



Housing Market Update

...Turn Around Coming Soon?

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With all the dire news headlines, it is hard to imagine a housing turnaround coming anytime soon

If these headlines put you in a "home buyer depression" IGNORE THE HEADLINES and look at the factual circumstances surrounding each issue. Remember, most media sources are in the business of selling advertising space by grabbing readers attention with shock and hype pulling their audience in with FUD (fear, uncertainty and doubt).

Reality Check

Monitoring all the financial indicators daily can't tell me the exact timing of a turnaround, but I can say based on factual data, it is likely sooner than the news of recent would lead you to believe.

Has the Market Hit Bottom?

There are many homebuyers sitting on the sidelines waiting for the bottom or to see a turnaround, when in fact, it appears to have already begun. **By the time it becomes more obvious, most will have missed their best buying opportunity.**

Here are some signposts to look for that will give you a better idea of how and when the real estate market is healing.

Sign Post #1 Real Estate is a Local Game

Differentiate the Portland market from the of the headline news that focuses on the extreme markets like Las Vegas, San Diego or other cities. A recent report from Freddie Mac (June 08) showed foreclosures were less than 1% of the financed homes in Oregon. Oregon has just over 650,000 homes with mortgages and 6005 are in foreclosure. Nearly on third of the homes in Oregon are owned free and clear. It might surprise you to know that in the 2001/2002 timeframe, job growth was at -1.5% and the foreclosure rate in Oregon was 1.5%. That foreclosure rate is over 50% higher than it is today!

Sign Post #2 The Local Job Market

Detroit, Michigan is an example of how a weak job market effects housing markets.

In any part of the country, a weak job market will cause home sales to slow and prices to decline regardless of the state of the national housing market or economy. Over the last decade, the peak of our national job growth occurred in early 2004 and reached 18%. The bottom was in early 2003 at nearly -15%. For 2008, Oregon job growth is holding at just above 2.5% (Source: to U.S. Bureau of Labor stats). **This slightly better than "steady" level is why Oregon's real estate market remains stronger than most.**

Sign Post #3 Housing Supply Shrinking

This is one to watch CLOSELY. A 5-6 months supply of inventory is considered normal in most markets. This is the level at which most homes sell within 90 days. Above this level we have a buyers market. Below this level we have a shortage, or sellers market.

In early 2008 Oregon's housing inventory reached nearly a 12 month supply. As of June, Oregon has approximately a 9 month supply with sell through rates increasing. (Source: Freddie Mac)

Nationally, new home inventory peaked at 598,000 homes in July of 2006 and stands at 482,000 homes as of the end of March 2008. Watch this one closely because given the drastic drop in new home construction and completion, it may be only a few months before new home sales over shoot new home completions and inventory levels drop more rapidly.

Sign Post #4 Home Prices Falling at a Slower Rate

Here again you want to look at your local market, not the national market. In Oregon, you may even want to look at statistics for the zip code in which you are looking to buy (your real estate professional would be a great resource for this). Beaverton, NE Portland, West Linn, and Lake Oswego will all have very different pricing trends. **In a market where prices are declining, you want to see at least three months of smaller price drops to be confident that the market is really shifting toward a stable or increasing price trend.**

Sign Post #5 Affordability

Affordability is a combination of home prices, interest rates, and the availability of loans that allow consumers to buy homes at a level that the mortgage payments are affordable. In Oregon we have seen an overall drop in home prices ranging from 0 to 10% between July of 2007 and today. Coupled with very low interest rates and FHA, Fannie Mae and Freddie Mac loan programs, homes are more affordable today than a year ago.

Buyers needing Jumbo loans (loan amounts over \$417K) are still seeing their mortgage rates at a premium compared to Fannie/Freddie rates. These interest rate premiums can be easily offset by price concessions on higher end properties and/or special financing packages where a seller can buy down the interest rate for the buyer for the life of the loan. This is done via the seller paying a one time "interest rate buy down" at closing (see your Mortgage Planner for further details). The affordability of homes is what is helping our inventory levels continue to decrease in Oregon and Nationally.

So Has The Turnaround Begun?

I think if you divided the nation by zip code and used the above measurements in many areas you'd say yes. Even in the so called "worst markets" if you measure the rate of foreclosures, the rate of price declines, and inventory levels you might say maybe to an upswing.

I've had the opportunity to hear numerous economists over the past six months and I am hearing a theme in their forecasts regarding our housing market in Oregon. These economists know that inventory levels are decreasing. They further point out there is a significant amount of "pent up demand" referring to people who need or want to buy a home but have been waiting for the bottom, or signs of a turnaround. New home construction has slowed to a trickle, and economist predict a significant lag to ramp new home construction back up. They further predict, as buyers perceive inventory decreasing, they will come off the side lines at a relatively brisk pace. As housing sales gain momentum, inventory levels will drop at a faster rate and we will soon drop below our 6 month supply level. Given the lag in new home construction start ups, the shift between "a buyers' market" and "a sellers' market" may occur sooner than you think.

So, if you are sitting on the sidelines waiting for a buying opportunity or a turnaround, my advice is to PAY ATTENTION TO THE DATA, not the headlines. Your opportunity may be closer than you realize.

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