

This Month in Real Estate

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Green Shoots of Recovery



U.S. economy slowly mending as hope remains for sustained housing recovery.

For nine percent of Americans seeking employment, it's tough going out there. But better economic data is expected in the third quarter, and this projected improvement should translate into a positive boost for the job market and, importantly, lead to broader economic stabilization. At the same time, the housing market remains under pressure from record rates of home foreclosures.

Currently, the housing market's main lifelines include the \$8,000 tax credit for first-time buyers and the Federal Reserve's massive purchase of mortgage-backed securities. Both of these programs may be running their course, however, as the tax credit is due to expire at the end of November and the Federal Reserve is starting to taper off its purchase of mortgages. In lieu of these government actions, the best hope for a more sustained recovery in the housing sector is a more normalized balance of inventory. Such a balance requires continued stabilization in home prices across the country, which will likely take some time.



Green Shoots of Recovery



In the meantime, as long as mortgage rates stay low and housing affordable, there are buying opportunities to be had and willing and able buyers who will continue to absorb inventory. So while home sales slowed from their strong pace in July, they continue to be much higher than before the stimulus. Lawrence Yun, NAR chief economist said, “The recent trend shows broad improvement in most of the country, but with an expected rise in foreclosures over the next 12 months we need to maintain a healthy level of ready buyers to absorb the inventory. An extension of the tax credit is critical to preserve incentives for financially qualified buyers to enter the market.”

Among the positive developments this month are the jumps in new home sales, personal income and spending. Increases like these show the economy is improving, albeit at a slow pace. Personal savings dropped to about 3%, meaning consumers are actually opening their checkbooks again, while still maintaining a degree of savings. The unemployment picture still remains gloomy, but the rate of layoffs decreased for the fourth consecutive month—a good sign.

The Numbers That Drive Real Estate





Home Sales

In Millions

Existing home sales eased after four consecutive monthly gains, recording 5.1 million transactions. While at 2.7% lower than July, sales remain 3.4% above the level seen last August. According to Lawrence Yun, NAR chief economist, “Some of the give-back in closed sales appears to result from rising numbers of contracts entering the system, with some fallouts and a backlog contributing to a longer closing process.”



Latest data release: September 24, 2009

Source: National Association of Realtors

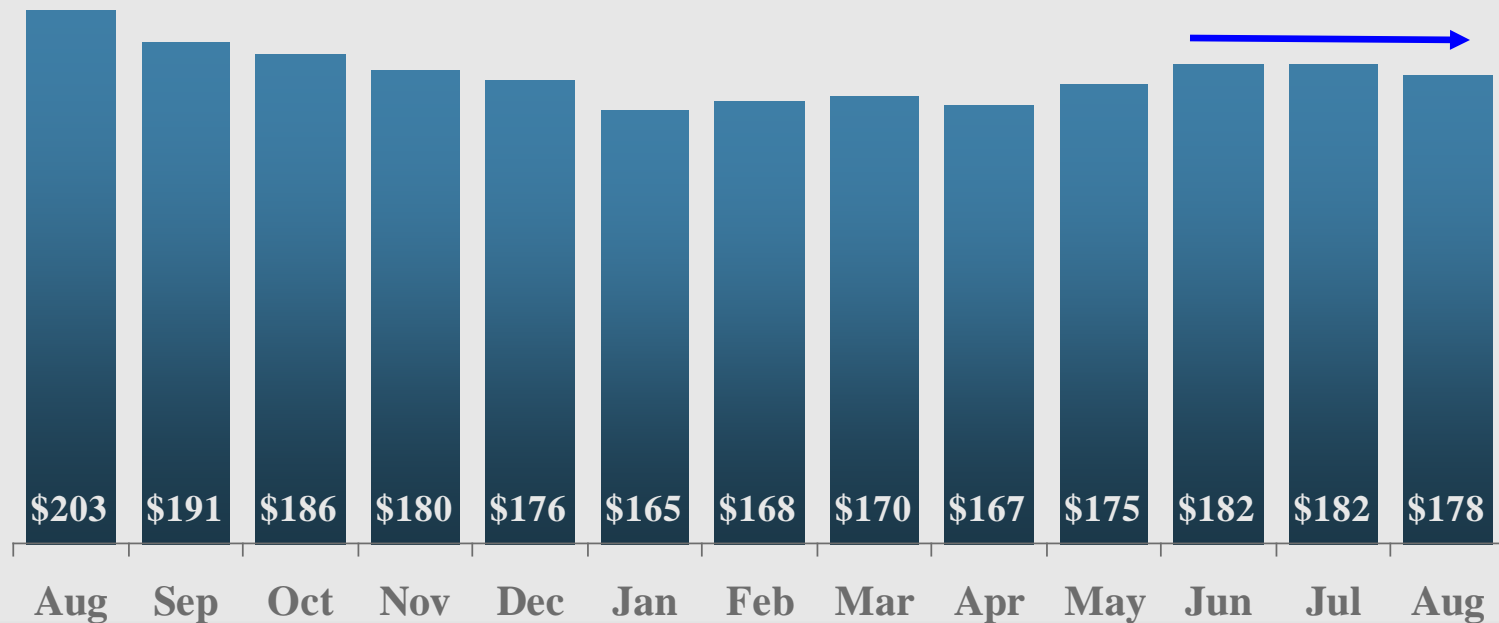
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Median Home Price

