

The Chairman's Report

A Message from Lawrence F. Flick, IV, Chairman and Chief Executive Officer
Berkshire Hathaway HomeServices Fox & Roach, REALTORS®
and The Trident Group



SUMMER 2014



THE WIND IN OUR SAILS

One of the fiercest winters in recent memory is over, but its impact on the real estate market lingers. Throughout the long days, then weeks, of snow and ice, potential home buyers stayed put inside and sellers opted to “wait until spring.” Now, mild breezes have filled our sails and activity is picking up. The sweltering days of summer are here, so will the real estate market start to sizzle as well? The answer is... *“that depends.”*

Ups and Downs

We’ve been through four different real estate markets in the past decade. First, the boom. Then, the bust. Then for two years we saw what I call a “mini boom,” a time when many people who had postponed buying or selling a home felt enough confidence in the economy

to make a move. In 2012, the release of this pent-up demand caused unit sales to rise 18% over the previous year. Unit sales continued to rise in 2013, up 13% over 2012, though they began to cool steadily from July through the rest of the year. Then our historically severe winter stopped the market in its tracks, and 2014 arrived with almost as many questions as snowplows!

Many of us believed that once the weather improved the real estate market would continue to be strong. Now that spring is over, we see that sales have improved and are steady, but they are not rising at the same pace as during the “mini boom.” And that prompts us to ask: What’s the future of the real estate market?

The future of the real estate market

Throughout the recession, many people experienced life events that would normally motivate them to buy a new home. But often a lack of confidence in the economy caused potential buyers to put off a move. As the economy began to improve and real estate values stabilized, many who had delayed purchasing now acted on their desire for a new home. Better times released pent-up demand, and that has driven the market for the past two years. Even so, many are still waiting for their finances to improve before buying a new home.

At the same time, Generation Y entered adulthood. Some bought homes as the economy picked up, but many are still saddled with college debt or are underemployed, or both. Some still live with their parents, yet they want to get out on their own. They may rent their first home until their finances stabilize, but as things continue to improve, they will be better positioned to buy a home.

Our economy is continually improving. Consumers have paid off debt and added to their savings. Most want to own a home — it is still the American Dream. Fannie Mae surveyed Americans throughout the country, and 85% of them say they prefer homeownership over renting, despite the ups and downs of the last decade's real estate market. We are beginning to see consistent job growth, though salaries have yet to grow above inflation.

This is a considerable headwind that's keeping our real estate market from more significant growth. But we can see ahead to a time when increased job creation will lead to higher incomes, and then those who want to buy their first home but cannot currently afford to will be able to realize their dream. Sellers will then be able to sell their homes more easily and purchase new ones. And that is when the market will pick up.

Meanwhile, we are experiencing moderate growth and forward momentum. As I look toward the horizon, it's steady as she goes!

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BHHS Fox & Roach sales associate
so they can do the research.*

What does this mean for home buyers?

The continued good news is that homes are incredibly affordable right now. Home prices hit bottom in 2011 and price appreciation since then has been modest. Interest rates may not be under 4% anymore, yet put in perspective, it wasn't that long ago that a five or six percent mortgage rate seemed attractive. As the economy improves, the Federal Reserve will continue to relax its interest rate easing policies, and rates will go up.

There are quite a few buyers looking for a home right now, and when a house comes on the market priced well and in good condition, they, too, will recognize a value when they see it. If you know that a house you like is priced right, move ahead on it quickly so you don't lose it to another buyer. Your BHHS Fox & Roach sales associate and Trident loan consultant will work with you to make your offer the best it can be.



What does this mean for home sellers?

Houses for sale either sell, or they don't. This sounds obvious, but what I hear from many of our sales associates is that homes on the market either sell quickly, often with multiple offers, or they sit on the market unsold. That's why it's essential that houses be in great condition and priced competitively from the first day they are listed for sale.

Today's buyers are focused on value. They are very familiar with the market, and when they see a home that is priced too high, or that they think requires too much work, they quickly move away from it.

Functional obsolescence in outdated floor plans or outmoded bathrooms and kitchens, etc. must also be factored when listing a property. Dated features must be taken into account when pricing a home.

Consumers are still cautious. They are looking for a home that meets their family's needs and provides good value over the long term. And, changing mortgage guidelines have gone far in ensuring that those who buy a home truly qualify for the financial responsibility.

Even with the above caveats, this is a good time to sell. There are many buyers looking for homes, and if you are selling in order to buy a new home, you are assured that prices have hit bottom and interest remains low. But be aware: if your listing fails to generate a lot of activity and a "SOLD" sign within a month, then the market is sending you a message. It's time to either rethink the price or make the necessary upgrades so the house is more appealing to buyers. The best thing to do is contact your BHHS Fox & Roach sales associate so they can do the research. They know the market better than anyone and can make sure your house is one that sells quickly, so you can get on with your move.

A handwritten signature in black ink, appearing to read "Lawrence F. Flick, IV".

Lawrence F. Flick, IV
Chairman and Chief Executive Officer
Berkshire Hathaway HomeServices
Fox & Roach, REALTORS® and The Trident Group

AN INDEPENDENT VIEW



Joel L. Naroff, Ph.D. is the President and founder of Naroff Economic Advisors. He is a consultant to Berkshire Hathaway HomeServices Fox & Roach, REALTORS® and The Trident Group. A nationally recognized economic forecasting expert, Joel was awarded the Lawrence Klein Award

for Blue Chip forecasting excellence and was the Bloomberg Business News top economic forecaster in 2008. In 2007, he received the National Association of Business Economists Outlook Award and was named the top economic forecaster by MSNBC in 2006.

The national economy is shifting into high gear, finally. While first quarter growth was negative, the downturn was largely due to the bitter winter weather. But spring brought a rebound in a variety of sectors. Consumer spending is improving led by a major jump in vehicle purchases. The May selling pace was the highest in almost eight years. Business investment is growing as durable goods orders are surging. It looks like the spring growth rate could exceed 4%.

The outlook for the rest of the year is bright. The key will be the labor market. With job growth solid and the unemployment rate trending downward, it is just a matter of time before wage gains accelerate. Increasing household spending power has been the missing link in the recovery, but that should change as we move through the year.

The housing market remains surprisingly sluggish. Prices are continuing to rise, though modestly, helping homeowners rebuild their equity. While more time is needed for values to rise back to where most people can both sell their current homes and buy another home, the process is bringing back that needed “churn” to the market.

In the Berkshire Hathaway HomeServices Fox & Roach, Realtors region, sales have been lagging. Indeed, if the area had not gone through the ups and downs of the housing bubble but just grew at its normal pace, current sales would be nearly 50% higher.

Clearly, there is a tremendous amount of pent-up demand in the region’s housing market. As the national and regional economies improve, and equity and confidence builds, the sales pace should accelerate. Though the process may take a while to become apparent, conditions are already starting to change and that is good news for both potential buyers and sellers.



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