anti-Flipping' Waiver Extended

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'Anti-Flipping' Waiver Extension

In 2003 the Federal Housing Administration (FHA) feared that flipping homes was the cause of the skyrocketing home prices throughout individual neighborhoods. Because of this, the FHA no longer approved property loans that were resold within 90 days of the original purchase, with the exception of foreclosures owned by government sponsored enterprises (GSEs) such as FHA, Fannie Mae, and Freddie Mac. The anti-flipping rule is designed to help protect the FHA's mortgage insurance program and federally chartered financial institutions from losses.

In February 2010, the FHA initiated a one-year suspension on the regulation that prevented "flippers" from purchasing single-family homes and releasing them into the market within 90 days. Since then, the FHA says it has insured 21,000 loans that had exchanged hands within the previous 90 days. The loans are worth more than \$3.6 billion and would not have qualified for financing before suspension. An analysis of these loans suggest they do not present a greater credit risk than other loans, which lent support to the suspension's extension.

The government sent a notice to banks in mid-January of 2011 in which it announced the extension of the waiver through the end of the year. According to FHA Commissioner David Stevens, the purpose of the extension was to accelerate the resale of REO properties in neighborhoods where there is a high rate of foreclosure. This will facilitate the purchase of homes that have recently been "flipped." As a result, foreclosed properties will be moved off the market faster, reducing the amount of vacant homes in neighborhoods throughout the United States.

'Anti-Flipping' Waiver Extension

Limitations considered by the FHA consist of the following:

1. 20% Rule

If resale is higher than 20% of the original price, one must show proof of justified price. For example, if a \$200,000 house is purchased and the resell price is \$245,000, the house must undergo additional underwriting guidelines, which is considered a double appraisal.

2. Title Hold

No simultaneous closings are allowed when the seller holds a property. In other words, back-to-back, same-day closings to an FHA end-buyer is prohibited.

3. Short-term Funding

Investors must come up with short-term funding of the 30-to-60-day variety if their desire is to buy/fund and in order to sell to an FHA end-buyer.

4. Previous Flips

A property cannot show signs of prior flipping activity. If so, the FHA has the right to object.

5. Transactions at Arm's Length

Transactions must show no identity of interest between the buyer and the seller or other parties that participate in the sale of a property.

Overall, this will help lower holding costs for investors/flippers allowing them to continue flipping more properties. In return, this will help bring more desirable homes to the market for first-time home buyers.



Topics for Home Buyers, Sellers, and Owners

Distressed Properties

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Distressed Properties

Bank-owned foreclosures (REOs) and short sales both present great value for buyers. Prices can be as much as 30% below market in some areas—and in other areas distressed properties are the market. Either way, experts agree there's value for a buyer who wants to own 5 years or more. Rental rates are advancing too—great news for investors who want to buy and rent. REO transactions move quickly, but short sales are still slow.

Profile of Who's Buying Distressed Properties

	First Time Buyers	Flippers	Rentals
Foreclosures	32%	4%	13%
Short Sales	41%	2%	10%

Motivations for Buying Distressed Properties

Tax Deduction	60%
Closer to Family/Friends/Desired Location	40%
Equity	29%
Space	24%
Location	19%

Understanding Buyers

Buying distressed properties can open up great opportunities, but in order for an investment to be successful, understanding the buyers' needs is essential. KW Research reveals the following facts among buyers of distressed properties.

Purchase Location

- Suburban (69%)
- Within Same City (50%)
- Urban (18%)
- Rural (13%)

What Buyers Want

- Attractive Price (43%)
- Low Mortgage Rates (36%)
- Able to Afford (28%)
- Tired of Paying Rent (21%)

Types of Homes Purchased

- Single-Family Detached (82%)
- Condominium (9%)
- Town House (7%)
- Duplex (1%)

Importance of House Condition

- 69% short sales & 55% foreclosures are in good/excellent condition
- 50% of first-time buyers buy in good condition
- 78% of investors intending to flip the property typically buy homes in fair, poor, or very poor condition
- 50% of move-up buyers buy in excellent condition

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 the home-buying or selling process in this challenging market.

About Keller Williams Realty

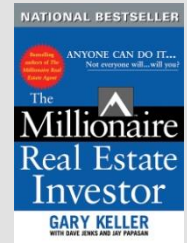
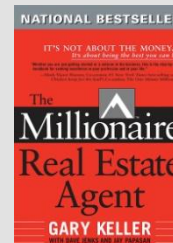
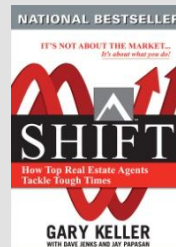


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