

June 2010

Much is being said about the market's continued drop in home values in Northern Nevada, which is a very serious issue. The reality is values will stop dropping and, over time, will steadily rise. Here's why:

1. Home Affordability. Home ownership is not for everyone and solving today's housing problem by making homes affordable to all is not the solution. Not everyone should own a home or even cares enough to maintain and protect their investment. Affordability refers to those that do want to own a home. By 2006, home affordability had fallen to less than 10% of the market without continued support of "funny money" from Wall Street and the major home loan banks and financial companies. Today, per the Kiplinger Letter, "it takes about 18% of the typical household income to meet principal and interest payments on a single family home, which compares well with the long term-term average of 26%".
2. Home Costs. By 2006, a home that cost \$600,000 was a very average home. That home with 20% cash down had a principal and interest (P.I.) cost of \$2,955 per month. Today the same home with 20% cash down has a P.I cost of \$1,590 per month. Essentially that is a 50% reduction in the amount of income needed to qualify for a home purchase. Thereby the number of qualified buyers has skyrocketed.
3. Banks are lending and are slowly moving away from their ultra hard line lending requirements of two years ago.
4. As of June 1st we have a total of 1,725 homes for sale and 1,800 pending sales. In the last 12 months our market sold 5,547 homes that compares well with the June '01-June'02 market of 4,463 homes sold. Without using any assumption for outside growth (i.e. new companies moving in, people retiring and moving here, new companies hiring, etc.), we have the internal buyer base to buy the majority of homes available in our market. With a population of over 300,000 we need only 3.3% of our population to purchase real estate in any given year to absorb 80% of our homes. The fact is that Reno/Sparks housing is now priced at 1999-2001 values and we have created an entirely new market for our property. Our inventory for homes under \$300,000 is getting dangerously low and inventory under \$500,000 is dropping as well.



5. A real estate market that can reliably move 80% of its inventory in less than 120 days is a stable market and when we look at sales under \$300,000 we are pretty much at that level now. Homes over \$300,000 and less than \$500,000 will be there by this time next year. That means about 90% of our market will be able to sell in a normal market environment some time soon. (For homes over \$500,000 the market is much smaller and for this letter I am not including those homes).

This is simply the best market for buying that we have seen in 30 years. Fear of prices dropping, fear of bad news, and fear of fear are for those that are not committed to owning and are not motivated buyers and are never going to buy anyway. We have ALWAYS had negative buyers in our market. These are the same voices that in five years will bemoan that fact that they "missed the market". The market is correcting right now, right under your nose. The papers are showing two more predicted foreclosure cycles and we even know the dates to expect the foreclosed homes. That's right, two more and none to follow.

Your perception is your reality, so if you wish to tout all of the reasons why the market is bad, then it's bad. For the rest of you, the light at the end of the tunnel has been reached. The road, already rough, will not feel better for some time but we are on the road to recovery, we turned the corner sometime in the last 90 days and it is going to take another 10-12 months to fully get around the corner. No, I am not predicting a sharp rise in home values but I am predicting that buyers will stop discounting the best homes with impunity because they will simply no longer be able to. That will be the start of gaining lost ground and I do expect it to be a painful process but it is happening.

An interesting observation that I and other agents have had with buyers is that it has become increasingly hard to find a home that a buyer is willing to buy. One complaint frequently heard is that the home is "over priced" but that has become a hackneyed phrase all too often used by buyers that are only able to afford X amount and expect a seller of a more valuable home to reduce to their price "just because". In 2007-2009 that was often true but no longer.

Today when a home with good value and good price is coming on the market under \$500,000 the likelihood of getting a fast showing and an offer in under 30 days is becoming much more common with little if any discounting of the price. Buyers are learning fast to pay a good price for good homes. That is Step One in building a value base and it is happening right now, today.

Where are the very best values in a home today? True luxury homes over \$750,000. Today you can buy many true custom homes that have really great quality (not overrated track homes) in which the land the home is on is free. Even with the lower cost to build, today many of these homes are so far below replacement cost that it is ridiculous; the land they are sitting on is basically free. Even after updating these homes they are \$200,000 or more below replacement costs in many cases.

Turn off the news, yes you really can live without Fox for a few months, stop living in fear and buy value and get into the market, or you can endure hearing your less fearful friends bragging in the holiday Season of 2015, about their home they bought way back in 2010, when the market was so good and the buys were so great and the money was so cheap.

Kind regards,

A handwritten signature in black ink that reads "David Morris". The signature is written in a cursive, flowing style.

David Morris
CRS, CRB, CLHMS