In Thousands



Existing-home price was \$177,700 in August, an 8% bounceback from its low in January but still 12.5% below the level seen last August. Distressed properties, which accounted for 31% of all transactions in August, continue to downwardly skew the median price as they typically sell for 15%-20% less than traditional homes.



Latest data release: September 24, 2009

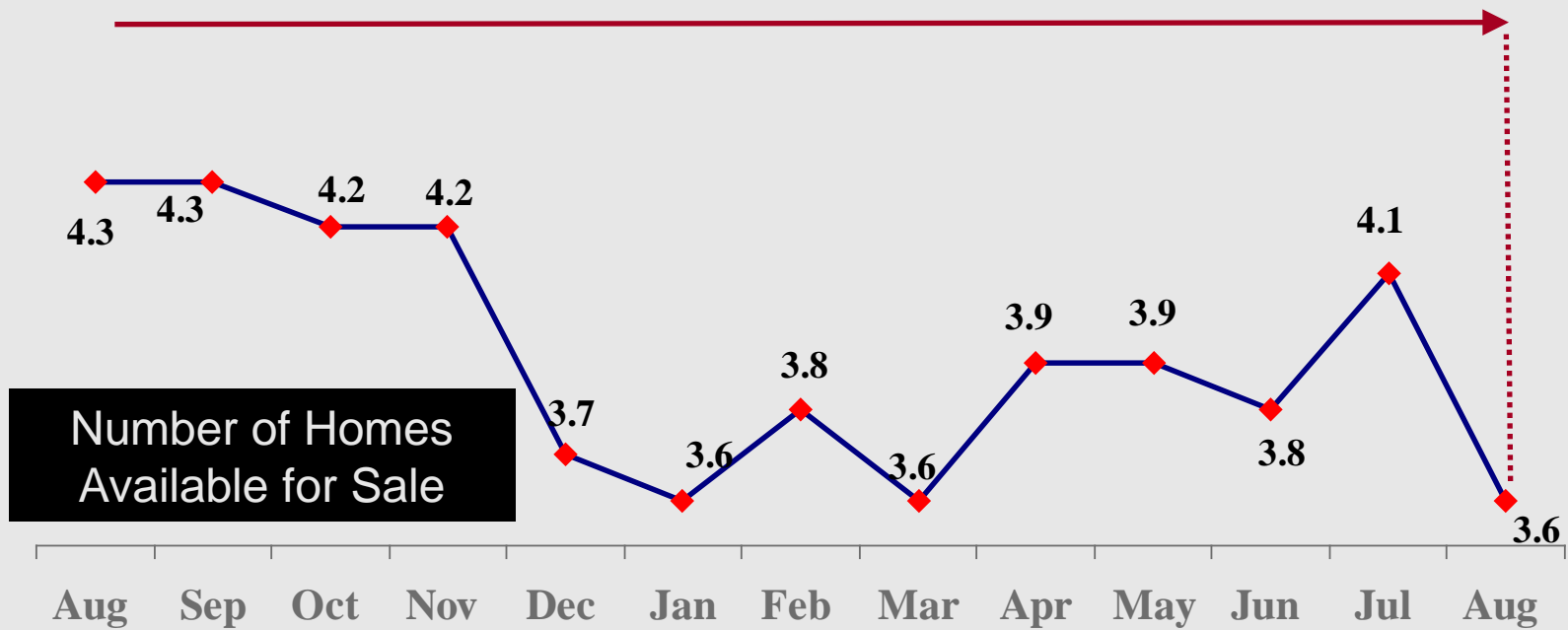
Source: National Association of Realtors

