Mortgage Matters...

Week of May 9, 2011

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

Market Comment

There wasn't much news on housing sales this past week, so markets focused on prices instead. The chatter centered mostly on fear of the dreaded "double dip." The fear that home prices will continue to fall and will make new lows.

There is some validity to the fear, if we consider only national numbers. Clear Capital reports that national prices fell 5 percent in April compared to the year-ago period. Over the past nine months, national prices are purported to have declined 11.5 percent.

Distressed properties were to blame. Clear Capital says that REO sales accounted for 34.5 percent of overall sales nationwide after declining to nearly 20 percent in the middle of 2010. This same pattern surfaced in 2008, when REO saturation grew from 20 percent to 32 percent by the end of the year.

It's an apples-to-oranges comparison (2008 to 2011) in our opinion. Back in 2008 and early 2009, the entire nation was a mess: markets converged and they all dropped in tandem. Today is different; housing markets and economies are more localized. We think Michael Fratantoni, vice president of research and economics for the Mortgage Bankers Association, put it best when he described today's market as a "tale of two cities." Home prices are stabilizing and rising in economically viable parts of the country, while other areas remain paralyzed by high unemployment and shadow inventories.

Every region of the country has shadow inventory, but it is proportionally high in parts of California, Michigan, Nevada, Florida, and Arizona. These states still have a lot of work to do to rid themselves of distressed properties. The difference between 2008 and today is that what happens in Vegas really does stay in Vegas. In other words, don't let national price trends keep you awake, particularly if the comparisons are year-over-year.

It remains a buyer's market, though, and we'd like to see buyers take advantage of a stable lending environment. In fact, rates actually eased lower this past week. Some credit-market commentators pointed to the death of Osama bin Laden for the lower rates, the rationale being that investors were fearful of a market-churning retaliation, so they flocked to U.S. Treasury securities.

It's difficult to say for sure why rates dropped; there are simply too many factors that move markets over the short term to say which one is most influential. We prefer to keep our eye on the long term, which is being driven by soaring consumer prices, rising gold prices, and falling value of the dollar. To us, they add up to rising mortgage rates. And we're not alone in that assessment: the MBA forecasts a 30-year, fixed-rate mortgage rate of 6.2 percent next year.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Import Prices (April)	Tues., May 10, 8:30 am, et	2.1% (Increase)	Important. Rising energy prices continue to drive inflation.
Mortgage Applications	Wed., May 11, 7:00 am, et	None	Important. The trend in purchase applications points to improving sales for April.
International Trade (March)	Wed., May 11, 8:30 am, et	$46.4 Billion (Deficit)	Moderately Important. A falling dollar and rising energy costs are pushing the deficit higher.
Producer Price Index (April)	Thurs., May 12, 8:30 am, et	All Goods: 0.8% (Increase) Core: 0.3% (Increase)	Important. The rise in the core number is forcing more producers to push costs onto their customers.
Retail Sales (April)	Thurs., May 12, 8:30 am, et	0.6% (Increase)	Important. The increase in sales is being driven mostly by inflation.
Consumer Price Index (April)	Fri., May 13, 8:30 am, et	All Goods: 0.4% (Increase) Core: 0.2% (Increase)	Very Important. Should U.S. Treasuries lose their haven status, the rising CPI will pressure interest rates to rise.

Hot versus Cold Markets

It's an age-old dichotomy: some people prefer to buy into the latest trend; some people prefer to go against the crowd and buy what few people appear to want.

In the past couple issues, we've noted that the residential rental real estate market is turning, which means more people are buying rental properties. Does that mean that the rental market is now a hot market? We don't think so. We think it is more of a developing market. That is, it is garnering more interest among more people, but it is still not hot. A hot market to us is the commodities market, gold in particular, and the stock market. Both have nearly doubled over the past two years.

Residential real estate, if not a cold market is a cool market, and we think these types of markets offer more reward for less risk. We have to look no further then the past two hot markets – the stock market of 1999 and the real estate market of 2006 – to realize how dangerous it can be to buy into the hot market.

Of course, it is impossible to accurately predict how hot or cold markets can get, but if we were to bet on which would be the hot market two or three years from now, our money would be on the real estate market.

W. J. BRADLEY

214 8th Street | Suite 100
Glenwood Springs, Colorado | 81601

This newsletter brought to you compliments of:

Michael Picore
(970) 309-2911
Michael.picore@wjbradley.com

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