

OPPOSING FORCES

What interest rates and moderating housing prices mean to you

As we begin to see signs of economic recovery, many of us are looking to use lessons learned from the recession to make wiser financial decisions. If you are a potential home buyer, you are likely considering the opposing forces of moderating home values and rising interest rates. How does each affect your bottom line?

Interest Rates

Interest rates have been near 5% for most of 2009 and have been rising slightly over the past several weeks. Though a few percentage points may not seem like much, the graph to the right shows that an increase in just one or two points can diminish your purchasing power by \$100,000 or more. In addition, the cost of borrowing money is on the rise. A homeowner with a \$350,000 loan will pay \$7,000 more in interest if rates rise from 5% to 7%.

Low Home Prices

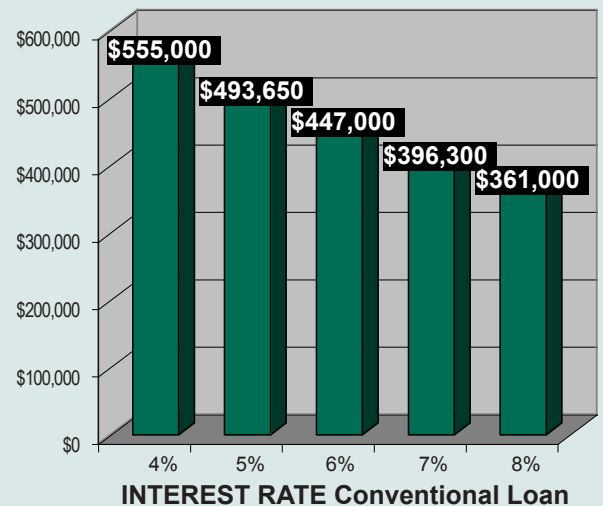
Most real estate markets around the U.S. started seeing price corrections in late 2007. Today, we are seeing greater affordability in almost every region. Many regions that saw declines first are already seeing stabilization, which means home values in the lower price ranges could be on the rise within the year. That said, even if we see further declines, lower home valuations don't hurt as much as high interest rates do.

Long-term Investment

When it comes to wise investment choices, real estate is hard to beat. A recent study by the National Association of REALTORS® found that in ten years, a \$10,000 investment in the stock market would be worth \$23,600 in a normal market and \$35,200 in a bull market. That same investment in real estate would be worth \$110,300.

Whether you're a first-time buyer or a current homeowner thinking of moving up, it's important to weigh the factors: will waiting for the bottom of the real estate market save you money? If interest rates rise, which seems inevitable, how much more will you pay?

INTEREST RATE IMPACT ON PURCHASING POWER



INTEREST RATE Conventional Loan

Example assumes \$120K in annual household income with little or no non-housing debt and good credit scores.

30 YR MORTGAGE INTEREST RATES

6.3%



JUNE 08

VS

5.3%



JUNE 09

Source: FreddieMac

MONTHS OF INVENTORY

JUNE 09

7.3

JUNE 08

6.7

Note: Pended sales of homes and condos (resale) At the May rate of sales, the current available inventory would be depleted in the months listed
Source: SARMLS/Trendgraphix

PENDING SALES

JUNE 2009



-6.5%

JUNE 2008

Source: SARMLS/Trendgraphix