Inventory - In Millions

Number of homes available for sale



Total housing inventory at the end of August fell 10.8% to 3.62 million existing homes available for sale, representing an 8.5-month supply at the current sales pace, down 8.6% from July's 9.3-month supply. Compared to a year ago, there are now 16.4% fewer homes on the market.



Latest data release: September 24, 2009

Source: National Association of Realtors

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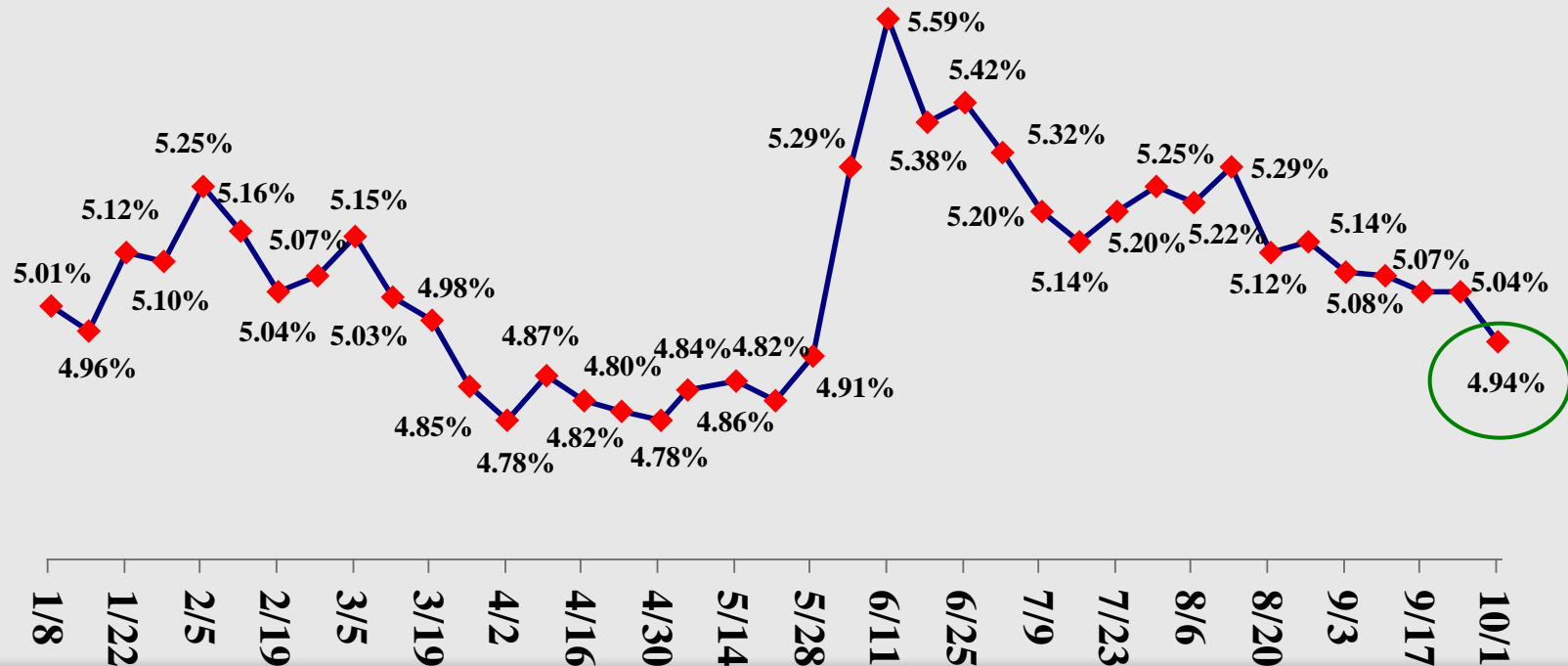
Mortgage Rates

