



Metro Atlanta Sees Market Bottom!

Metro Atlanta Homes Values Are Past The Bottom.

Tuesday, May 25, 2010

One of the common questions for buyers and sellers of real estate in metro Atlanta is, “*When are we going to hit the bottom for home values?*” The challenge of predicting any market bottom is that you never really know when you have seen the bottom until you are already past it. **We are officially declaring that we are past the bottom of home values for metro Atlanta.** Home affordability remains exceptional with selling prices below replacement costs, historically low mortgage rates and great selection – but these conditions will not last!



Let us make a few caveats before we explain our position and why we are making these statements. First, we are specifically speaking about “home values” versus “average sales prices.” Average sales prices only reflect the mean prices of homes that are selling. Home values reflect the values of all our properties – whether they are on the market or not. Second, real estate is local and every local market is different. The numbers we will be discussing are for the overall area of metro Atlanta. Your Prudential Georgia Realty agent can help you understand the latest facts and trends in your local market.

Now to the news! The latest Case-Shiller Index was just reported for metro Atlanta. Case-Shiller tracks home values for 20 major markets around the country. This index has tracked metro Atlanta home values since 1991. Case-Shiller reports the last Tuesday of each month and is always 60 days in arrears. For example, the May report shows the index for March 2010. You can read our monthly blog posts on these results at ATLScoop.com. The peak of our market according to Case-Shiller was July of 2007. Based upon the March 2010 index, our home values are down 23.98% from that peak. The good news is that we are past the bottom. The bad news is that our home values are still down considerably from the peak. There are some sellers in the market today that have not faced the reality of these value adjustments. Those properties are not selling and would not appraise even if they received an offer. We are also not predicting a “v-shaped” recovery in home values. We expect a slow and steady increase over the next few years with some ups and downs along the way.

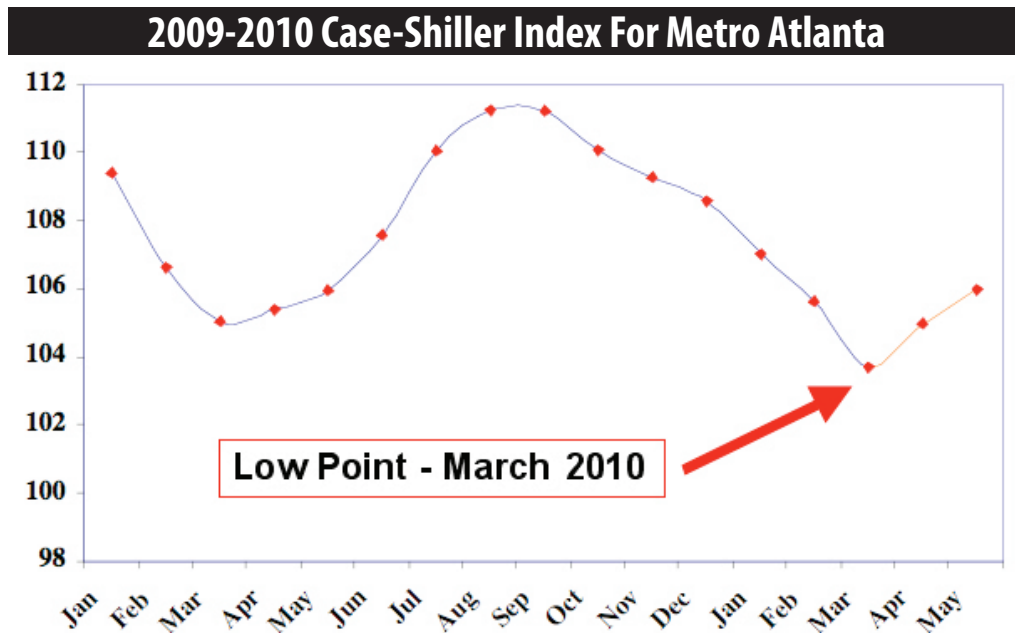
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The bottom of the market according to Case-Shiller was March 2010. The chart below shows the Case-Shiller Index for 2009 and 2010.



The index numbers for April and May will certainly reflect higher since March and April have been very active months for pending sales in Metro Atlanta. The orange line in the chart reflects estimates of April and May. We do not expect the index to drop below the March 2010 levels again. That is why we are declaring that we have seen the bottom.

