



MORTGAGE MATTERS...

- Keeping up-to-date on market fluctuations allows you to bring greater value to your clients.

Keeping you updated on the market!
For the week of

July 12, 2010

MARKET RECAP

We may have been early, but we still think we are right. We're speaking of the impending recovery in the housing market. It's a contrarian opinion, given all the recent chatter and teeth-gnashing over delinquencies, foreclosures, shadow inventory, vacancies, and what not. But the number of data gatherers jumping aboard the better-times-ahead bandwagon is growing.

John Burns Real Estate Consulting, for one, sees better times, according to Housingwire, which reports that the company sees the housing market approaching its next up cycle. Burns & Co. lays out a persuasive argument for a return to housing prosperity: improving job growth, record-low new construction, record-low mortgage rates, and the best affordability conditions in 30 years. To quote CEO John Burns: "We want to point out that the downside of investing in housing right now is about as low as you will ever see."

We agree, even though price stability remains a concern. We could very well discover that the federal tax credits artificially raised housing prices during their tenure. Using Massachusetts as a proxy, Trulia.com reports that the average price reduction for a single-family home or condominium in June rose to 8 percent, or \$38,883 off the original asking price.

That said, we stick by our hypothesis that a temporary dip in sales and prices should be expected, as buyers and sellers recalibrate to the reduced-subsidy environment. Going forward, we still see housing prices stabilizing and moving higher (albeit at a tortoise-like pace) and sales volume increasing.

Of course, our hypothesis is predicated on a continued job recovery, which both loosens purse strings and raises confidence. When people are working, they become less obsessed with predicting the future and with holding out for the rock-bottom price. Yes, 4.5 percent fixed-rate mortgages are better than the 6 percent variety, but only when they are accompanied by lower employment.

As we've noted many times in the past, we'd prefer to see rising mortgage rates accompanied by rising employment (the two tend to move in tandem). The prospect of higher mortgage rates and better employment would get the current fence-sitters to refinance and buy. And as we've also noted in the past (and which John Burns Real Estate Consulting appears to concur), we think the potential for housing appreciation far exceeds the potential for depreciation for anyone looking five years down the road.

| Economic Indicator | Release Date and Time | Consensus Estimate | Analysis |
|------------------------------|------------------------------|---|---|
| International Trade (May) | Tues, July 13, 8:30 am, et | \$40 Billion (Deficit) | Moderately Important. The deficit is expanding on a strengthening dollar. |
| Mortgage Applications | Wed, July 14, 7:00 am, et | None | Important. The recent spurt in refinances will likely level off as rates stabilize. |
| Retail Sales (June) | Wed, July 14, 8:30 am, et | No Change | Important. Slowing sales is reflective of rising consumer pessimism. |
| Import Prices (June) | Wed, July 14, 8:30 am, et | 0.1% (Decrease) | Moderately Important. The stronger dollar is keeping import inflation in check. |
| Producer Price Index (June) | Thurs, July 15, 8:30 am, et | All Goods: 0.1% (Increase) Core: 0.1% (Decrease) | Important. Producer-induced inflation remains non-existent. |
| Industrial Production (June) | Thurs, July 15, 9:15 am, et | 0.2% (Increase) | Important. Increasing capacity utilization rates reflect growing demand. |
| Consumer Price Index (June) | Fri, July 16, 8:30 am, et | All Goods: No Change Core: 0.1% (Increase) | Important. Consumers and credit markets continue to benefit from low inflation. |

When a House is Not a Home

Last Sunday the *Washington Post* ran a story titled “Finding Gold in Them Thar Foreclosures” that focused on the rewards and risks of buying residential real estate in one of the country's hardest hit burgs – the metropolitan Phoenix area.

A couple days later, a writer on CalculatedRiskBlog.com followed up with an anecdote of an individual investor who had bought nearly 100 homes (focusing on single-family homes) over the past 18 months in the same area. The writer noted that the average purchase price was under \$35,000, with one of the properties being bought for \$20,000 after selling for \$180,000 in 2006. Most of the homes were of the three-bedroom/two-bath vintage, and most were rented, with some even renting by the room.

There are at least two worthwhile takeaways from this anecdote: One, investors need to seize opportunities. Jittery markets are great for finding bargains if you are a long-term investor. Second, money is available for real estate investing. Though the writer fails to mention it, we doubt the investor paid cash for all those properties.

To be sure, rental properties aren't for everyone – they come larded with work and headaches, but they can prove highly remunerative when gotten at the right price. In today's market, there are definitely more right prices than wrong ones, especially for someone with a good credit history who is working with a creative mortgage professional with a strong knowledgeable of financing options.



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