30-Year Fixed



Rates for 30-year fixed loans ticked down to 4.94% in September. Having dropped back toward the ultra low 4.78% in the spring, rates are now at well-below average levels for people looking to buy a home or refinance. However, such a low rate will not last forever. As the long term treasury securities rates rise and concerns over inflation come back, mortgage rates will likely go up.

Average Weekly Mortgage Rates



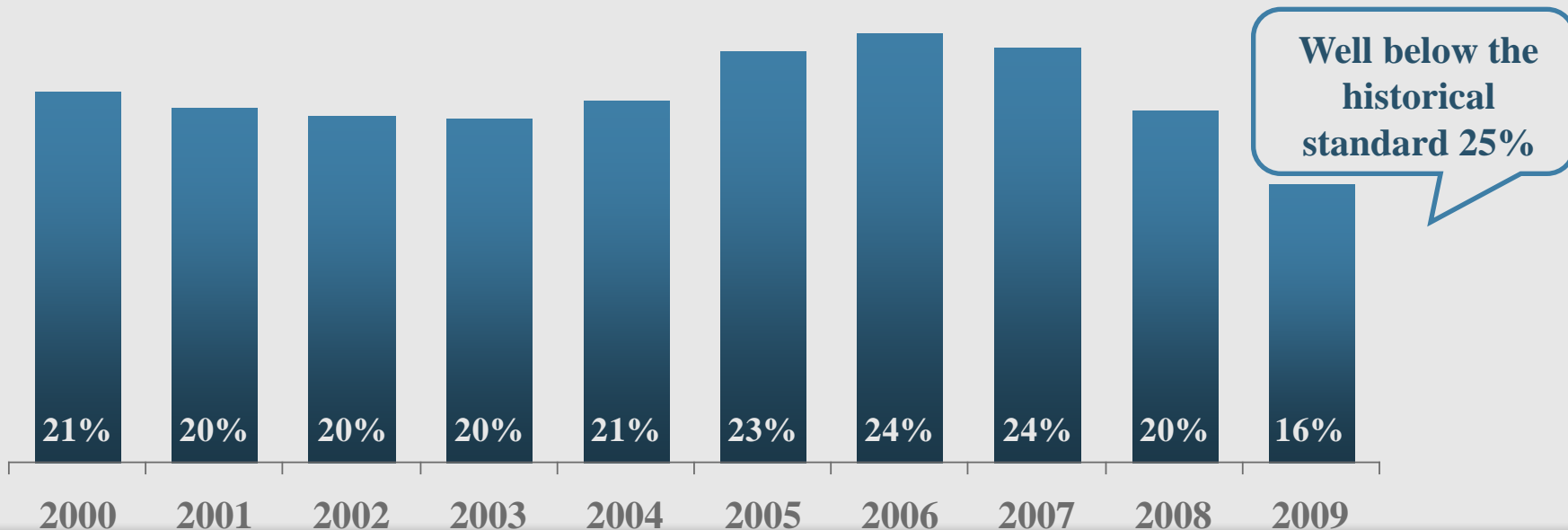


Affordability - % of Income

The percentage of a median family's income required to make mortgage payments on a median-priced home