Let's discuss some of the factors that impact our home values that support our case that we are past the bottom. Home values are driven by the following factors:

- **Market Supply**
- **Market Demand**
- **Mortgage Rates**
- **Replacement Costs**

Market Supply: First, let's look at market supply or inventory levels. It is normal to expect the spring and summer months to have more inventory available, with the fall and winter less active. Those normal trends have been off in the past few years due to the financial crisis and stimulus from the tax credits. Trendgraphix reports that 37,800 properties were available for sale in March and 38,901 in April (All FMLS counties). Compared to 2009, those levels are down 17.2% and 13.8% respectively. Pending sales were up 47% in March and 28% in April. Therefore, some of that "for sale" inventory will be absorbed and lowering the overall supply of inventory.



The other factors that can impact property inventory include short sales & foreclosures, bank-owned properties, “shadow” bank-owned inventory, new home starts and resale properties coming into the market. Short sales and foreclosures currently represent over 50% of the transactions in Metro Atlanta. The RealValuator chart below shows the trends in Metro Atlanta for Pre-Foreclosures, Foreclosures and Bank-Owned Sales in the last 12 months. Pre-Foreclosures reflect properties that have been given a public “notice of foreclosure” which means that they are typically over 90 days behind on payments. Many of these properties become listed for sale as a short sale. A short sale is where the bank agrees to accept less than the outstanding loan amount. New federal rules provide a more streamlined process for short sales so we expect to see more for the next few years. As you can see from this chart, an average of 12,647 properties are receiving notices of foreclosure but only an average of 2831 or 22% are actually becoming foreclosures. Some are negotiating loan modifications, some are listing as short sales and some are simply working out their financial situations.

MarketStat Report - All FMLS Counties							
	Date	Pre-Foreclosures		Foreclosures		Bank Owned Sales	
		Activity	Average Amount	Activity	Average Amount	Activity	Average Amount
7-12 Mos	May-09	10,676	\$308,785	4,061	\$242,811	3,475	\$110,217
	Jun-09	14,217	\$307,193	3,216	\$256,615	4,018	\$137,794
	Jul-09	11,251	\$1,232,429	3,042	\$219,626	2,834	\$123,513
	Aug-09	12,640	\$359,205	2,117	\$172,938	2,529	\$116,439
	Sep-09	14,967	\$250,794	2,335	\$172,917	2,754	\$121,518
4-6 Mos	Oct-09	11,211	\$239,204	3,314	\$229,353	2,709	\$121,691
	Nov-09	11,328	\$262,698	3,209	\$198,818	2,939	\$127,720
	Dec-09	13,254	\$289,642	3,459	\$351,926	3,448	\$161,000
1-3 Mos	Jan-10	10,673	\$432,044	3,635	\$198,717	2,246	\$110,982
	Feb-10	13,169	\$310,523	2,620	\$217,131	2,449	\$115,440
	Mar-10	16,449	\$291,974	2,699	\$238,617	2,662	\$115,135
	Apr-10	11,932	\$269,259	270	\$445,609	477	\$125,626
Grand Total		151,767	\$379,479	33,977	\$245,423	32,540	\$123,923

The economy and unemployment are showing slight improvements so we expect to see the pace of short sales & foreclosures slow down but not stop. Inman news reports that an estimated 7 million homeowners nationally are behind on their payments or already in foreclosure. Lender Processing Services reported that 16% of loans in Georgia were non-current, ranking Georgia the 7th worst state in the country behind Florida, Nevada, Arizona, Mississippi, California and New Jersey. As you can see from the chart above, the rate of properties becoming foreclosures and the rate of bank-owned sales are about the same averaging 2831 and 2711 respectively. Therefore, we are absorbing our current inventory of bank-owned properties listed for sale.

That brings us to the “shadow inventory” of bank-owned properties. RealtyTrac estimates that as much as 75% of the foreclosure properties nationally are not yet listed for sale. Others report slightly smaller estimates but the numbers are still very large. So the question is – will the banks flood the market with these listings? Industry analysts do not expect this to happen and we agree. We expect the banks to slowly bring this inventory to market since they do not want to dilute their own values with too much supply. We also believe that these numbers are inflated as many bank properties are actually listed but not identified as a bank-owned property in the listing services. Regardless, we expect to see short sales, foreclosures and bank-owned properties impacting our market for the next 2-3 years.



