

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

Market Comment

The pig is progressing through the python – the pig being the shadow inventory of foreclosures, the python being the market. According to Barclays Capital, there are currently 2.4 million loans in 90-plus day delinquency and another 2.1 million in foreclosure, totaling 4.5 million in shadow inventory. Barclays says that this inventory should reach the high-point this summer and then fall off, as the market absorbs an estimated 130,000 distressed properties per month.

New foreclosures shouldn't distend the market much further. Foreclosure filings dropped year-over-year for the first time since RealtyTrac began measuring such statistics, in January 2005. Granted, we are dropping from monumental levels, but it is good news nonetheless.

The aggregated numbers remain a little daunting, but it's worth noting how foreclosure activity is measured. RealtyTrac adds notices of default, notices of foreclosure sale, and actual foreclosures (so if a property goes all the way to REO, it will be counted three times) to arrive at activity. REOs are still at record levels, but the initial stages have declined substantially, which bodes well for the shadow inventory; hence, Barclays' optimistic prediction that the worst, if not yet over, is close to being over.

All these bits and pieces of housing data eventually work their way into home prices, which continue to stabilize, as demand for higher-priced homes (driven by improving job prospects) picks up and the sale of distressed properties cease changing hands at deeply discounted prices. On that front, the number of metropolitan areas where median prices are rising grew for the fourth consecutive time. In the latest quarter, prices gained in 91 of the 152 metropolitan areas tracked by the NAR compared to 67 in the fourth quarter of 2009 and 30 in the third quarter of 2009. In short, we're on the right path.

But the farther we go down that path, the fewer deals we'll encounter. A year ago, buyers were keeping to the sidelines because they were concerned with catching a falling knife – buying a home at \$250,000 only to see a comparable property fetch \$230,000 three months later. We believe those days are over, which is one reason we continue to implore those on the sidelines to get in the game.

Mortgage rates are the other reason. Yes, the 30-year fixed-rate loan continues to bob around 5 percent while the 15-year fixed-rate loan continues to bob around 4.5 percent, but they're not sinking, and they won't. Therefore, we see no reason for someone inclined to refinance or to buy a home not to, especially given the optimistic outlook on jobs and the economy and the continued expectation for higher mortgage rates.

Economic	Release	Consensus	Analysis
Housing Market Index	Mon, May 17, 1:00 pm, et	20 Index	Important. Homebuilder confidence is expected to gain momentum on April's strong showing.
Housing Starts (April)	Tues, May 18, 8:30 am, et	680,000 (Annualized)	Important. Permit growth suggests there is little chance of any backsliding.
Producer Price Index (April)	Tues, May 18, 8:30 am, et	Finished Goods: 0.2% (Increase)	Important. Recent advances in producer prices could pressure interest rates higher.
Mortgage Applications	Wed, May 19, 7:00 am, et	None	Important. Lower rates have renewed interest in refinances.
Consumer Price Index (April)	Wed, May 19, 8:30 am, et	Finished Goods: 0.1% (Increase)	Important. Consumer-induced inflation remains under control.
Federal Reserve FOMC Minutes	Wed, May 19, 2:00 pm, et	None	Moderately Important. Expect Fed officials to adhere to their low-rate mantra.
Leading Indicators (April)	Thurs, May 20,	0.2% (Increase)	Important. Strength in manufacturing and housing permits point to a sustained economic recovery.

The Post-Credit Era

We've been saying for the past month or so that we're not particularly worried about the end of the federal homebuyers tax credits. We also weren't particularly concerned when the Federal Reserve said it would cease purchasing mortgage-backed securities. After all, the only way to discover if a market is truly healthy and viable is to stop subsidizing it.

It's still early to render a verdict, but so far so good. People recognize that the combination of low rates and lower home prices represent a great opportunity, while many shoppers who

failed to find a home to qualify for the tax credit remain under-terred and, just as important, rational – understanding the go-go days of the early 2000s are over. And that's a good thing. The market of that era was driven more by speculation and less by fundamentals. And though it was highly remunerative for many of us, we see how it turned out.

In housing, slow and steady wins the race, which is why we continue to advise our clients that today's market offers good fundamentally sound deals that can be financed at good economically advantageous interest rates. Sounds like a win-win deal to us.



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