

Mortgage News



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SOME THOUGHTS ON WHAT'S IN STORE FOR REAL ESTATE IN 2011

First of all, there are as many opinions as there are economists out there. But the one that seems most appropriate is from Mr. Paulson. Not the treasury Paulson, but the Paulson of Paulson and Co., that bet against the housing market and against the sub-prime loan fad and made billions. You heard correctly, billions. Mr. Paulson is now saying to buy a house. In fact, he said, if you can afford it, buy two. He is starting to buy houses. That action of his, is a very compelling one, because he is not passionate about real estate. He is passionate about making money. So his action presents an idea of opportunity that one must explore. However there was also an article written in the LA Times published Sunday January 2nd, that you may want to go online and check out, if you didn't already read it. It is the opinions of 5 leading economists on what real estate holds in the next year. The article interviews Leslie Appleton-Young, among others, and she is the chief economist for the California Association of Realtors. It is worth mentioning her prediction here, because, after all, this is a real estate newsletter. She predicts that prices will rise 2% in 2011. But it is with a caveat that I think is reasonable. She notes that there is little chance of the market returning to its previous heights anytime soon. But having said that she goes on to say, "We are in a very slow moving recovery with prices stabilized at the moderate and low end. We are still seeing price attrition and price softening at the upper ends of the market. 2011 will be lackluster, but that does not mean California is not improving." Of all the economists in the article, this brief quote would seem to be most realistic. It is hopeful, without being fanciful. It is realistic, without being pessimistic. Interest rates have some say in the market. If they go up significantly, expect prices to soften more than may be initially predicted. Do expect to see more foreclosures hit the market, but short sales and deeds in lieu of foreclosure will also have a prominent spot in the coming year's market. Most of all, remember that opportunity comes to those that are looking for it, and who recognize that action must be taken when the majority are not willing to do so.

DEMAND FOR HOMES DROPS 12%...PENDING HOME SALES UP?

There was an article written by the OC Register's Jonathan Lansner that was rather pessimistic, citing that a report by Steve Thomas at Altera Real Estate, as of December 9th said, "After remaining the same for the better part of a month, demand dropped by 12% (in the past two weeks)." My problem with this article was the headline. If you read on in the quote by Steve Thomas, himself a real estate broker, the statement clarifies itself, "For the remainder of the year and the first few weeks of the New Year, demand will continue to drop. This is cyclically the slowest time of the year for OC real estate." The headline leads you to believe that real estate is once again plunging, that things may become dire once again. The actual article is merely talking about a cyclical moment in the market, that is experienced every year in varying degrees. Two weeks later on December 31st, The National Association of Realtors reported that, "the number of people who signed contracts to buy homes rose in November, the fourth increase since contract signings hit a low in June." In fact, its index of sales agreements for previously occupied homes increased 3.5%. So, who do you believe? The NAR would obviously know the number of contracts being signed and that would seem to be a worthy statistic. No one is saying the market is healthy. But demand plunging? It would not seem to be the case.

WHAT WERE THE ACTUAL NUMBERS...

The total number of sales for Orange County in November (the most recent complete month available) was, 2,257, which was down 1.8% from October. That is a reasonable, seasonal, decline. It was also down 10.7% from November 2009, which seems like a lot, but if you look at the year-to-date average number of sales of 2,545, there is only a -0.7% differential. There were 1,407 single-family resale, 614 condos, and 236 new homes. The last statistic on new homes is worth mentioning because it is a 27.6% increase. Why does this matter? Building demand leads to building permits, leads to hiring in construction, the one job sector that is most sluggish in So Cal. In other words, demand for new homes is a sign of recovery. The lead price range is still the entry level under \$400,000, which had 938 sales. The slowest price range was from \$600,000 to \$700,000 with only 196 sales. The reason for this may be as simple as there is a shortage of properties in that price range because the over \$700,000 bracket was fairly healthy with 438 sales. Notices of Default were up slightly (4.5%) over October, but still down 16.1% from November '09. Foreclosures are way down, but this is a goofy number as banks have made it clear they have stalled the process on many of their distressed properties. The number of distressed properties on the market (short sale, or bank owned) remains steady at approximately 39%, which is lower than the peak of the recession, when that number was as high as 56%.

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HAPPY NEW YEAR... AND ACCORDING TO 3 REPORTS, IT MAY JUST BE BETTER IN 2011

At the end of 2010, already becoming a distant memory, were some confounding signs in the economy. As the holidays continued, retail and durable spending was up, but how could that be in our sputtering economy? Although the recession had supposedly officially ended, most economists agreed that recovery would be very sluggish until 2012. At the heart of that disposition was the issue of jobs. Where were the jobs? Well, out on December 31st were the three reports by Chapman University, Cal State Fullerton, and UCLA, weighing in on jobs, unemployment, income growth, building permits, US GDP, and 10-year treasury. All reports on all fronts were positive, with the most anemic growth coming in the builder sector, with very slight growth on building permits. All three see job growth between 18,000 and 24,000 but with most improvement coming in the second half of the year. They all see unemployment plunging below that 9% mark that has plagued any serious recovery. Income growth will rise between 3.6% and 4.8%. UCLA's report had an interesting comment, "Accelerating economic conditions should be observed by mid-2011 as consumers increase their spending to reload on worn-out durable goods and businesses hire more workers to meet rising demand for goods and services. The outlook for an expansion of the workforce shows momentum building into 2012. While the public sector remains weak, the private sector will do all the heavy lifting regarding 2011." The gist would seem to be, expect gradual improvement, and yes, the recovery has really begun this time. How does all this effect real estate?



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