



Heated First-Time Buyer Market Changes Strategies for Buyers and Sellers

Declarations that the recession is over are becoming more official. In late September, the Federal Reserve released a statement that data “suggest economic activity has picked up following its severe downturn.”

Now, a recent survey of 43 leading economists by the National Association for Business Economics (NABE) finds that 81% of university, research, corporate and Wall Street economists say they believe the recovery has begun, with a 3% gain in Q-3 2009.

But the recovery will be slow for many. Two sectors facing that pace are labor and housing, says NABE.

About 54% of economists agree that the 7.2 million jobs lost in the recession won't be regained until 2012, while 38% predict job recovery will take longer than that. They predict the unemployment rate will reach 10% by the first quarter of 2010 before drifting back down to 9.5%.

Housing isn't out of the woods yet, but it's much further along than jobs. One-third of the surveyed economists say housing prices will bottom in early 2010, while about 25% say the bottom will be Q-4 2009.

The key benefit for consumers lies in the economists' belief that the Federal Reserve will keep a lid on short-term interest rates (the rates at which FDIC banks borrow money from the Fed and each other). This action should be passed along to consumers in the form of low interest rates for both short- and long-term credit.

Overall, housing prices should rise a modest 2% in 2010. Before then, though, the Mortgage Bankers Association predicts that housing will face considerable headwinds due to a rise in foreclosures — largely limited to California, Florida, Nevada and Arizona.

In his October 22, 2009 statement to the Senate Committee on Banking, Housing and Urban Affairs at a hearing titled “The State of the Nation's Housing Market,” Jay Brinkmann, chief economist and senior vice president of research and economics for the Mortgage Bankers Association (MBA), said the economy and housing “are inextricably linked.”

“The number of people receiving paychecks will drive the demand for houses and apartments, and the recovery will begin when unemployment stops rising,” Brinkmann said. “Since September 2008, we have lost 5.8 million jobs in the US, more than five times the number the previous year. Job losses of this magnitude put incredible strains on all of our systems, especially housing.”

The rapid pace of sales in housing throughout the summer may be coming to end. According to the MBA, mortgage applications slowed two weeks in a row in mid-October while interest rates simultaneously rose, putting the fixed rate above 5%.

Among the possible reasons for the decline in sales volume are fears over employment, the end of the first-time home buyer tax credit in November (if not extended by the federal government), and rising interest rates.

Southern California Outlook

California's housing markets peaked at different times, and some are recovering faster than others, according to the California Association of REALTORS' 2010 California Real Estate Market Forecast.

The state housing market peaked in May 2007 at a median sales price of \$594,530 and hit a trough 59% lower in February 2009. Since then, housing prices have steadily gained.

Southern California markets also peaked at different times and are recovering at their own paces. Sales volume slid 44% from its peak in 2004 to its low in 2007.

- San Diego peaked in May 2006 with a median sales price of \$622,380, and was down 39.6% to a median price of \$375,710 in August 2009.
- Ventura didn't peak until August 2006, at \$710,910. It was down 34.4% at \$466,200 in August 2009.
- Orange County peaked in April 2007 at \$747,260, and was down 33.2% to a median price of \$499,440 in August 2009.

C.A.R. anticipates that the median home price will be \$271,000 by the end of 2009, down 21.8% from 2008, but that 2010 will see an annual increase of 3.3% to a median home price of \$280,000.

Explains Leslie Appleton-Young, chief economist and vice president of C.A.R., “With distressed properties accounting for nearly one-third of the sales in 2010, inventory will be relatively lean, under six months during the off-season months, and a roughly four-month supply during the peak season.”

The caveat is the flow of foreclosures. “Although it appears at this time that lenders are closely monitoring the flow of distressed properties onto the market, there could be an exertion of downward pressure on home prices should a heavier than expected wave of foreclosures come to market next year,” said Appleton-Young.

