

May 2009

We are trying out a new look and feel to our newsletter this month. Gone are the hard to read numbers and in their place are graphs that I hope are easier to read and to understand. All of the graphs will be linked to our blog. Please let me know what you think about the new approach.

In February I said that if we kept up the pace of sales we were experiencing, some areas of our market could actually experience a shortage of inventory. Though we are not there yet, in the lowest price points we are closer than many realize. Sales are up in many areas while prices are down, consuming inventory is critical to moving forward and out of this current market cycle.

On May the 1st Reno/Sparks had 2,137 homes for sale, 1,327 homes in escrow and 1,280 homes had closed escrow. Anyway you cut it those are good numbers. Homes under \$300,000 are selling fast and homes under \$500,000 are selling fair to well, and homes over \$500,000 are very slow.

The banks have lots of money to lend but the borrower must not only be golden, they really need to be platinum if they are going to get a jumbo loan (loans over \$417,000) today and they need to be prepared to come up with as much as 30% down, reserves and very low outside debt. Lending requirements are actually stiffer than we have seen in 40 years and very well may prove too restrictive. The current approach to lending is clearly affecting the recovery of the market as well. The banks have swung from one extreme to the other and we can hope that in time a balanced middle ground will again appear.

As you can see on the charts, the sales did come at the expense of reduced values but what goes down will eventually work back up over time. Many sellers are now saying that they believe that if not next year, the year after they can recover their lost values over the last three years. I have included a rather simple chart to help all of you calculate just how long it will take to recover a 40% drop in values. Unless you truly believe that somehow the U.S. (and especially Nevada) is going to experience 10% growth in every year for the next three years, any recover is seven or more years out. [NOTE: 3% is the base rate for Reno over the last 20 years and that is a fair and reasonable measurement for the future].

What is important is while one can wait to get back to the height of the market, in time they risk that the market may or may not make it to that point in the next decade, but what I can say with certainty, is that everyone buying today will ride



that same wave and will realize a real gain without having to worry about the market failing to reach a specific height, in a specific time.

Homes under \$300,000 dominate the market. Home under \$500,000 are the next group to show activity but pale in comparison to the first group and homes over \$500,000 are having a very rough time. Any home that can be reasonably purchased using FHA loans (loan limit \$403,000) are selling very well.

It will not be realistic to expect the banks to make any substantial changes in jumbo loans in 2009 and probably early 2010. We can expect 720-740 FICO scores, 25%-30% down and liquid cash reserves of 10% and 40% to be standard. Appraisals will be weighted to the low end of the market. Come July, a whole new set of regulations are set to hit the market and all financial institutions and the entire real estate industry will have to comply.

Right or wrong, all of this tells me we are in the bottom of the trough. Anyone not buying now will miss the boat much sooner than they realize. For those waiting for a bounce, well, it is not going to happen; more like a dribble is what we are going to see but that dribble will grow to a solid 3% by late 2011. I am also expecting a crunch in inventory as well by 2011. The days of grazing a vast field of unsold homes is fast coming to an end. 2009 is the year to buy. Interest rates should stay low for all of 2009 but watch out by late 2010 to early 2011, the rates will go up. Sellers can sell and move on with their lives and buyers can buy at great values now. The gloom is behind us, we have a troubled road ahead but it will get better and better over time.

Have a great May and talk to you in June.

Area key for charts

161=West Southwest	163=Southwest	165=South Suburban
171=Southwest Suburban	121=Northwest Suburban	122=Somerset
143=South Meadows	182=Sparks Suburban	183=South Spanish Springs

Give us a call if you have any questions about this month's charts, 775-828-3292.

Kind regards,



David Morris