Metro Atlanta homes values were severely impacted by the burst of the new homes bubble in Metro Atlanta. We provide a detailed explanation of this on our video reports on AtlantaRealEstateChannel.com – your local source for real estate news. Metro Atlanta was averaging 50,000- 60,000 new home starts per year and was one of the top new homes markets in the nation. In 2009, new home starts were under 8000 for the year. SmartNumbers reports slight signs of improvement with 1900 new home permits in Q1 2010 versus 1270 in Q1 2009. That is an increase of 50%. We expect a very slow increase in new homes inventory over the next few years. Credit is still very tight for builders. This will help absorb the rest of the inventory.



We expect to see sellers of resale properties continue to enter the market at a slow pace. We believe there are a significant number of sellers that would like to list and sell their properties but do not like the current market prices. As home values slowly increase, we expect to see this “sideline inventory” enter the market. A 2009 study by Zillow estimates that 8% of homeowners would be “very likely” to sell if local home values improved. Again, we do not expect these sellers to flood the market.

Market Demand: The Home Buyer Tax Credits are now expired. We do believe that the first time home buyer tax credit did create some demand – especially in late 2009. We may see a slight dip in May reflecting some transactions that were artificially pended earlier in April due to the expiring tax credits. However, the overall activity in the spring is very robust and we do not expect a significant drop in demand. One of the biggest drivers impacting demand has been concerns over the economy and jobs. As we see slow but sure improvement in the economy and unemployment, we will see more buyers come back into the market. Prudential Georgia Realty offers a Job Loss Protection program that can allow buyers who have job concerns to buy now while prices are lower. The program provides the equivalent of a \$12,000 rainy day fund in the event of an involuntary job loss. Details are available at GetJobLossProtection.com.



Metro Atlanta continues to be a great place for businesses. That means we will see more companies move here or expand in our local area. KPMG just released a new study that ranked Atlanta as the least expensive large city to operate a business. The study included metrics such as costs for office leasing, transportation, labor, and employee benefits, along with a favorable effective corporate-tax rate. Examples include companies like NCR, Delta/ Northwest, Kaiser, UPS, GE Power Systems, Merial, Wendy’s/Arby’s Group, Novelis, Newell Rubbermaid, Rayovac, Travelport and First Data

Corporation. The slow market for commercial real estate actually makes our area more attractive for businesses. The Hartsfield Jackson International airport allows business travelers to more easily get to virtually any destination in the world. Prudential Georgia Realty is the leading corporate relocation provider for businesses in Metro Atlanta.

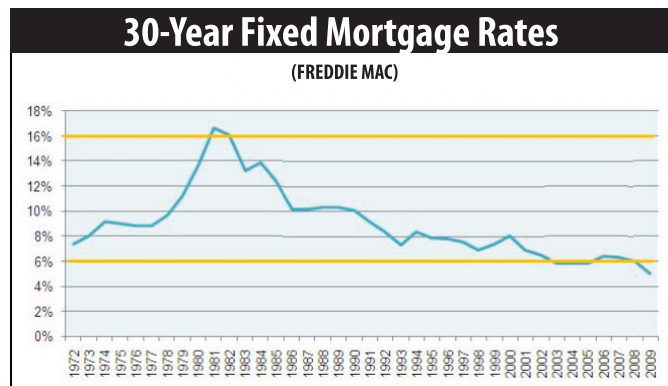
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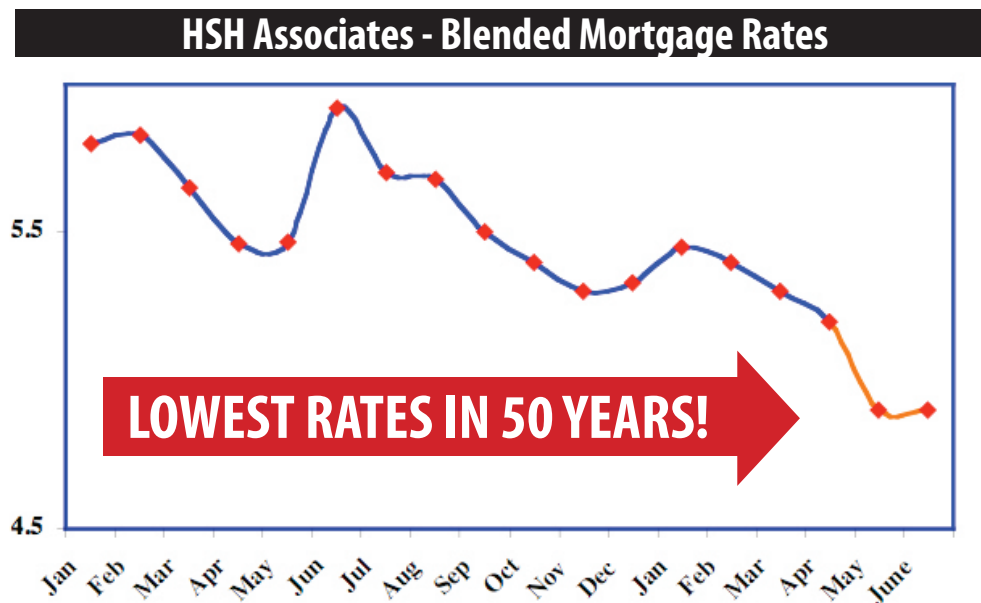
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Mortgage Rates: Mortgage rates are currently at the lowest levels in 50 years. The chart below shows mortgage rates from Freddie Mac since 1971. Many of us remember the early 1980s with mortgage rates in the high teens. We have enjoyed historically low mortgage rates for several years now. The previous lending environment where 100% loans were available without requiring verifiable documentation is gone. Now, we are back to the way it was before this mess. Mortgages are available but require a real down payment, a decent credit rating and verifiable employment.



