

Mortgage Meltdown to Financial Freeze to Slight Thaw

About a month ago, I shared local real estate statistics for our area. Although statistics vary by region in California, it is often helpful to know what is happening in the real estate market in the state and in the nation. The global and domestic financial markets also play a role in where we are today in our real estate market. In fact, the recent slowdown in housing prices has gone hand in hand with a slowdown in a number of industrial countries' economic growth.

The deterioration in housing was initially tied to real estate finance, and we saw the credit crunch and recession choking off business and consumer spending. Prior to the credit crunch hitting the real estate market in September 2007, residential properties for sale for more than \$1 million were relatively unaffected. In reviewing the sales in November of 2008 to 2007, there is a marked reverse trend. In 2008, the higher the price, the longer the home was on the market versus 2007 where the higher priced homes were on the market for a shorter period of time. Now, approximately 80% of sales are under \$500,000. Sales of properties that are \$500,000 or more have continued to decline. In addition, although United States sales have remained flat since September 2008, California sales are up 102%.

When we look at a more thorough breakdown of the credit crunch, first-time homebuyers with zero down payment has gone down dramatically since 2006 when it reached a high of more than 40%. In 2008, that number dropped to 5.7% for first-time buyers. The 2008 average for all home buyers was 3.4% with a 2% average for repeat buyers.

The number of residential sales in California went up in 2008. California hit its low in 2007 (October 2007) and dropped 44% from 2005. Previous lows were in 1982 (down 61% from 1978) and 1992 (down 25% from 1988). Estimated sales in 2008 increased about 23% with sales in 2009 expected to increase by 8%.

Prices of residential property in California reached its peak in April 2007 at \$594,110. The 2007 median was approximately \$558,000. The November 2008 median price was \$285,680 (down 52%). The estimated 2008 median price is \$372,000 with a forecast for the 2009 median price of \$300,000 (down about 19%). Oscar Wei, C.A.R. Senior Research Analyst, said, "With the economy deteriorating and the financial system struggling to stay above water, distressed properties with deeply-discounted prices will continue to affect the market. Home prices may not show clear signs of stability until mid 2009."

The decline in home prices has brought the cost of housing more in line with household income, improving affordability across the state. This should be especially helpful for first-time buyers who can qualify for a home loan.

According to the Mortgage Bankers Association, the long-run average of foreclosures is 0.9%. However, as of the third quarter of 2008, that had increased to 3.9%. The delinquencies long-run average is 3.9% with the 2008 third quarter delinquencies at 5.8%.

C.A.R. economists don't believe inflation will be a problem in 2009. Consumer confidence though is at its worst level in decades. The December 2008 index was 38. In 2000, it was over 140. In 1992, another low point of residential sales, the index reached just under 50. A lot of people have a wait and see attitude regarding our recent presidential election; so, we may see the consumer confidence creep up.

Our current recession is anticipated to be the worst in our working lives. However, the first two quarters of 2009 will be extremely weak with an expected turn around in the second half of 2009 due to monetary stimulus programs. In 2010, we expect a positive growth rate in the U.S. Economy.

Job numbers track economic activity with a lag. When it looks like we are getting better, unemployment is getting worse; California is approaching 10%. However, California is doing better than the rest of the nation regarding jobs.

Some of the short-rate treasuries paid negative interest and we were upside down. This was the case for a period of time. We have moved away from that distressing period of time and corporate lending has begun again. Other indicators of stress have also improved. More liquidity is being pushed into the system. In addition, the spread between mortgage rates and underlying securities has never been higher. We still have a lot of risk built into mortgage rates that consumers are facing at this time.

Former President Bush and other leaders had a meeting to discuss the global market. An agreement is likely to come to pass and will be coordinated with our domestic market. Matt Roberts, C.A.R. Federal Government Affairs Manager, said it would be an effort as it is an international effort to reform the financial market and getting constituents to understand this is a hurdle.

Leslie Appleton-Young, C.A.R. Chief Economist, said the banking system is unregulated and this has to change. Thus, from crisis to stabilization, we now need restructuring. "With a system like we have, a certain amount of transparency is what we need so we can look at risks." She added that people don't trust the loan being described to them as accurate. In fact, 22% of those obtaining a loan didn't understand the terms of their loan according to a C.A.R. survey.

**Statistical information from the California Association of REALTORS® (C.A.R.). Other information, unless otherwise specified, is from two C.A.R. economists (Leslie Appleton-Young and Robert A. Kleinhenz) speaking at the C.A.R. January Strategic Planning and Finance Forum or the International Real Estate Forum.*

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