



CRAVER'S COMMENTS

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**PLEASE SEND US YOUR EMAIL ADDRESS SO WE CAN DELIVER THIS NEWSLETTER VIA EMAIL.

THINGS TO BE PROUD OF

YOU KNOW WHAT'S COMING HERE. THE DUKE BLUE DEVILS WON THE NCAA NATIONAL BASKETBALL CHAMPIONSHIP FOR THE 4TH TIME UNDER COACH K. IN SPITE OF ALL OF THE DOUBTERS (AND HATERS) THEY WON. I HAD THEM WINNING IN MY BRACKET, AND NO, I DON'T PICK THEM EVERY YEAR. MORE IMPORTANTLY, THEY CONSISTANTLY WIN WITH KIDS THAT STICK AROUND, GET GOOD GRADES, AND USUALLY STAY OUT OF TROUBLE. BUTLER DESERVES A LOT OF CREDIT FOR THEIR RUN IN THE TOURNAMENT AND THEY WERE THE MEDIA DARLINGS FOR BEING A SMALL SCHOOL HAVING SUCCESS AMONG THE BIG BOYS. WHAT SO MANY PEOPLE FORGET IS THAT DUKE, ARGUABLY THE TOP PROGRAM (I RECOGNIZE THAT UNC IS THERE TOO) IN THE NATION IS A SMALL PRIVATE SCHOOL THRIVING AMONG THE GIANTS EVERY YEAR. GOOD JOB!!!

DID YOU KNOW?

I'VE GOT GAS. NATURAL GAS. THE US GEOLOGICAL SURVEY RECENTLY ANNOUNCED FINDING NATURAL GAS RESERVES IN SHALE ROCK UNDER CENTRAL NORTH CAROLINA. THE DEPOSIT IS SAID TO BE LARGE ENOUGH TO FURNISH ALL OF NORTH CAROLINA'S POWER NEEDS FOR AT LEAST FORTY YEARS. THE DEPOSIT RUNS FROM ROXBORO SOUTH TO THE SOUTHERN END OF JORDAN LAKE, OR IN OTHER WORDS, RIGHT UNDER MY HOUSE. I SURE HOPE THE POWERS THAT BE IN THE CITY OF DURHAM DON'T OBJECT TO SOME GAS WELLS IN MY FRONT YARD. I PLAN TO LEARN MORE ABOUT MINERAL RIGHTS.

THE STATE OF REAL ESTATE

My parents always told me not to discuss religion or politics with my friends. Even though I have ignored that advice on occasion, I plan to stick with those guidelines here. Since my readers are my friends, I must be honest and tell you that this discussion will be based on business and economic principles and if that somehow offends your political beliefs, I apologize and suggest you might want to step back to rethink.

My first thought for a title to this article was "The Good, The Bad, and the Ugly" but I think that title had already been taken. Besides, that may be a little too harsh. We all see the world through a defining set of parameters. Here are some of mine. As a businessman with a degree in economics, I believe in the private sector. I believe that the only money the government has to spend is taken from funds generated in the private sector. I realize that I have already lost those of you who think government money grows on trees, but try to stay with me. The private sector is not made of evil corporations, but of people, both good and bad, that run large companies and small businesses. They have their dreams and aspirations to succeed. For untold generations that success was usually defined as achieving the American dream: buying a house. This has been such a big deal that the housing industry is one third of the U S economy. When it goes south I not only worry about my personal welfare, but the welfare of the entire country.

Normally our recessions are predictable and rarely caused by the housing industry. Housing is usually the victim and not the cause. Almost always, a recovering housing market leads us out of recession. What was different this time? First, there is never a single cause and that is the case here. Call it the perfect storm, a wide circle of events coming together.

Despite how politicians on both sides try to paint it, we had been through decades of continuing prosperity, especially in the housing markets. Our citizens were spoiled into believing they could buy what ever they wanted, pay whatever they wanted, and always make a profit. The government created financial policies through Fannie Mae and Freddie Mac to assure that anyone who breathed could buy a house. This further fueled housing price inflation in four major markets—Florida, California, Arizona, and Nevada. All of a sudden, inflation ran rampant in these markets, sometimes rising more than 20% in a year. That bubble was bound to burst, but it did not have to take the rest of the country with it.

Freddie and Fannie were also instrumental in forcing Wall Street investors to buy packaged mortgages where a large

percentage of the loans were sub-prime, i.e. made to folks who couldn't afford to buy the house in the first place. They were predestined to default on these loans.

Alan Greenspan said that on September 15, 2008, unknown forces started a run on the world bond market and all of the pieces for downfall fell into place. Greenspan said that date would become more famous than 9/11. I hope not.

Another factor was the fall elections. The political rulebook says that whoever is not in power always likes to stir up a little economic disaster. It gets you elected. Unfortunately, those minds that stirred this up were better at starting it than they were at solving it. We implemented a new policy of bailouts and massive borrowing. The long term result of this has always been high unemployment, rising interest rates, inflation, and an unfriendly business environment. Housing has not been encouraged to lead the way. Housing tax credits have been helpful but they were not aggressive enough. Unemployment can only be solved by encouraging the private sector. Every government job created takes money away from the economic engine that has always fueled our economy: private enterprise.

Is there a way out? Always. My first Econ professor said that the first rule of business is that business will always continue. I still believe that. It doesn't mean that it will be an easy recovery or a speedy one. The good news for home buyers is that prices are down. The bad news for home sellers is that prices are down. One major problem affecting the recovering housing market is the issue of appraisals. The artificially low numbers from foreclosures and short sales are distorting the real true market values of houses.

The real estate industry has lost about 30% of its agents over the last two years. Some of these folks just gave up and some realized they were better suited for a different line of work. Does this mean more business for the rest of us? Not necessarily. The last three years has seen a drop of 1.2 million in the number of households in this country. Young folks and those displaced by foreclosure are moving in with parents.

Many of the under 35 age group seems less interested in permanent investments and stable living styles. They are more interested in buying iPods, iPads, and flat screens than they are in buying houses. They are content to rent and be job flexible. Baby Boomers might be less interested in buying second homes in the future but the bargain prices might re-ignite that activity. What they will be interested in is downsizing in the future.

The biggest immediate problem affecting the housing recovery which in turn will slow the overall recovery is the confidence that buying a house will be a good investment. The one thing we have always relied on in this industry is that buying a home was not like buying a car; the value would not drop when you drove it off the lot. Increasing consumer confidence in housing is a must going forward.

This increase in confidence will happen when you, the consumer, determine that prices have bottomed out and that interest rates can not be held down much longer. Most experts are stating that indeed we have bottomed out where prices are concerned and I certainly tend to agree. The amount of debt built up by the government can only be financed by offering higher interest rates in the foreign bond market. This will mean that you and I will pay higher rates for home mortgages in the future.

There is a lot of pent up demand for buying a house--- several years' worth. Sales have increased in recent months in the four states that started the housing mess because of the rule of supply and demand. When you have a large supply of low priced houses, the demand for houses increases. The Triangle has survived this crisis better than any other part of the country and, surprisingly, Durham had the best track record in the Triangle with prices staying basically flat. The spring market is off to a good start, especially in the lower third of the price market. The need to encourage the middle and upper price markets is important to our recovery.

When folks realize that this is the best time that we have seen in decades to invest in buying a house, we'll be OK.

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