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This Article

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5 signs real estate recovery is near

Housing bulls sound off

BY BERNICE ROSS

This is the first of a two-part series.

David Stevens, president and CEO of the Mortgage Bankers Association, is bullish on homeownership.

Stevens -- a former Long & Foster Cos. executive who stepped down as head the Federal Housing Administration (FHA) in March -- thinks there's sunshine on the horizon and it may be here sooner than anyone realizes.

A few days ago I had a chance to interview Stevens about his take on where we are in terms of a real estate recovery. I also asked if he had any good news he could share in light of the constant onslaught of bad economic news. Here's what he had to say.

1. **Markets are stabilizing**
According to Stevens, the real delinquency rate is down from 10 percent in the second of quarter of 2010 to 8.5 percent in the second quarter of 2011. New foreclosure starts are also down. In addition, three of the hardest-hit states for foreclosures -- Florida, Nevada and Arizona -- are also stabilizing. Furthermore, for standard fixed-rate loans, the delinquency rate was 6 percent in 2010. That number has dropped to 5 percent in 2011. As Stevens put it, "This is very close to being in 'normal' territory."

2. **Many markets are experiencing real home-price growth**
The problems with negative equity and declining prices are actually concentrated in a few key states. For example, 24 percent of the foreclosure

activity is concentrated in Florida, and 50 percent of the foreclosure activity is in five key states. Stevens says that people who quote declines in the average price of homes nationally are using "dangerous data," since each market is different.

According to Stevens, price declines are not a national problem. "The fundamentals are better than ever." In fact, if you remove the foreclosure properties from the equation, non-distressed properties have actually experienced an increase in prices.

The challenge is consumer sentiment. People are scared to purchase now because they don't know whether they will have a job. Nevertheless, for those who are willing to purchase in this market, the opportunity has never been greater.

3. **The best time ever to buy**
Many people view the cost of homeownership based exclusively on the price they pay for the property. A more accurate way to judge the cost is how much you paid plus the cost of the interest that you pay over the term of the loan. To illustrate this point, assume that a buyer is going to purchase a home with a $200,000 loan. The interest rate is 4 percent. Many buyers are worried about prices falling further. If the prices were to decrease another 5 percent, that means that the property would decline in value by approximately $10,000.

If interest rates increase from 4 percent to 6 percent, the cost of waiting is extremely high. Over the life of a 30-year loan, the borrower will pay $87,937 more in additional interest. The cost of owning that home costs a whopping $77,937 more than the apparent $10,000 they might have saved by buying at the bottom of the market.

4. **The coming home shortage**
Stevens says that there are two primary factors that will contribute to a home shortage in the not-too-distant future. The first of these factors is the size of Generation Y (those born between 1977 and 1994), which is estimated to be approximately 80 million, or 25 percent of the U.S. population. They are now entering their prime time for starting their careers, their families, and for buying a home.

The second variable is supply. There has been virtually no new construction, despite the predicted explosion in population growth. To illustrate the severity of this problem, the 2010 census put the U.S. population at approximately 309 million. By 2050, the prediction is that the U.S. population will be 439 million. That's an increase of 130 million people in just 40 years. Regardless of whether they own or rent, they will still need housing.

5. **Getting from here to there**

Stevens believes the major challenges we are facing in the short term are job creation and dealing with the tight credit situation. The government-sponsored enterprises of Fannie Mae and Freddie Mac, as well as FHA, have tightened lending guidelines to such a degree that is extremely difficult for even well-qualified buyers to obtain a loan.

Furthermore, the tremendous amount of new regulation creates additional problems. For example, the Dodd-Frank bill alone adds more than 100 new regulations. Each of these regulations creates additional risk resulting in higher costs for the both the borrower and the lender. Lenders have to alter loan documents, create new systems, and retrain their people to handle these new requirements. Furthermore, the effect of "piling on" more and more regulations increases the cost to consumers, as lenders must defend themselves against additional litigation risks.

According to Stevens, real estate is now at bargain levels that we will never see again in our lifetimes. If there were ever a time to buy a home, that time is now.

If you would like more reasons to be bullish on real estate, see Part 2 on Thursday.

Bernice Ross, CEO of RealEstateCoach.com, is a national speaker, trainer and author of the National Association of Realtors' No. 1 best-seller, "Real Estate Dough: Your Recipe for Real Estate Success." Hear Bernice's five-minute daily real estate show, just named "new and notable" by iTunes, at www.RealEstateCoachRadio.com.