In March, the fed ended their program of purchasing these securities. Analysts predicted that rates would increase to 5.5% by the end of summer and 6% by the end of 2010. However, the financial crisis in Europe, growing concerns about the global economy and the potential conflict between North and South Korea created a flight to safety. Investors across the world are now buying US treasuries again. The result - the lowest mortgage rates in 50 years!

The chart below from HSH Associates shows rates the blended (conforming and jumbo) rates for 2009 and 2010.



Most industry analysts expect mortgage rates to remain historically low for the spring and summer months of 2010. However, economic markets and politics work in cycles. We expect to see the economy improve slowly over time. We also have concerns about the long-term viability of the secondary market for mortgage securities. Now add the looming federal debt. At some point, mortgage rates will rise. It is likely that 2011 and 2012 will see rates above 6%.

Replacement Costs: The reality is that properties priced to the current market are available at prices well below their replacement costs. We expect that to be the case for an extended period. When the new homes machine in Atlanta was booming, land costs began to rise. Land was historically around 17% of the overall purchase price of a new home but zoomed to over 35% in 2006. That is when the bubble burst. Today, builders can buy foreclosed lots from banks for much lower prices. However, many of their other costs are higher. The slower demand caused sawmills to close. The National Association of Home Builders estimates that lumber prices increased as much as 70%. Labor costs can be lower with some unemployed workers more willing to work for less. But many skilled resources have left the market for other employment opportunities. That makes unique skills more valuable and more costly. In the end, building costs are driven by supply and demand. New home starts will remain low for an extended period and the “cost per square foot” to build will be higher than short sales, foreclosures and motivated resale properties. That said, buyers love new homes so there will always be demand for these properties.

In Conclusion: When you look at this full picture, the case is clear. Metro Atlanta home values have seen a bottom and we do not expect to test our March 2010 low point again in the foreseeable future. Mortgage rates will remain historically low for now, but are expected to climb over time. Mortgage rates have a tremendous impact on our purchasing power. If mortgage rates rise from 5% to 6%, buyers will see a 20% loss in purchasing power. Now translate that to purchase price. That means your monthly payment for a \$240,000 property now only affords you a \$200,000 property. If you were going to buy a \$500,000 property, your monthly payment will now only support a \$417,000 property. There are thousands of potential buyers in Metro Atlanta that will look back 5-10 years from now and want to kick themselves for missing this incredible opportunity to buy residential real estate. Remember, the way to make money is “buy low and sell high!” The combination of low prices (below replacement costs) and historically low mortgage rates make this an unprecedented opportunity.

Lower Mortgage Rates Increase Buying Power!



Please contact your Prudential Georgia Realty agent to get started today.

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