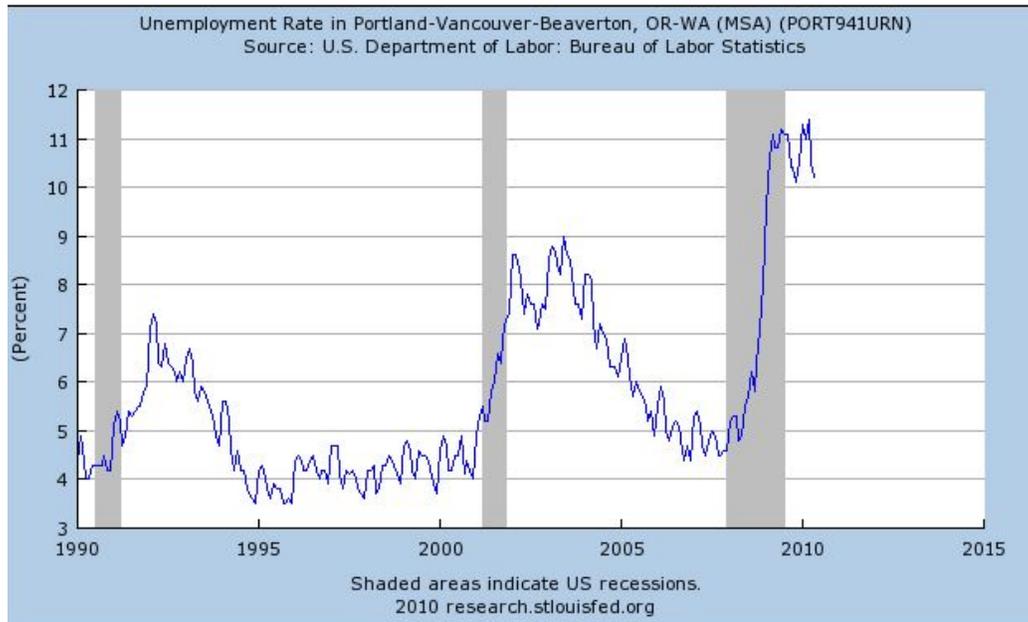




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Real Estate – Time To Jump In?

Inflating the Bubble. During the last decade, real estate boomed to a point of excess, as all assets tend to do when as they become an investor favorite. A confluence of factors fueled the bubble in real estate. At the height of the market, jobs were easy to come by and bank loans were flowing freely. Incomes were steady and rising. High-paying jobs fueled the prices of homes particularly in California and the East Coast. The New York area attracted foreign capital as the dollar weakened. In other regions, second (vacation or investment) homes drove home prices higher and builders were enticed to supply homes for these buyers. Nevada, Arizona, and Florida suffered this fate. Homeowners in all regions of the country were busy refinancing and sapping much of the equity out of their homes in the process. There was no room for error!



Unwinding. Unfortunately, the prices of houses started to deteriorate, and the equation of wealth as drawn up by individual home owners came unglued. The economy started to falter, and the market value of homes fell and loans began to be underwater. Numerous waves of defaults and repossessions have swept and continue to sweep across the country. Unemployment has risen precipitously, causing strain on household cash flow. (See Graph) Banks have tightened lending standards, choking off a previously easy source of funds for many buyers. Home prices have been further pressured by the supply of unsold new homes and by bank-owned properties which often sell below true market value. Single family home sales fell 32.7% in May, after the government tax credit incentive lapsed. The tax credit caused some buyers to accelerate their buying plans, creating a lapse in recent purchases. The government programs set up to help struggling homeowners have been largely ineffective and not well-adopted.



Navigating the road ahead. Now could be your chance to purchase a rental with great cash flow returns or perhaps a second home in a desirable location! Just as sky-high appraisals and rising comparables drove prices higher into the bubble, low appraisals and foreclosures are driving prices down now. In some cases, properties can be purchased below replacement value! Individual investors are coming back into the market as they see opportunities to buy properties at compelling prices and are able to finance them from the rents received. On a very positive note, mortgage rates are at all time lows, giving buyers a golden chance to purchase homes and pay a very low APR on their investment.

One more shoe to drop? Tread carefully through the current real estate investment options, always keeping in mind that rates could rise. This would pressure the asset class again and keep a lid on home price appreciation.

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