What will sell more houses is more jobs. In Southern California, non-farm payrolls fell 4.5% between August 2008 and August 2009, a loss of some 370,000 jobs. That's 0.5% less job loss than the state as a whole.

California is predicted to end the year with an unemployment rate of 11.6%, and the figure is forecast to rise to 12.1% in 2010. However, the rate of non-farm job losses will slow from 4.3% in 2009 to 1.1% in 2010. Disposable income will rise 0.1% in 2010 from a loss of 0.4% in 2009.

“The wild cards for 2010 include foreclosures, loan resets, the labor market, and the California budget crisis, as well as the actions of the federal government,” Appleton-Young said. “We expect the median price to decrease slightly through the remainder of 2009 and into next year, then rise before leveling off next summer.”

Advice for Buyers

Low interest rates will not last forever – the Mortgage Bankers Association indicates the federal government will reduce its purchases of mortgage-backed securities. While the private sector is expected to pick up where the federal government leaves off, these buyers will demand higher returns, driving interest rates up in the first quarter of 2010.

Advice for Sellers

According to Credit Suisse, 40% of Alt-A loans are due to reset in the next 24 months. Another wave is due to reset in mid-to-late 2010; the majority of those loans are option adjustable rate mortgages. Depending on your price range, downward pressure on prices is likely to increase. Price your home to sell. Put your property in move-in ready condition. Be willing to negotiate terms, including offering concessions to the buyer, like paying for closing costs to help the transaction go through.

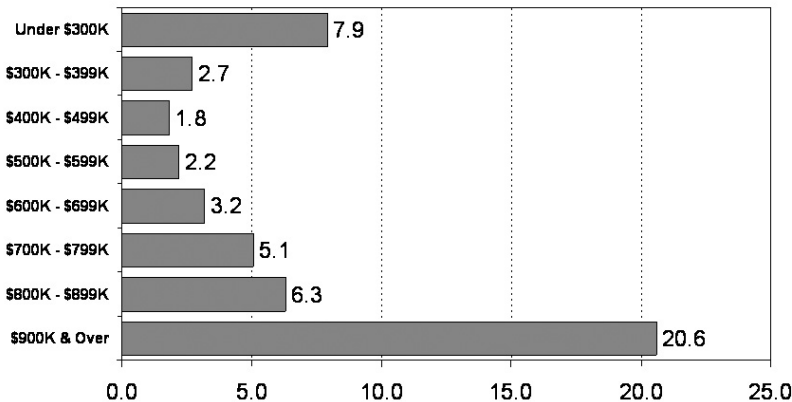
SANTA BARBARA

A combination of buyer incentives such as the looming end of the first-time home buyer tax credit, lower interest rates, increasing affordability, more available loan money, and quickly retreating inventories is galvanizing Santa Barbara home buyers.

As of October 3, 2009, Santa Barbara is enjoying a blistering seller’s market in detached homes in all price ranges. Only attached homes priced at \$800K or above contradict the trend.

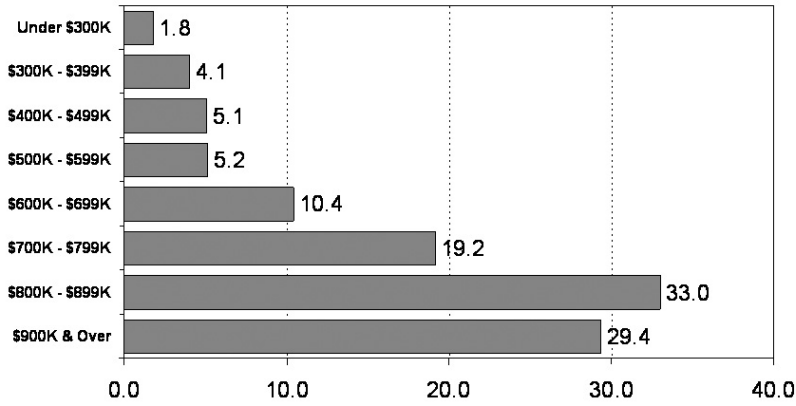
*A seller’s market is characterized by fewer homes than available buyers, often with firm prices and multiple offers from buyers. A buyer’s market has more homes for sale than available buyers, often with weaker pricing and larger concessions from sellers. Detached homes have no shared walls with neighbors. Attached homes have at least one shared wall with neighbors.

