The Money Marathon - January 2011-WHAT DOES THE HOUSING CRISIS MEAN FOR HOME PRICES HERE?

*Kiplinger's Personal Finance Magazine** and the *Wall Street Journal** had some interesting statistics on the national home crisis. These articles made me think I should see how national statistics compared to what has happened locally. First, let's recap what has happened nationally since the bubble burst in home prices.

According to Kiplinger's, since the downturn started in mid 2006, the median home price nationally on average dropped 30% from peak to trough. At the time of this article prices had recovered slightly and were down 27% from their peak. Midland Texas homes have actually gone up 30% in that time which is the best in the country and the worst is Merced California in which housing prices have dropped 67%. However the forecast for the median home price was to drop another 7.1% by June of 2011. According to the WSJ, for every $1 drop in housing wealth, consumers reduce spending by about 5 cents in the next 18 months.

Kiplinger's magazine reports that the median home price nationally is valued at $177,000 with the least expensive area being Detroit at $52,000 and the most expensive being San Francisco at $725,000. (As a side note, I can't tell you how happy I am I don't live there for multiple reasons.)

One house in every 139 is involved in the foreclosure process nationally with the highest rate being Las Vegas at 1 in 25 and Utica/Rome New York being the lowest at 1 in 8,003 (those people must have great credit scores.) Nationwide 23% of all homes have negative equity. That means if you owe $50,000 and your home is worth only $40,000 you have $10,000 negative equity. In Phoenix, 56% of homes have negative equity. In both Pittsburgh and Philadelphia, less than 7.5% have negative equity.

Home sales were down 19% nationwide with St Louis being near the worst at down 28%. Oakland was the best with up 18%. Foreclosed homes account for one third of all sales with an average of a 26% discount. There are 4 million homes that are 90 days or more delinquent and at least half of those will ultimately end up for sale which should take a couple of years to work through this excess inventory.

I visited with a local realtor concerning housing prices here in town and here is what I learned. Generally, it is difficult to prove that home prices here in Chillicothe have declined. Of course they didn't go up nearly as fast as what was happening nationally, especially not like Las Vegas or Phoenix. Nationally, prior to the crisis, homes had historically appreciated at a 4% rate. Here in town my expert's best guess was 1 to 2%.

Although home prices have not gone down on average, my realtor friend indicated that the time it takes to sell a house had increased from 3 to 6 months to 9 to 12 months. Since sales have slowed everywhere, when there is a distressed home sale that sells at a discount, that does tend to affect other houses in the neighborhood because of a small number of comparable sales in a small town like ours. Some newer homes also have difficult appraising out at a value equal to the cost, particularly with extra nice amenities (example: like granite counter tops).

Additionally, my realtor friend indicated that rents hadn't changed much either with rental units renting for 1% per month of the value for typical rental property. (An example would be a $40,000 unit would rent for $400 per month.)

One thing that has changed positively for home owners, prospective buyers and people who have debt on their homes is that mortgage rates are at historic lows. A 30 year mortgage rate nationally is approximately 4.25%. This low rate means that more people can afford to buy a house at a higher price than if rates were higher which tends to help home prices. I expect rates to stay relatively low for 2011 and possibly part of 2012. If you have a higher rate on your home, explore the possibility of refinancing.

What is my prediction for home values? I still believe a home is a good term investment if it is affordable. (Total monthly payments including principal, interest, taxes and insurance, should not be more than 28% of monthly gross income.) A person buying a home should expect to stay in that home for three to five years or it might be more advisable to rent. Although I think housing prices will stay in a rut until unemployment gradually increases later this year or next, I would ultimately expect home prices in this area to continue to grow at 1% to 2% per year with occasional spurts and slow downs. Additionally, a home, which is real estate, can be a good diversification from a retirement account which is usually composed of stocks and bonds. Most importantly, owning a home makes life a little nicer.

Remember every investor's situation is unique and it is important to review your specific situation with a financial professional.

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*"When Home Prices Will Head Up". January 2011 written by Patricia Esswein,

*WSJ "Housing Recovery Stalls, December 29, 2010 written by Mitra Kalita and Sudeep Reddy