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What I Learned at Last Week's Presentation by NAR's Chief Economist

REAL ESTATE TODAY

By JIM SMITH, Realtor®

Last Wednesday I was among about 150 Jefferson County Realtors who attended a sold-out keynote address by Dr. Lawrence Yun, chief economist for the National Association of Realtors.

Illustrated by 57 PowerPoint slides, Dr. Yun further clarified for us why we should be happy that we're in the Denver metro area and nowhere else.

Here are some of the well-documented points that Dr. Yun made in his presentation. I have placed a link to his full PowerPoint presentation at www.JimSmithColumns.com

1) The sub-prime fiasco was a Wall Street problem. The sooner Wall Street puts it behind them the better. Moody's and S&P both gave AAA ratings to the mortgage backed securities, which Dr. Yun called a clear conflict of interest, to which the rating agencies have yet to confess.

2) Denver's "boom" was three years before the boom in California and elsewhere, and it makes sense that we are already in the recovery phase which always follows.

3) Job growth in the metro area is strong and steady, which always underlies any growth in home sales.

4) The weak dollar has the effect of making American real estate appear to be at a 40% discount for Canadians and Europeans — on top of any price reductions — and Colorado is particularly attractive to many foreign investors.

5) Home buyers see the Fed lowering interest rates gradually and seem to be waiting for further reductions, when in fact there is no relation between the Fed Funds rate and mortgage rates which are as low now (under 6%) as they were when the Fed Funds rate was 1%.

6) There is strong evidence of pent-up demand which will contribute to a housing rebound. This is evidenced in reduced household formation, high job growth, and greater household wealth.

7) Business spending and export growth (due to the weak dollar) will help us avoid recession.

8) Before the recent sub-prime meltdown, sub-prime mortgages represented 20% of the mortgages being issued — roughly the same percentage by which sales have declined now that these mortgages have gone away.

9) FHA loans used to constitute 20% of the mortgages issued, but declined to under 5% at the height of the sub-prime era (2006). FHA loans are projected to be back up to 10% as early as 2009.

10) The dramatic drop in new home construction is a positive and natural development to bring housing supply back into balance with demand.

Dr. Yun concluded by stating that metro Denver is "one of the markets to watch and one of the markets to be on top over the next two years."

What follows are some of my own thoughts and observations from watching this meltdown unfold over the past two years.

It used to be that mortgages were approved based on the borrower's ability to repay, but sub-prime loans were approved based on the ability to sell them to investors of mortgage backed securities. The loan originator got paid at closing, and the lender got paid a few weeks later when the loan was bundled with other loans and sold to those investors who were conned into believing that they were buying a wide (and therefore "safe") spectrum of American real estate. What could be safer?

As I write this on Monday, there has been a huge decline on the foreign stock exchanges, but the American stock exchanges were closed for the Martin Luther King Jr. holiday. The analysts say that these markets, already duped by our mortgage-back securities, doubt the ability of the proposed $150 billion federal stimulus package to avert a U.S. recession. We'll see...

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