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Al Gage Report

ISSUE 99 SEPTEMBER 2015

A Real Estate Bubble?

As real estate prices continue to climb and with the stock market being very volatile, it inevitably begs the question of the possibility of another real estate bubble bursting. Of course all of the gold and silver brokers are strongly predicting a real estate crash!

This is always a possibility. I found an article from back in 2006 which accurately identified and predicted some of the precursor's to that real estate crash. The article cites the following:

When the general public starts to buy property with the intention of making a profit or in the case of 2006, doubling their money in 24 months, the market gets overheated and the bubble becomes unsustainable. Secondly, this giant demand for homes by investors, inherently leads to an over supply of homes for rent. This over supply drives the rent prices down creating a downward spiral in rental prices. When rental prices go down, this naturally reduces the number of buyers in the market because it remains less expensive to rent than to own a home.

The article goes on to say that when the monthly rent received falls below the monthly mortgage payment, that is also a sign of a bubble. The mortgage industries' response to this is to offer lower down payment loans, easier qualification loans, interest only loans and variable interest rate loans. The article goes on to say that these variable rate loans force owner's to sell as interest rates rise either as a result of the rise in mortgage payment (assuming they have equity) or the bank sells the property after it is repossessed. Either way, this scenario floods the market with extra homes. This extra inventory drives prices down on homes and potentially crashes the market in an ever downward spiral until the price hits bottom where investors just cannot resist purchasing the homes.

This scenario is exactly what we experienced in 2007-08.

Now lets compare that scenario with what is happening in our local market.

Our market has jumped and jerked its way back to where it would have been had we never experienced the rapid growth in the early 2000's, the crash of 2007-2011 and the eventually recovery to todays prices. So lets compare our market today as if the crash and recovery had never occurred. In 1996, an Azure model in Rancho Santa Fe sold for $131,000. Today it would sell for approximately $250,000. **That means it has gone up 90.8 percent over the past 19 years or an appreciation rate of 4.78%.** This rate is well within the normal rate of appreciation for what is considered a healthy market.

The rent versus buy equation also works out in the positive compared to the 2007-08 scenario. Rents are currently keeping pace with the increase in prices. One investor client of mine is trying to get out of the rental business to retire. She raises the rent by 15% at every renewal and I sell the ones that are slow to rent. For the first time in many years, we did not sell any of them because they rented quickly.

I also remember that in the crash, a huge majority of the buyers that were driving the demand for homes and thereby rapidly escalating prices were investors. Many of these investors were cashing out their retirement accounts to purchase homes or buying in a highly speculative manner as fast as they could find something to buy. In contrast, our current market surge is dominated almost entirely by buyers seeking to purchase owner-occupied homes using tried and tested methods of financing. **In other words they are normal buyers!** Many of the homes they buy are current rental homes thereby further driving the rental prices up.

According to Lawrence Yun, the chief economist for the National Association of Realtors. "Statistically speaking, housing is on a roll. Year-to-date home sales are up 6.3 percent and prices in May were

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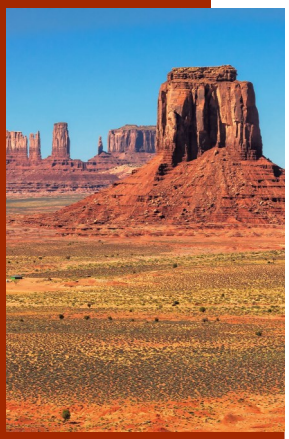


Mobile App For Al Gage

Download the new mobile app from Al Gage and find all of the closest homes for sale, recent sales, rentals and mobile friendly up to date information straight from the MLS system.

Download the app at http://app.westusa.com/WUSA5N9 or scan the image to the left.

*In 2014, Al Gage sold **2.5 times** as many homes as his closest competitor and **4 times** as many as the closest Top Ten in Avondale.*

Continued from page 1

7.9 percent higher than a year earlier. The trends are expected to stay positive and are likely to boost business dollar volume by as much as 15 percent in 2015. These statistics don't even include new-home construction, which is growing at a strong clip as well.

But this rosy picture does raise concerns about affordability. After all, wages are rising by only 2 percent annually and renters are getting squeezed, having to endure 4 percent rate hikes while home prices accelerate more quickly. In addition, mortgage rates have notched their highest level of the year, reaching about 4 percent in June, and should continue to rise well into next year.

