



THIS MONTH IN REAL ESTATE

U.S.

This Month in Real Estate April 2010

Commentary



The economic recovery continues to slowly but steadily deepen its roots. Consumer sentiment ticked up in March and it appears businesses are feeling more positive as well. According to a CEO Economic Outlook Survey, America's top CEOs are expecting an increase in sales, along with increased or stabilized capital spending and employment.

Over the past several months, the hot topic of health care reform took much of Congress's attention. Now, with the bill passed into law, the government is turning its attention to other matters to help bolster the economy including the job bill and financial reform.

High unemployment and elevated levels of foreclosures and distressed homeowners continue to be two of the biggest factors in preventing a robust recovery. The government's attentive attitude toward these obstacles is seen as a positive sign by industry and economic experts.

The Housing Market

Existing Home Sales

Existing home sales softened in February. According to Lawrence Yun, NAR chief economist, the widespread winter storms during the month may have masked underlying demand as "buyers couldn't get out to look at homes in some areas and that should negatively impact near-term contract activity." February sales of 5.02 million remained 7 percent above the 4.69 million-units last year.

Median Home Price

The median price for an existing home was \$165,100 in February, a 1.8 percent drop from February 2009. Distressed homes, which accounted for

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35 percent of sales last month, continued to skew prices downward as they typically were discounted in comparison with non-distressed homes.

Inventory

Total housing inventory rose 9.5 percent to 3.59 million, representing an 8.6-month supply at the current sales pace. Compared to the previous year, there were 5.5 percent fewer homes on the market.

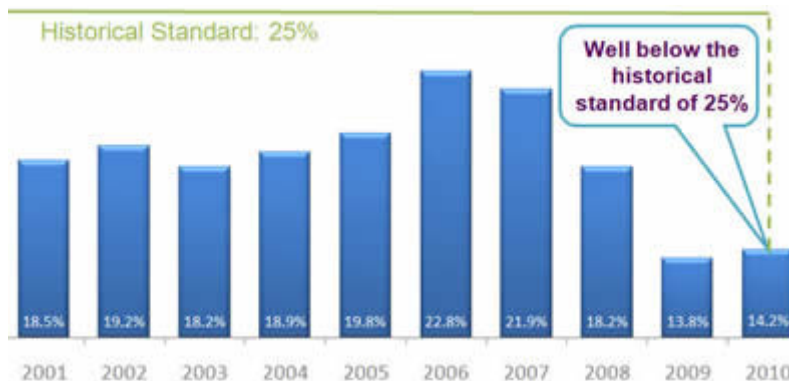


Mortgage Rates

Mortgage rates dipped to 4.99 percent in February from 5.03 percent in January. During the first week of April, rates crossed the 5 percent threshold but still remained near historically low levels. While the full effect of the Federal Reserve mortgage-backed securities purchase program's expiration at the end of March is yet to be seen, the Fed echoed its accommodating policy to support the economy.

Affordability

Affordability remains at record levels, supported by the lowest mortgage rates in decades, low home prices, and the first-time home buyer tax credit. The home price-to-income ratio continues to remain well below the historical average of 25 percent. The ratio now stands at 14.2 percent.



Sources: National Association of Realtors, Freddie Mac

Government Action

Mortgage Relief for Unemployed



Attempting to overhaul its foreclosure prevention program, the Obama administration took noteworthy steps to help the unemployed stay current on their mortgage through tough times.

While the trouble in the housing market stemmed originally started with loose lending practices, high unemployment and underwater homeowners are now the major factors contributing to foreclosure.

The program will now:

- Require lenders to “slash” payments for the unemployed for 3-6 months. In some cases, payments could be deferred entirely.
- Cut payments to at least 31 percent of previous income, about the same amount that unemployment insurance pays.
- Become effective over the next 6 months.
- Not require new taxpayer funds. The program has only used a small portion of its \$75 billion allocation.

Source: *The Washington Post*



Helping Underwater Homeowners

Underwater borrowers are one of the major driving forces behind foreclosure. It's estimated that one in four homeowners owes more than their home is worth. Economists categorize these borrowers as “high risk” because they can't sell or refinance.

The government is taking the following steps to address underwater borrowers:

1. **Principal Reduction.** Lenders will be asked to reduce the principal loan balance if it is 15 percent or greater than what the home is worth. This will only be available to borrowers who are *current* on their mortgage payments and they will need to stay current to “earn” the full reduction over three years.
2. **FHA Refinancing.** The Federal Housing Administration (FHA) offers refinancing alternatives for borrowers who are underwater and offering incentives for lenders who reduce the principal on primary mortgages by at least 10 percent.
3. **Second Mortgages.** The government will double the incentive amount paid to lenders who help modify second mortgages. Half of all troubled homeowners have second mortgages, which have been an obstacle in providing modifications.
4. **Short Sales.** Incentives to lenders who help troubled borrowers that don't qualify for the program, most commonly a short sale, have been increased.

Source: *The Washington Post*

Energy Efficient Tax Tips

Three Things You Need to Know About Home Improvements to Help Slash Energy Bills and 2010 Taxes

1. Simple qualifying improvements include increasing insulation or insulating items such as door and windows, roofing, skylights, etc. These qualify for a **30 percent credit** on the cost of the item, not installation, **up to** a maximum credit cap of **\$1,500**.
2. Certain big-ticket items have **no maximum credit cap**. The credit is still 30 percent of the cost of the item. These items include furnace, air conditioning, tankless water heater, heat pump, geothermal system, solar or wind installation.
3. It's a tax **credit, not a deduction**. That means it reduces the actual taxes you owe, not your taxable income. Use IRS Form 5695, and hang onto receipts and product labels.

Don't forget to [check](#) your state and local area for additional incentives.

For more info on the federal tax credit, check out: EnergyStar.gov and NAHB.org/efficiencytaxcredit.

For a more detailed report with additional graphs and government action, please see the This Month in Real Estate PowerPoint Report.

In an effort to reduce the impact on the environment, This Month in Real Estate PowerPoint Report is now also available in email newsletter format. Please consider the environment before printing.