Housing affordability continues to be at record highs this year with the added stimulus of the first-time buyer credit. Home buyers continue to benefit from low home prices as well as unprecedented mortgage rates. So far this year, payment percentages have been the lowest on record dating back to 1970. A typical mortgage payment on a median-priced home historically has consumed 25% of a middle-income family's monthly earnings; it's now taking up only 16%.

% of Income Required for Mortgage Payments on a Median-Priced Home



Affordability as of August every year. Calculations assume a 20% down payment.

Source: National Association of Realtors

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Recent Government Action



First-Time Home Buyer Tax Credit Update

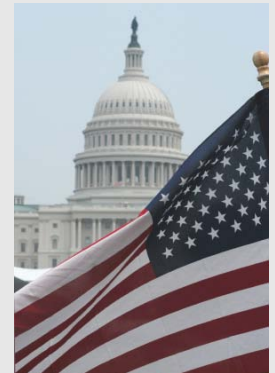
September 2009



To qualify for the \$8,000 tax credit, first-time buyers must close on their homes by November 30. As closings have been taking between 30 and 60 days to occur, time is running out for first-time buyers wanting to cash in.

Although an extension to the current bill far is from a certainty, two current may have the potential to pass before the deadline.

1. S (Senate) bill 1678 would extend the current credit exactly as it is for another six months, expiring on June 1, 2010.
2. HR (House of Representatives) bill 3590 would extend the tax credit for a year, but it would add a requirement that only service members who were on duty overseas for at least ninety days during 2009 would qualify.



A Zillow survey found that one in five potential first-time buyers said an extended tax credit would be their primary reason to buy in the next six months, while 43% said that it would be either the primary reason or a significant factor. The cost of extending the current credit “as is” is a major concern in Congress. This year’s credit is set to come with a price tag of \$14 billion, reaching an expected 2 million new homeowners. During the additional six months, the Senate’s version of an extension would cost nearly as much and reach nearly as many people as the current bill.

While it may mean good news for those first-time buyers who miss the deadline, it would be wise for buyers counting on the tax credit to meet the deadline.

Credit Score Impact of Loan Mods



The Obama administration's Making Home Affordable program intends to help 4-5 million homeowners refinance their mortgage to stay in their home, thereby reducing the number of foreclosures and helping to stabilize home prices. However, there may be an unintended consequence to this initiative.

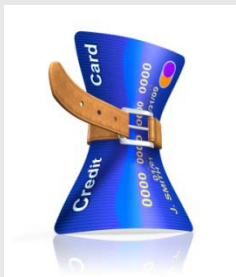
Up until recently, loan modifications were relatively rare and indicated increased credit risk. Many otherwise creditworthy homeowners who have modified their loan have seen a drop, possibly a large one, in their credit score. The higher the premodification credit score, the larger the potential drop.

Jack Guttentag, professor of finance at the University of Pennsylvania's Wharton School of Business, has said that this may deter people from trying loan modifications, possibly resulting in fewer modifications and more foreclosures.

A new classification will be added in November that will allow lenders to specify if the modification is a part of the government program. FICO may also do more in-depth research on loan modifications to gauge if their formula needs to be adjusted.

The consequences of a loan modification are less severe than a foreclosure. Any troubled homeowner seeking a modification is advised to understand the exact terms of the modification, work with a nonprofit housing counselor, and ask the lender if the modification is a part of the government program.