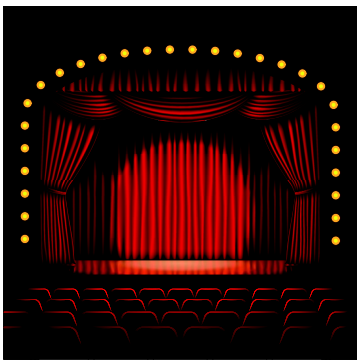
Some armchair analysts have suggested that we're entering a new housing market bubble. But hard facts suggest otherwise. **Underlying conditions today are fundamentally different from the bubble of a decade ago.** Back then, credit was easy to obtain and home sales were running at more than 8.5 million a year (existing and new homes combined). New-home construction volume topped 2 million annually.

By comparison, credit today is extremely tight, which has led to an unusually high level of all-cash sales. Home sales are barely over 5 million and new-home construction is barely scratching 1 million units. Meanwhile, for the past eight years, total mortgage balances have fallen. The reasons show what's changed from 10 years ago: Home owners are paying their mortgages on time and few are seeking cash-out refinances.

It's fair to ask, though, whether at some point affordability problems will choke off home buying. That's possible. But here's my thinking about what could neutralize those fears. After running various scenarios, I expect home prices to rise continuously as long as mortgage rates remain under 6 percent. Early in the summer, the average rate was 4 percent. It may rise to 5.5 percent by the end of next year. Should mortgage rates cross the 6 percent mark, maybe two years down the road, then either home prices will be flat or other forces will be evident. Going forward, keep in mind that robust job creation and meaningful increases in income levels will help propel home prices. For now, though, no bubble or impending crash is in sight."

I know that I do not have a PHD behind my name but everything I can see points to the fact that there is no bubble in sight.

FREE Movie Night



From 1999 to 2007 we hosted a free movie night. We would love to offer this little payback to our community again but the only way we can do that is with your help. If each of you forwards the E-newsletter or the subscription website to your friends and family in the Phoenix, Avondale, Goodyear, Litchfield Park and Buckeye areas, we may reach our goal of 3,500 E-Newsletter subscriptions. When the opt ins reach 3,000 we will fire movie night back up again.

Before After Before

Driggs Title Agency

Want a current and local Market Update go to:
www.algage.com/September2015MarketUpdates.html

FEATURED HOMES

13019 W. Monterey Way

A 2159 model (3Br, 2.5 .Ba) with a pool and many upgrades in Las Palmeras.

Listed by Al Gage for $220,000

12718 W. Catalina Dr.

A 2552 model (4BR, 3 BA, with a downstairs bedroom, pool and built in BBQ in Corte Sierra.

Listed by Al Gage for $285,000

12730 W. Alvarado Rd.

A Prescott model in Rancho Santa Fe with many upgrades and a pool.

Sold by Al Gage for $189,900

12345 W. Sheridan St.

An Azure Model I (2277 S.F. 3 BR, 2 Bath with a pool and 3 car garage on a corner lot in Rancho Santa Fe

Listed by Al Gage for $245,000

12706 W. Cheery Lynn RD

A 4Br, 3 Ba, 2139 SF with granite counters and a pool in Corte Sierra.

Listed by Al Gage for $240,000

12969 W. Verde Ln

A 2159 model (3Br, 2.5 .Ba) with many upgrades in Las Palmeras.

Listed by Al Gage for $205,000

12722 W. Alvarado Rd

A Prescott Model (4 BR, 2.5 Bath) with granite counters, Bl BBQ and a pool in Rancho Santa Fe

Listed by Al Gage for $223,900

22303 W. Morning Glory

A 1096 model (3BR, 2Bath) with fresh paint and new carpet in Sundance.

Sold by Al Gage for $132,500

13013 W. Sheila Ln.

A 1632 S.F. model (3 BR, 2 BA) with a den, solar and a pool in Sage Creek.

Sold by Al Gage for $187,000

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Rita's Corner

TRID (What the heck is that?)

It is yet another brainstorm of the Consumer Finance Protection Bureau, more commonly referred to as the CFPB. It is currently scheduled to become effective on October 1, 2015.

The main difference is that instead of the title company preparing your final closing statement and you seeing it on the day you sign for your loan; now it will the lender's responsibility to prepare it and make sure you see it a minimum of three days before you sign the final documents. There are also some limitations on charges that can change, from what you were initially disclosed.

It has the potential of being a nightmare; but not if you choose a knowledgeable lender who pays attention to the details. You found her!!!

Call me for information about this and other programs. I pride myself on keeping up to date with the ever changing mortgage market.

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