



Real Estate Reality...

Have We Hit Bottom YET?

- Debbie Yost, CLHMS, CRS, GRI, CPC

No one can predict the peaks and valleys of market cycles precisely. I read volumes of articles and news releases written by experts about financing, supply and demand, job growth, local and national statistics and demographic trends. Following is my interpretation of the meat below the headlines from many sources and how it all applies to our local Casa Grande market:

Peter Lynch, the famous money manager wrote for *Time Magazine's* February 25th, 2008 issue. He states there is "a potent case for buying now.... When prices are falling, few people have the discipline to buy stocks, a house, gold, art or any other asset. But those who do pull the trigger excel in the long run." Lynch referenced John D. Rockefeller's famous quote, "the way to make money is to buy when blood is running in the streets." Lynch suggests that "if you have good credit, plan to stay put for five years and have been waiting for the perfect entry point, it's time to get serious – before an inevitable rise in interest rates wipes out your advantage." Lynch illustrates an example of buying a home today at \$218,900 and even if prices were to drop an additional 10% (meaning you could have bought that same home 12 months from now at \$197,010) with just a half percent increase in mortgage rates, the monthly mortgage payment would be exactly the same. "Meanwhile, home prices might steady and sellers might become less willing to negotiate. If you waited a year to buy, you would have saved nothing and spent a year living someplace you'd rather not be," Lynch says. His example does not compute the additional income tax savings associated with home ownership.

Several financing changes moving through Congress have already been approved. One is the recent revamping of FHA financing, which now will provide home loans up to \$346,250 in Pinal County. FHA allows very minimal down payments for borrowers with stable employment and histories of responsible credit use. Down payment assistance for those who haven't owned a home in the past three years is available in conjunction with FHA financing.

Demographic trends continue to predict growth in Arizona. "Within five years, I suspect Florida markets, along with Arizona and Las Vegas, to be the hotbed of the housing market in terms of both home price and high apartment rents, because demographics of baby boomer retirement nearly assure very high demand for warm climate regions," reported Lawrence Yun, NAR Chief Economist in his March 4, 2008 published comments. Baby boomers seek housing outside of major metropolitan areas, within easy driving distance of medical care, airports and freeways. The Casa Grande Valley will continue to be an attractive alternative to the metro areas of Phoenix and Tucson and both rents and prices will increase faster than national trends.

Kenneth Harney, nationally syndicated columnist on housing and real estate noted positive trends in his March 13th, 2008 Realty Times column. New mortgage applications rose 14.5 % over the prior week as a result of buyers watching and waiting for the lowest reported rates. He noted that the pending home sales index stayed flat last month instead of declining. "In a market that's been going negative, 'flat' looks pretty good – a sign that maybe – just maybe – two years plus of sales declines might be bottoming out, or could do so soon." In the Casa Grande area February, 2008 sales in escrow increased to the highest number since May of 2007. From a simple look at supply and demand in Casa Grande, at the end of February we had a 9.3 month supply of listing inventory, the lowest since April, 2007 and half the amount of homes on the market in November, 2007. Builders have drastically reduced the number of new spec homes being built and most of the data on new homes isn't reported in the statistics from ARMLS (AZ Regional MLS). Foreclosures do add to inventory levels but several programs currently in place such as "Hope Now" are being considered in Washington; ("Help Now") will begin to stem the huge wave of anticipated defaults as mortgage terms are modified or refinanced. Foreclosure is an expensive process and lenders have made great strides in working with homeowners to provide alternatives.

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By the time this article prints, the Federal Reserve may have reduced short term interest rates by another quarter point and Harney sees that as "critically important to home buying." He predicts that "consumers begin to say: 'Hey, There are some attractive deals out there.' And they'll be right. And the market will have bottomed out, even though no one saw it coming because the rest of the economic news sounded so bad." The number of new monthly sales of existing homes rose in February, 2008 to its highest level since June of 2007 in Casa Grande, according to statistics provided by ARMLS. Harney believes interest rates and prices are so attractive that homebuyers will stop waiting for the media to tell them it's time to buy. In reality, short term interest rate reductions by the Fed are not continuing to lower mortgage rates. Mortgage rates have actually increased from their lowest point about a month ago, as of the date I am writing this article.

How does all this apply to the Casa Grande market? The good always homes sell first in any market. "Good" is defined by location, condition and price. Sellers in certain price ranges who price their homes more aggressively than competing listings are receiving multiple offers with the final sales price higher than their list price in both Casa Grande and the Phoenix metro area. FHA's higher loan limits and revised qualifying regulations, combined with down payment assistance options have replaced risky sub-prime loans. That is great news for buyers, lenders and the entire economy. Arizona entered the declining market cycle earlier than most of the country, and combined with strong population growth will recover faster. All the ingredients for a rebound in the local real estate market are present, and none of the experts can predict the exact date that it will occur. Can you?

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