From the desk of
William C. Ring, President

Real Estate Newsletter

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"If you can't explain it simply, you don't understand it well enough"

Albert Einstein (1879 – 1955)

The Housing Crisis Is Over… *by Cyril Moulle-Berteaux, managing partner of Traxis Partners LP, a hedge fund firm based in New York*

The following article appeared in a recent issue of the Wall Street Journal. I, and many others, am starved for positive news about real estate so I could not pass up the opportunity to send this on to you (abbreviated).

The dire headlines coming fast and furious in the financial and popular press suggest that the housing crisis is intensifying. Yet it is very likely that April 2008 will mark the bottom of the US housing market. Yes, the housing market is bottoming right now.

How can this be? For starters, a bottom does not mean that prices are about to return to the heady days of 2005. That probably won't happen for another 15 years. It just means that the trend is no longer getting worse, which is the critical factor.

Most people forget that the current housing bust is nearly three years old. Home sales peaked in July 2005. New home sales are down a staggering 63% from peak levels of 1.4 million. Housing starts have fallen more than 50% and, adjusted for population growth, are back to the trough levels of 1982.

Furthermore, residential construction is close to 15 year lows at 3.8% of GDP; by the fourth quarter of this year, it will probably hit the lowest level ever. So what's going to stop the housing decline? Very simply, the same thing that caused the bust – affordability.

The boom made housing unaffordable for many American families, especially first time home buyers. During the 1990's and early 2000's, it took 19% of average monthly income to service a conforming mortgage on the average home purchased. By 2005 and 2006, it was absorbing 25% of monthly income. For first time buyers, it went from 29% of income to 37%. That just proved to be too much.

Prices got so high that people who intended to actually live in the houses they purchased (as opposed to speculators) stopped buying. This caused the bubble to burst.

We are, of course, experiencing a serious housing bust, with serious economic consequences that are still unfolding. The odds are that the reverberations will lead to sub-trend growth for a couple of years. Nonetheless, housing led us into this credit crisis and this recession. It is likely to lead us out. And that process is underway, right now.

More Positive News…

On May 6, 2008, there was a BIG change in the new conforming/jumbo rates for loan amounts between $417,001 and $729,750. The rates were lowered to be the same as a normal conforming loan. The loans are only allowed on the 30 year fixed and 5/1 adjustable and here are the current rates:

30 yr fixed: 5.75% with 1 point, 6.125% with 0 points
5/1 ARM: 5.00% with 1 point, 5.50% with 0 points

I think you will agree that $700,000+ at 5% may help sell a home or two. Please call me with any questions or if you would like to consult with our mortgage ally, United American Mortgage.

Please contact me anytime regarding your real estate needs or questions; commercial or residential. And, remember that the highest compliment I, or anyone, can receive is the referral of my name to your family, friends and business associates. Thank you for your trust.

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