Detached Properties - Inventory in Months



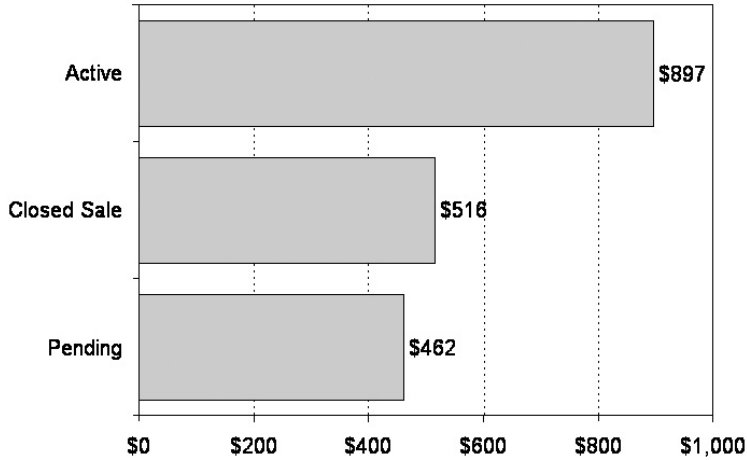
Santa Barbara detached homes are among the fastest-moving seller’s markets in Southern California. Homes priced \$900K and below are in a comfortable balanced market.

Attached Properties - Inventory in Months



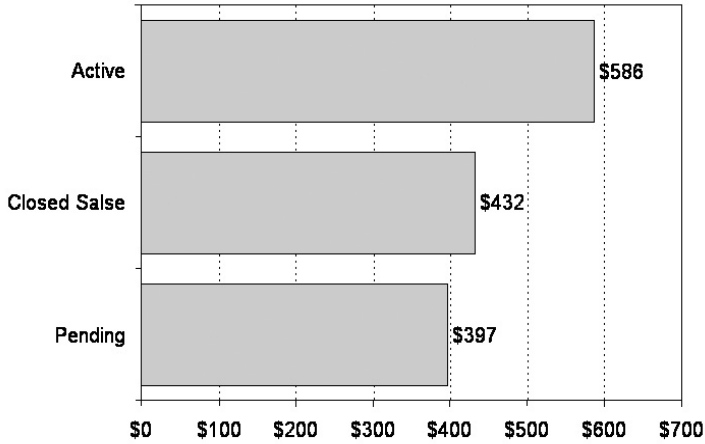
Attached homes priced above \$600K are languishing, offering plenty of room for negotiation.

Detached Properties - List Prices Per Square Foot by MLS Status



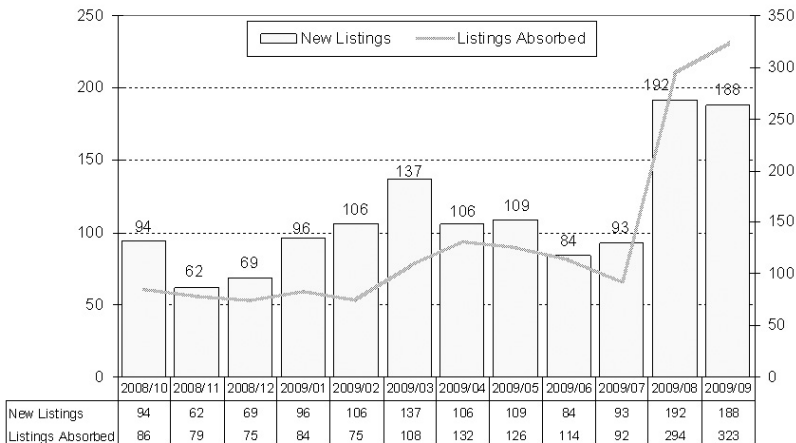
Active listings price per square foot reflect that the much faster lower-priced markets are still dominating sales. Sellers should carefully consider buyer demand when pricing their home for sale.

