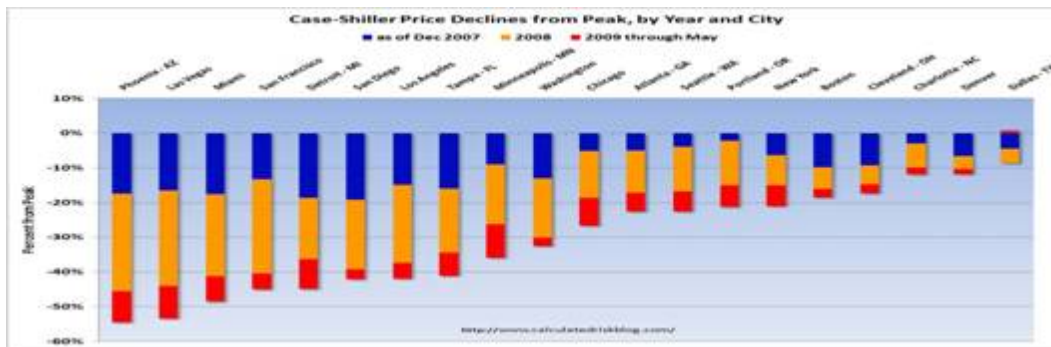


THE MORTGAGE CORNER

A Real Estate Bottom?

May's Case-Shiller home price index is out. It shows price increases for 13 of the 20 MTAs surveyed—12 cities when prices are seasonally adjusted—for the first time in 3 years. This is significant because it is the index that takes into account properties with jumbo as well as conforming loan amounts. HUD's price index for conforming loan amounts has been level or positive for several months.

So, have we finally hit the bottom for real estate values? Actually, Dallas is the only city with price increases since January. It is just in the last month that 13 cities have shown month-over-month increases, vs. 8 cities with increases from March-April.

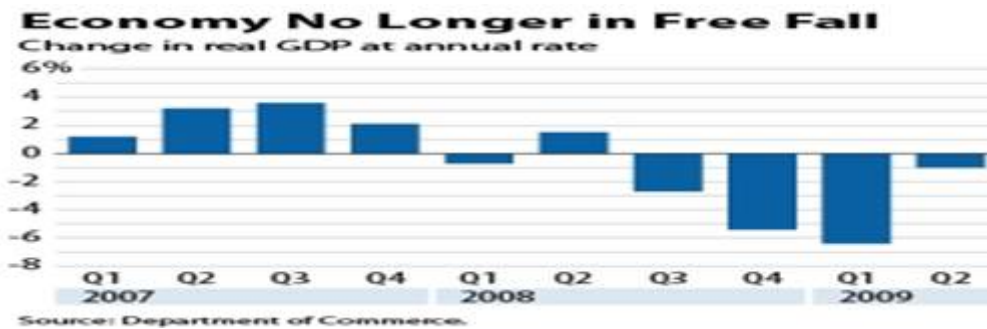


This trend will probably continue as the lower end of the market recovers first. Cleveland had the largest price increase, +4.1 percent, while Las Vegas values continue to plunge, down -2.6 percent from April to May.

| Metropolitan Area | May 2009 Level | May/April Change (%) | April/March Change (%) | 1-Year Change (%) |
|-------------------|----------------|----------------------|------------------------|-------------------|
| Atlanta | 105.69 | 0.3% | 0.3% | -15.0% |
| Boston | 148.77 | 1.6% | 0.4% | -7.2% |
| Charlotte | 119.80 | 0.9% | -0.5% | -10.0% |
| Chicago | 123.68 | 1.1% | 0.0% | -17.5% |
| Cleveland | 102.11 | 4.1% | 1.2% | -6.2% |
| Dallas | 116.54 | 1.9% | 1.7% | -4.1% |
| Denver | 123.78 | 1.3% | 1.5% | -4.6% |
| Detroit | 70.05 | 0.2% | -1.5% | -24.5% |
| Las Vegas | 109.49 | -2.6% | -3.5% | -32.0% |
| Los Angeles | 159.18 | -0.1% | -0.9% | -19.8% |
| Miami | 144.59 | -0.8% | -2.0% | -25.2% |
| Minneapolis | 109.77 | 1.2% | -0.8% | -21.7% |
| New York | 170.51 | 0.0% | -1.6% | -12.2% |
| Phoenix | 103.56 | -0.9% | -2.2% | -34.2% |
| Portland | 146.97 | 0.1% | -0.6% | -16.3% |
| San Diego | 145.06 | 0.4% | -0.1% | -18.5% |
| San Francisco | 120.16 | 1.4% | 0.6% | -26.1% |
| Seattle | 148.96 | -0.3% | 0.2% | -16.6% |
| Tampa | 140.35 | 0.0% | -0.7% | -20.8% |
| Washington | 169.49 | 1.3% | 0.8% | -14.9% |
| Composite-10 | 151.00 | 0.4% | -0.7% | -16.8% |
| Composite-20 | 139.84 | 0.5% | -0.6% | -17.1% |

Both new and existing-home sales also rose in June—new home sales are up 11 percent, the highest total since November 2008. Should the trend continue, we can officially call a bottom to real estate values.

The economy is also beginning to turn, with second quarter Gross Domestic Product shrinking just 1 percent, vs. the 5-6 percent drops of the past 2 quarters. Most of the improvement in growth was because corporations have to replenish their depleted inventories. The latest revision to historical GDP growth by the Commerce Dept. shows that economic growth has averaged 3.4 percent since 1929. This belies the alarmists on Social Security. If that growth rate continued (vs. the 2.6 percent rate assumed by social security trustees), Social Security would not run out of funds by 2042!



Lastly Pending Home Sales put out by the National Association of Realtors also showed improvement for the fifth consecutive month, the longest streak of improvements in 6 years, according to the NAR.

Lawrence Yun, NAR chief economist, said a combination of positive market factors is fueling the gains. “Historically low mortgage interest rates, affordable home prices and large selection are encouraging buyers who’ve been on the sidelines. Activity has been consistently much stronger for lower priced homes,” he said.

Housing affordability remains very favorable. The NAR’s affordability index stood at 159.2 in June, down from record peaks in recent months but it remains 36.6 percentage points above a year ago. Under these conditions the typical family would devote just 15.7 percent of gross income to mortgage principal and interest for a median-priced home of \$182,000, well below the standard allowance of 25 percent.



This is the selling season, of course, so we would expect home sales to rise. It remains to be seen whether prices continue to stabilize. This will depend not only on the job market, but whether personal incomes and spending are on the increase. Real incomes have been rising of late in part due to the low inflation rate, but consumer spending is still declining as consumers continue to save more than they spend.