Troubled homeowners who don't meet modification criteria should speak with their agents about the possibility of a short sale



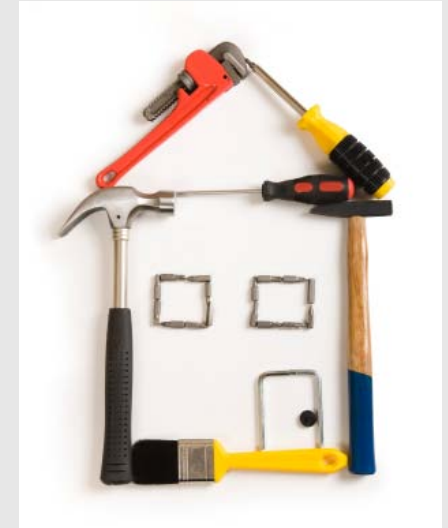
Freddie Gets Serious About Helping

September 2009

Freddie Mac has hired a company to go door-to-door to help troubled homeowners modify their mortgages. The Titanium Solutions representatives will meet one-on-one with borrowers in their home to review requirements, determine necessary documents, obtain signatures, and walk homeowners through the modification process.

The representatives will not handle any money from borrowers in hopes of deterring imposters and fraud.

This unprecedented, proactive approach will hopefully lead to a greater number of loan modifications, fewer foreclosures, and stabilized home prices.



Topics for Buyers and Sellers



Little Improvements, Big Difference



Sellers, Impress Buyers with These Ideas for Under \$1,000

With more homes on the market than sales going on now, the competition heats up among sellers in many markets across the country.

Here are three suggestions that can be done with the help of a contractor for under \$1,000:



1. **Beadboard the Bathroom.** This “in” yet traditional look creates the feel of a cozy cottage.
2. **Liven up the Lights.** Low quality and outdated light fixtures can make a less-than-impressive picture in some buyers’ eyes. Your local home improvement store will likely have a large selection of nice light fixtures at affordable prices.
3. **Spark up the Fireplace.** Adding tile around a wood or stone fireplace can add an extra wow factor to the home. Because the space is small, you can splurge on more expensive tile while still keeping the overall cost down.

It’s always a good idea to get advice from your real estate agent before making improvements to your home. As a local market expert, your agent will have valuable insight on what endeavors will yield the most for your time and money.

FHA Continues to Be Popular for Buyers



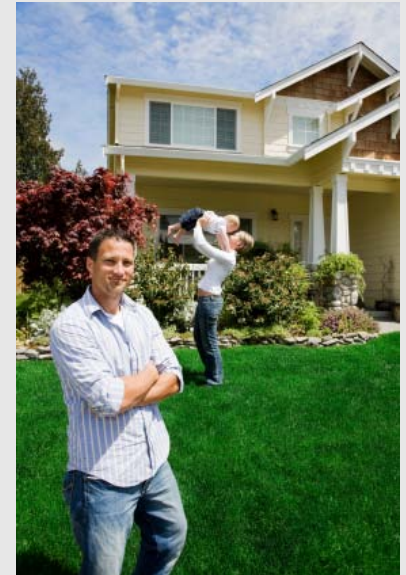
80% of First-Time Buyers Used FHA Financing

FHA loans continue to be a popular choice. With only 3.5% required as a down payment, FHA is the easiest way for first-time buyers to purchase.

So far this year, FHA loans have made up 23% of all loans, compared to 2% only three years ago.

80% of all first-time home buyers have opted for FHA as their financing of choice.

With the subprime market gone, FHA caters to those with less-than-perfect credit and those who don't have a 20% down payment. Despite the downside of FHA, such as higher delinquency and foreclosure rates than conventional loans, FHA has played a major part in bolstering the troubled housing market this year by making homeownership more affordable to enter. FHA is taking several measures to address the risk associated with its loans and currently has no concerns about its financial position.



South Walton Market

Although it is important to stay informed about what is going on in the national economy and housing market, many different factors impact the real estate market in South Walton.

Talk to Craig or Tracy Baranowski with Team Baranowski for assistance interpreting the conditions in South Walton.

Team Baranowski is equipped with all the knowledge and information to help navigate you through the process of buying or selling a home in this challenging market.



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