

# Real Estate Trends

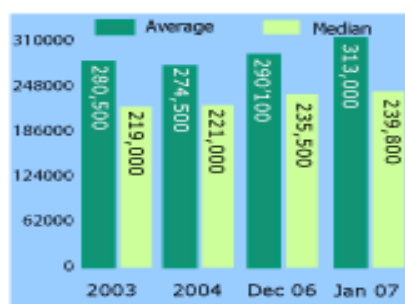
## The Real Estate Boom Revisited

It has been over five years since the beginning of the real estate boom. Now we are asking--*how long will it be until the next hot market?* The consensus is that it will be at least one year or more before we start seeing significant price appreciation again. But no one can predict the future. All we can do is analyze the variables. This month we begin a two-part series analyzing the components affecting this market, starting with the rise of the boom—

- ◆ **Demographics.** You can't have a boom without demand. The population of the nation was experiencing an immigration explosion as well as the effects of the maturing of baby boomers. In some respects, the boom was a meeting of natural demand.
- ◆ **Interest Rates.** After 9-11, the slowing of the economy and the response by the Federal Reserve brought both short-term rates and long-term rates down to record levels. Lower rates helped qualify borrowers and spur demand.
- ◆ **New Programs.** The aftermath of the savings and loan crisis of the late 1980s brought among other things, an explosion of the secondary market. This brought more mortgage programs to the consumer, including no-money down, interest-only, stated-income, option adjustables and more.
- ◆ **Loose Credit Guidelines.** There was a concerted effort by the government to bring homeownership to as many as possible. First time buyer and low-to-moderate income programs proliferated--even into the subprime world which became an integral part of the "new program" revolution.

Basically, we had the perfect storm in the real estate market. Homes skyrocketed in value. This caused even more demand as investors poured in with a "get rich quick" attitude. Next month we talk about what factors have changed...□

**The median and average prices of new homes rose in January**



Source: HUD, Bureau of the Census



## What Impacts Home Values?

An interesting study has just been concluded by the National Association of Home Builders that identifies how various features in a home impact the property's value. The association's Housing Economics Department created a house price estimator, based on data from the American Housing Survey, a national representative survey of about 60,000 housing units, conducted by the U.S. Census Bureau.

## Waterfront Homes

Waterfront locations have the most significant positive effect on home values, the study determined. This applies to homes in every census region and in every type of setting. For example, being on the waterfront raises the value of a standard home in a Midwestern suburb by an average of 43 percent, and in non-metro areas in the South by 44 percent. In the central city of a large California metro area, being on or near water raises the value of a home by 41 percent.

The characteristic with the largest negative effect on home values is the presence of abandoned buildings within one-half block or about 300 feet of the home. Bothersome trash, industrial buildings, inadequate shopping and bad roads also have a significant negative effect on the price of a home...□

## Selected Interest Rates

March 15, 2007

- 30 Year Mortgages—6.14%
- 2007 High (Feb 1)—6.34%
- 2007 Low (March 8)—6.14%
- 15 Year Mortgages—5.88%
- 5/1 Hybrid ARMs—5.90%
- 1 Year Adjustables—5.42%
- 10 Year Treasuries—4.54%

Sources—Fed Reserve, Freddie Mac  
Note: Average rates do not include fees and points. Information is provided for indicating trends only and should not be used for comparison purposes.

## No-Money-Down Is The Norm

National research reveals just how important no-money down programs have become in today's market. From mid-2005 to mid-2006, according to a statistical sampling of 7,548 purchasers, nearly half of all first-time buyers financed the entire transaction, obtaining mortgages in the full amount of the home price. Another 30 percent put down 10 percent or less, and 20 percent put down 5 percent or less.

The research was conducted by the National Association of Realtors. The median down payment of first-time purchasers, according to the study, was just 2 percent. In other words, the median-sized mortgage for first-timers represented 98 percent of the home purchase price.

By comparison, the typical repeat home buyer nationwide invested a median 16 percent as a down payment to purchase a replacement home -- typically from the proceeds of a prior sale -- and financed the remaining 84 percent. Where did first-time buyers obtain even the relatively modest down payments they made? Seventy-three percent of the survey respondents said at least part of it came from savings accounts, and 22 percent said relatives or friends chipped in as well. One out of 10 said their down payments came from liquidations of stocks or bonds...□

### Did you know...

- ◆ A new survey of 5,000 homeowners shows a continuing trend toward major remodeling projects. All participants in the survey were considering either remodeling their home or purchasing a new one, according to the study. An increasing number of homeowners planning a remodeling project plan to handle all or much of the work themselves. About 32 percent said they will be their own remodeling contractor, up from 25 percent in a similar study a year ago. About 65 percent will do at least a portion of the remodeling work themselves...□