Real Estate

SATURDAY, MAY 16, 2009

SPRING SELLING SEASON SHOWS PROMISE

BY FRANK DUNNE JR.
SPECIAL TO BLUFFTON TODAY

By most accounts, nothing could be finer than springtime in the Lowcountry. But real estate professionals have more on their minds than beaches, boating, golf, tennis and tourists. Well, perhaps they're thinking of tourists in terms of converting as many as possible into homebuyers.

Spring is traditionally the start of a critical buying season in any market and, although nobody is quite ready to claim that the real estate market is totally emerging from the ashes of the past few years, there are signs that buyers are entering the marketplace after a long stay on the sidelines.

Special to Bluffton Today

A woman waters her new spring plants.

A recent report by the National Association of Home Builders (NAHB) indicates that this is so, pointing to low interest rates, low – and somewhat stabilizing – prices, and the limited-time $8,000 tax credit as the triggers. Data from the National Association of Realtors (NAR) supports NAHB's information. The NAR's latest Pending Home Sales Index shows a 3.2 percent increase in pending home sales between February and March, and the March Index is 1.1 percent higher than the same month last year according to an NAR news release. The Index for the South rose 8.5 percent.

NAHB further reports that in the current climate, 55 million U.S. families are able to afford today's $200,000 median-priced new home. "That's an increase of 17 million households from conditions just two years ago and the best housing affordability number we have seen in years," said NAHB Chairman Joe Robson. "We are now seeing the first signs that buyers are returning to the marketplace."

Real estate broker Mike Armistead of Keller Williams Realty in Bluffton and Hilton Head Island, has noticed a definite increase in foot traffic this spring compared to last year. Better yet, the rise in traffic is showing in business volume. "I'm projecting the first six months of this year to be better than all of last year," said Armistead. "Buyers are starting to return to scoop up bargain-priced homes on Hilton Head and in Bluffton."

It isn't clear that this is the beginning of a sustained recovery for the real estate market. There is still an abundance of uncertainty in the overall economy, but it's a welcome change from the past 3-4 years. "We are pretty much nearing what experts say is the bottom of the market, but I wouldn't start calling it a seller's market just yet," Armistead said. He did note, however, that while the recent

SEE 'SPRING' ON PAGE 2

FINANCIAL QUESTIONS AND ANSWERS

BY ILYCE GLINK
TRIBUNE MEDIA SERVICES

Q: I have a home equity line of credit for $50,000. I have had it for five years and owe nothing on it. As I recently lost my job, that line of credit is a means to survive. My question is, do I try to grab all of it at once as a financial cushion, or would that send up red flags? Should I grab $45,000, and leave a little room at the top? Is that less obvious or less damaging for my credit score? Is there a different optimal amount to take? My equity in the house is conservatively $190,000.

A: Your question is particularly timely, since so many lenders and creditors are clamping down on lines of credit that they deem too risky – which these days is apparently everyone.

I have heard from some of my sources who work for credit card companies that the federal government is requiring lenders and creditors to have cash on hand equal to, in some cases, 40 to 50 percent of the credit that has been extended in the form of available credit on a credit card or a home equity line of credit (HELOC). To the regulators, the fact that you haven't borrowed from your HELOC up until this point doesn't mean that

SEE 'Q&A' ON PAGE 2

Spring

From the cover

trend has been real estate offices closing their doors and realtors leaving the business, his firm is one of the few to have expanded in this market.

You don't have to be an economics professor to figure out that this was bound to happen. With favorable interest rates and prices lower than they've been in five or six years, value shoppers just cannot sit on their hands any longer. Additionally, sellers are getting more aggressive as days on market pile up. "Sellers of existing homes are now value pricing their properties or entertaining lower offers than before to move their homes," said Armistead, "and builders are offering great deals and incentives on new homes. Buyers have more choices now than they have had in years."

