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Answers to Questions about the Real Estate Market

Since there is a lot of uncertainty regarding the current real estate market, mortgage rates and the economy, we thought it prudent to provide you pertinent information regarding such. Here then, are answers to some commonly asked questions:

What are the sales volume trends for 2010? The year-end results for 2009 showed a rebound in the local Houston real estate market. The question though; was this real and what do the numbers really mean? A quick look reveals that a good deal of the increase in the 4th Quarter probably resulted from the First-Time Homebuyer Tax Credit, not from a significant increase in home demand. It is estimated nationally, that over 350,000 homes were purchased because of the tax credit that would not have occurred otherwise.

Home Sales Volume for all of 2010 will probably stay about even with 2009 levels despite the tax credit, historically low mortgage interest rates and somewhat diminished prices. However, 2010 should represent the bottom of the cycle with sales volume roughly equivalent to the 2001-2003 period.

What will be the impact of the Tax Credit in 2010? We may witness some volatility in the number of Sales Volume where the first half of the year could be at the expense of the second half of the year.



We expect that the federal government will try to create a sense of urgency as we approach the April 30 deadline. If they are successful, that will create an exceptional wave of buying before the deadline, which would be followed by several sluggish months after the credit expires. This would mirror the "Cash for Clunkers" program.

What else will affect sales volume this year? Employment gains or losses. If the state continues to lose jobs, as it did in 2009, total home sales volume most likely will feel the impact.

What is the forecast for Interest Rates? Mortgage interest rates are likely to rise during the year as the Federal Reserve increases rates across the board. The reason is that the Federal Reserve is currently buying virtually every mortgage originated in the country. Experts estimate that this buying spree is keeping mortgage rates about 0.5% to 1% lower than normal. When the Fed stops buying, the rates will go up. The increase could discourage some Buyers, although by historical standard, the rate will still be relatively low, probably around 6% or slightly more by year end. However, if Buyers feel that rates will continue to rise, this could actually stimulate purchases because Buyers rush to buy before rates go even higher.

Where are home prices headed? Texas, and Houston in particular, has been fortunate for the past couple of years with fairly stable home prices. The median home price stayed essentially flat from 2007 to 2008 and the projected year-end 2009 median is expected to be roughly the same. The 2009 statewide median should be about \$146,000 which is about \$900 lower than 2008's median price. This is because Texas did not experience a price bubble during the housing boom and consequently, has not had a price bust. On a seasonally adjusted basis, FHFA reported that Houston had the highest five-year rate of home price increase among the 25 largest metropolitan areas in the country at 22.2%. The five-year increase in Texas was 19.1% compared to the U.S. at 4.7%. And if job losses cease during 2010 and foreclosure ebb, there is

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