Attached Properties - List Prices Per Square Foot by MLS Status



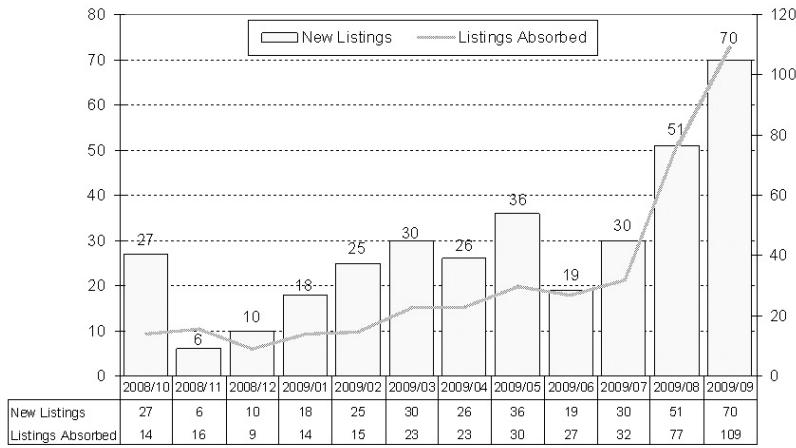
Attached home price per square foot illustrates a chasm between active listings and solds. Lower pendings price per square foot suggest that negotiations are heavy between buyers and sellers, and that prices in some ranges could have further to fall.

Detached Properties - Listings Taken and Absorbed, 12 Months through September 2009



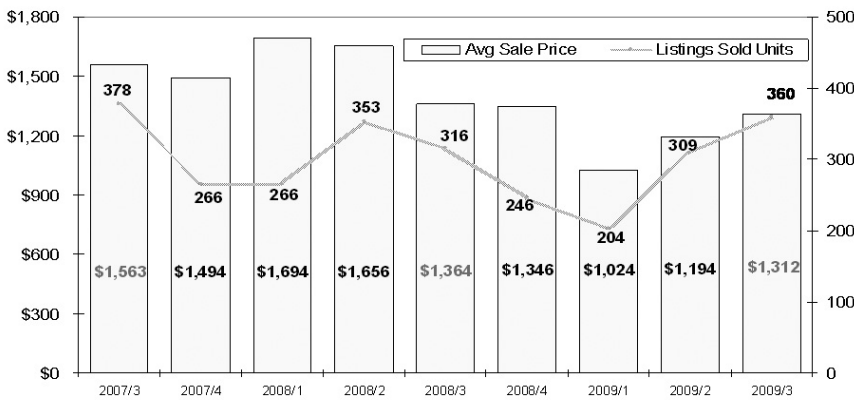
While two months is not enough to identify a trend, new listings have flooded the market, but are being absorbed at a nearly 1.7 to 1.0 ratio. This is giving sellers renewed confidence to put their homes on the market.

Attached Properties, Listings Taken and Absorbed - 12 Months through September 2009



Absorption rates have steadily outperformed new attached home listings for four months straight, allowing sellers confidence to add their homes to the marketplace.

Detached Properties, Listings Sold by Calendar Quarter - 9 Quarters through September 30, 2009



Santa Barbara did not suffer the severe price declines of some other Southern California areas. Prices are down 16.1% over the two years ending September 30, including declines of 3.8% year-over-year, but sales are up 13.9%. Prices may have bottomed.

Attached Properties, Listings Sold by Calendar Quarter - 9 Quarters through September 30, 2009



Attached homes in Santa Barbara performed better than many other areas in Southern California. Prices have risen over the last two quarters, slowing sales momentum only slightly.