Sources:

realtytimes.com/rtpages/20090512_mrktconditions.htm
www.realtor.org/press_room/news_releases/2009/05/March_PHSI
rismedia.com/2009-04-07/with-affordability-up-home-buyers-return-to-the-market/
www.nahb.org/news_details.aspx?sectionID=0&newsID=9183
realtytimes.com/rtmcrcond5/South_Carolina~Bluffton~michaelarmistead
Mike Armistead, Keller Williams Realty, (843) 682-8117

Q & A

From the cover

you won't eventually tap it to help you make it through a tough time, like a job loss.

So, if you have a $50,000 line of credit, the federal government might require your lender to have $10,000 to $20,000 in cash on hand, just in case you borrow against your line of credit and then default.

I'm hearing from creditors that these requirements for cash on hand are unsustainable, given how much credit everyone has been extended over the past two decades. So everyone's credit is going to be clamped down.

For example, if you have a credit card that you haven't used in 12 months, the lender may close it or reduce the amount of total available credit. We're hearing from thousands of Americans who have had their home equity lines of credit reduced or closed. Not only does this make it difficult to access the credit you've so carefully preserved, but it will also tarnish your credit score.

Credit experts say that 30 percent of your credit score depends on the credit you have available. Having less credit available (because the credit card company or HELOC lender has cut you off) will take some points off of your credit score.

To your question: You have to tread delicately. If you don't take money out of your credit line, you may be one of those who ends up having the credit limit cut and later regret that you didn't take the money out when you could. But taking a sizable amount of money without the means to pay back the funds can put you in a precarious situation.

Let's think about how this would play out: If you tap 80 to 90 percent of your line of credit, you will hurt your credit score at least a little. But if your credit line is cut substantially, that too might hurt your credit score, as you'll have less available credit. Optimally, you'd never tap more than 25 to 30 percent of a line of credit – in your case, you'd only want to take $12,500 to $15,000. Anything more than that could lower your score a little, depending on other factors in your credit history. But since you might actually need the cash, it's better to take it now rather than want it later and not be able to get it. Just remember, this isn't play money. It has to last until you find a new job, and then you have to pay it back, with interest.

Paycheck to paycheck: wages and the cost of housing

Here's how the economists look at the world: If you have a job, you'll pay your mortgage, credit card debt, student loans and auto loan payments each month. If you're unemployed, you'll pay until you run out of money, and then you won't.

Job stability and the wages you receive in each paycheck are central to the concept of a housing market that works and a functioning credit market.

If you don't think your job is stable, you're not going to spend money on anything except the barest of essentials: food, gas for your car, mortgage or rent, and utilities. If you're not earning enough to pay for food, rent and your credit card monthly payment, you'll be forced into some tough choices.

We're seeing it happen in front of our eyes. Grocery stores have started advertising cheap food deals (emphasis on the "cheap" part) and retail stores are advertising how to get much more for your money. Overall, retail sales are down substantially, and the savings rate has skyrocketed past 4 percent.

But even if you have a stable job that provides a good wage, your ability to afford housing in your neighborhood of choice may be somewhat limited due to skyrocketing home prices in the early 2000s.

The Center for Housing Policy, a research affiliate of the National Housing Conference, recently released a new study called "Paycheck to Paycheck: Wages and the Cost of Housing in America." The study, funded by Freddie Mac, looks at fundamental changes in the homeownership and rental markets from 2007 to 2008, during the collapse of the housing market.

The biggest news has to do with housing affordability. It turns out that even with home prices on the decline, and the soaring number of foreclosures, there remains a gap between what workers earn and the cost of owning or renting a home, said Maya Brennan, a research associate for the Center for Housing Policy.

Some areas are more unaffordable than others, particularly those that enjoyed the fastest run-up in housing values.

And thanks to the massive wave of foreclosures sweeping across the country, Brennan added, "places that have been ownership units aren't converting into rentals fast enough to make up for increased demand in rental housing" in these areas.

It's Economics 101 all over again: Low supply translates into higher prices — ones that people squeezed by a contracting economy and shrinking wages cannot easily afford.