



## **MARKET BOTTOM CALLED**

**Andrew Waite, Publisher Personal Real Estate Investor Magazine**

We are on record as calling the first quarter of 2008 the bottom of the U.S. residential real estate market.

Publishers see things others don't. We watch our daily newsstand and subscription sales. We talk to the service providers who buy advertising from us and we talk to our readers.

We read the news and follow professional reports and read trade magazines.

## **WHAT WE KNOW**

Our newsstand and subscription sales have jumped. Advertisers are seeing homebuyers come back. Federal housing data shows that some home sales are improving. Home sale transaction numbers are coming back while reported average sale prices have dropped five to ten percent. Looks like sellers are getting realistic and buyers are finding values they are buying.

Reader and advertiser behavior are significant precursors of consumer behavior that is easy to miss in trailing real estate data which is a month or quarter old. Data now shows year over year versus month-over-month as the monthly differences are smoothing. Home sales have turned in what are usually the slowest months. We believe that in leading markets (by volume), many of the precursors are beginning to flatten and change to the positive.

The question is, how does an individual homebuyer or investor take advantage of these trends?

## **THE FINE PRINT**

Advertising clients like Cheryl King at Urbis Properties and Tom Caldwell at Brewer Caldwell Property Management have sold large numbers of well priced, desirable, investment-grade real estate in the last 90 days. Brewer Caldwell have 15 days of rental inventory, no trouble finding tenants and a constant fear of rental property shortages.

Newspapers' loss of home sales ads are being offset by rental ads. Mortgage money is available at great rates for sound borrowers. Check with your local credit union like Desert Schools or REIN Mortgage as they are lending.

These improving numbers are in very specific markets and not yet extensible to generalized markets. Inner city and close in suburbs not ex- or ruburbs. We believe the turn in the most valuable parts of the market is for one absolute rule: supply and demand.

### **WE KEEP MAKING BABIES!**

Permits and ground breaking on new projects are still drying up. New-home builders are crying the blues with unsold inventory in remote markets. Recovery in this market is 18 to 24 months in the future. Most major markets have only 12 to 15 months of unsold inventory, but not all of this is in desirable markets. Still, the population continues to grow. 43 states have seen no drop in house prices and average just 5 to 7 months of inventory.

### **SOCIAL DISTORTION**

What industry analysts, general media, and major news outlets miss is that “rolled up” market data and averages assumes that residential real estate behaves the same as highly efficient and liquid commodity markets.

This is not true. Generalized housing data is distorted. Real estate is local. Stocks, bonds, and commodities are called “traded assets” for a reason. National markets set prices based on demand and based on liquidity or available cash. (Witness the wealth evaporation of mortgage-backed securities when no one wanted them as no one knew what they were worth.)

Residential real estate is considered a non-traded asset as there is no ready national market forum in which to trade. Deals are made locally, one at a time, using an extremely inefficient real estate agency-based sales system. Comparing real estate industry data to the Dow Jones Industrial Average is like comparing wax apples to overripe oranges.

The Office of Federal Housing Enterprise Oversight's data is limited to conforming loans, cities and metropolitan statistical areas. The Case/Shiller Index covers just 20 cities, but these are the most active and inflated markets. This is a trading and risk index with scant significance for the average homeowner or investor. These homes are castles, not commodities.

### **IT'S (LOCAL) ECONOMY, STUPID**

First all real estate is local. A recent ASU study isolates mortgage stress in very specific socio-economic and market classes.

This is defined as the “mortgage belt.” These are newer neighborhoods that attracted optimistic buyers with unrealistic expectations, to new and remote neighborhoods. Often they are swaths of lower-priced properties built close to freeways but far from economic hubs. Unsurprisingly these were predominantly brand new entry- to mid-level homes built by production builders with efficient marketing, selling and financing machines. The sales model was more like selling cars by fitting buyers into manageable monthly payments, not long-term commitments. These builders and their lenders reached further and further down the economic pyramid for buyers with lesser means. They helped them buy the American Dream with “exotic” short-term mortgages. Accelerating gas prices slammed the brakes on the out-of-control deal-making.

### **FAILING SO WE CAN SUCCEED**

It is easy to criticize the credit that evolved from the economic policies administered by Alan Greenspan but America moved homeownership four full points.

Foreclosure is tough for everyone involved. Yet, we have 128 million households in the U.S., 35 million of which are renters and 26 million own their homes outright. The two million homes that could be lost to foreclosure is 1.5 percent, a small fraction of U.S. households. Even this correction will leave us with a net gain in American Dreams.

### **RECESSION-PROOF YOUR HOME PURCHASE**

Buying residential real estate (single-family or residential multi-family) as a home or a rental is a matter of selecting location. Any real estate professional will tell that a good location is essential. Our sister publication, *Where to Live Books*, uses five criteria to score livability and commonsense. The ideal living location is based on:

1. Value that best matches the homebuyer’s budget.
2. Convenience to job, family, friends, faith & fun. Less commute time the better.
3. Amenities in nearby daily necessities, like markets, restaurants, etc.
4. School District as an indicator of community/cultural investment.
5. Physical beauty as people prefer to live in pretty places.

As new-home buyers in remote neighborhoods quickly discovered, crown molding and granite counter tops do not trump a brutal daily commute.

### **PUTTING PAID TO POLLYANNA**

Rather than be accused of being a Pollyanna we have put substance to our belief that homeowners are increasingly aware of investment. Along with partner *Lore Magazine*, we

studied the beliefs and behavior of the individual American real estate buyer. This study, *The Invaluable Investor* identified a very different and increasingly sophisticated buyer that the average real estate agent is not equipped to serve. Harris Interactive managed polling with research from Murray Consulting (publishers of *REALTrends*), *Lore Magazine*, and *Personal Real Estate Investor Magazine*. The study is available at [www.PersonalRealEstateInvestorMag.com](http://www.PersonalRealEstateInvestorMag.com).

American homebuyers are changing faster than the real estate industry understands. This market adjustment means a more involved and investment homebuyer who want the utility and the investment returns in a home purchase.

America and Phoenix Arizona represents the most dynamic real estate market in the world. We are still adding jobs and people who need a desirable place to live faster than even our best rate of home building. The disconnect is these homes were not always in the most desirable locations for work and living.

Look for our discussion of finding and buying in a recession proof neighborhood.