



Considering all of the negative press the housing market received in late 2007, it's more important than ever for buyers to separate fact from fiction when deciding on a time to buy a home. This report is intended to help home buyers assess the facts of the real estate market objectively.

WHY **now** IS A SMART TIME TO BUY

*Excerpted from a January 2008 Report from
John L. Scott Real Estate*

About Inventory

FACT: The housing market is undergoing a natural cyclical correction. It's impossible to ignore the ongoing news surrounding the downturn of the housing cycle.

The recent "housing boom," which lasted from 2001 to 2005, was caused by low interest rates and a rapid increase in property valuations, resulting in high numbers of renters opting to buy. Three factors caused this decade's housing boom to spiral upward:

- 1) A run-up in home-price valuations that spurred a high sense of urgency in home buying and selling.
- 2) Poor lending practices, which caused many home buyers to secure loans that they ultimately couldn't afford over the long term.
- 3) Speculative purchases of homes also increased, with buyers investing in real estate with the hope of a quick return on investment.

Like the dot-com bust, the housing market has begun to correct itself after a number of years of unwise purchasing, but unlike what the media would have us believe, a correction in the housing market doesn't equate to a crash. Unfortunately, the ongoing negative news about the troubled areas in the U.S. has caused a ripple effect, with home buyers and sellers on a national level exercising caution before making a decision. This has caused an overall slowdown in the marketplace.

The National Association of Realtors' chief economist, Lawrence Yun, projects that nationally, the "median existing-home price will drop about 1.7% this year. This is a small, minor adjustment after a strong run-up in housing prices."

True, the number of homes sold in 2007 will have dropped from the year before, but 2007 is still among the highest years on record, with numbers of sales for both 2007 and 2008 projected to be even higher than the levels seen in 2002.

However, with homes taking longer to sell, the number of homes on the market has grown. In markets like California and Arizona where homes are taking much longer to sell than the 11-month national average, this has caused a glut in the marketplace.

In the Pacific Northwest, where the inventory of homes on the market ranges from seven to 10.5 months as of November 2007, this equates to good news for buyers who have more homes

at more price ranges from which to choose.

About Mortgages

FACT: Low mortgage rates give buyers more house for their dollar.

With the 30-year fixed rate hovering between 6-7%—a 45-year low—qualified buyers continue to have access to incredibly low interest rates. This means that although housing prices have risen, monthly mortgage payments remain reasonable for those who look at real estate as a long-term investment. For example, today if a buyer secured a 6.5% interest rate on a 30-year fixed loan for a \$300,000 home (with no money down), the monthly mortgage payment would be \$1,896.20. In 1991, the same monthly mortgage payment would have bought a house worth only \$230,492 when mortgage rates were 9.25%. In 1982, when the 30-year fixed rate was 14.6%, the same payment would have bought a house worth only \$151,657.

FACT: Heavy speculation and overbuilding result in an increase in foreclosures when prices go down.

The media has been focusing on the hardest-hit areas of the country that have seen a dramatic downturn in the market: California, Nevada, Florida and Arizona. Over the past five years, these markets have experienced an abundance of new housing, a rise in investment properties and a rise in prices that was high above the national average.

Now that home prices are starting to drop and stabilize, the areas that went through a building frenzy and experienced the largest price increases are suffering a heavy devaluation in home prices, which in turn has caused homeowners to foreclose on loans.

Those suffering the most in California, Nevada and Florida are far above the national average of foreclosure with one out of every 325, 152 and 282 homes in foreclosure, respectively. Washington, Oregon and Idaho are well below the national average of one in every 617 homes in foreclosures because fewer home buyers in the Pacific Northwest opted for subprime mortgages and because home values have continued to steadily appreciate. Washington has seen one in 1,072 homes in foreclosure, and Oregon and Idaho have one in 1,275 and 893, respectively.

FACT: Subprime borrowers get a reality check.

Then there are the problems that are affecting

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subprime borrowers: those who are considered at a higher mortgage risk due to a past history of bankruptcy, delinquent loan payments and low credit scores. During the last number of years, some home buyers in the U.S. qualified only for these riskier subprime loans to fund the American dream.

But, again, unlike the media's portrayal, the reality is that subprime loans comprise only 9% of total loans nationwide and of those 9%, less than 11% of those subprime ARM and fixed borrowers have defaulted on their loans. The Pacific Northwest stands apart as its own micro-market, with more home buyers qualifying for prime loans. Homeowners in the Northwest have been able to successfully sell their homes for a profit or refinance to pay off their subprime loans.

Real Estate Cycles and Economics

FACT: Over the long-term, real estate has always appreciated in value.

The continuing appreciation of homes in the Northwest is not an anomaly. Real estate has always been one of the most solid investments in the U.S, because, after all, people always need a place to live. Real estate has less volatility

than the stock market and over the historical long-term it remains a guaranteed return-on-investment. Take this example from NAR's Yun: If a buyer were to put down \$10,000 for a down payment on a "typically priced home in the United States at a typical appreciation rate of 5%...(he/she) would see a return of \$110,300 after 10 years. The same \$10,000 invested in the stock market appreciating 10% annually will result in \$23,600."

As history has shown, for those who choose to keep their home for six to 10 years (and not flip for a quick profit) real estate investments do pay off, and pay off well. In fact, what we're seeing now is a repeat of a housing cycle we've seen before. In the early 1980s and 1990s, some areas of the country experienced the worst downturn they had seen in the last 25 years, which were caused by localized economic weaknesses and loss of jobs while on a nationwide average, others, including the Pacific Northwest were barely affected at all. But even those areas that were hit the hardest in the past experienced a historic uptick in prices, and then a continuing long-term appreciation. **RE**

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