



## The Business Booster *Collection*

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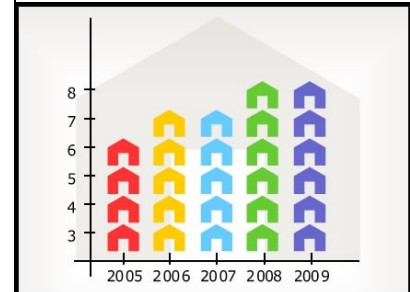
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## The Housing Market Revealed

Could Demographics Be the Secret?

If we could see into the future, it would certainly be easier to make those life-changing decisions that keep us up at night. Where is the housing market headed? Should I advise clients to buy now, or would it be better to wait a couple of years, in case the bubble bursts? While no one has all of the answers, there are predictors we can use to make an informed decision.

The current real estate expansion began when mortgage interest rates fell into the single digits, making housing much more affordable. While this certainly has contributed to home sales, there are additional causes we can isolate. Dr. David Lereah is a best-selling author and the Chief Economist for the National Association of REALTORS® (NAR). In a recent interview, Dr. Lereah revealed, "The biggest factor that affects real estate today, and has made it immune to some cyclical changes in the economy, has been demographics." Here's why:



- **The "Baby Boom" Generation** – This generation is the largest so far, and their impact has been felt across the nation. Now that Baby Boomers have reached their peak earning years, they are purchasing larger primary residences as well as vacation homes and investment properties. The statistics for 2004 reflect this trend, with 36% of all home sales going toward second homes.
- **Immigration** – There has been a large influx of immigrants over the past three decades. According to Lereah, it typically takes at least a generation for immigrants to become fully active in the home buying market.
- **Children of Baby Boomers** – This generation, the second largest ever, is now in their twenties and looking to purchase their first homes.
- **Retirees** – While the demand for housing is expanding, the supply is decreasing. With advancements in medicine and treatments of diseases, retirees are living longer. This means that they are occupying their homes for more years, which decreases the supply of homes available for purchase.

So if the current market can be explained primarily by the factors we just discussed, how do we know whether it will continue to thrive? Dr. Lereah says, "We are in the Golden Age of Real Estate." Even if the economy should slow and interest rates increase slightly in the coming years, the demand for houses is still strong. The biggest impact that such a change would have is to decrease the rate of price appreciation. The media likes to refer to the real estate boom in terms of bubbles and balloons. In keeping with that analogy, Lereah indicates that local markets may react to higher interest rates by letting some air out of the balloon. The double digit price appreciation we've experienced may decrease over the next year or two to a more typical 4-6% range. This is still a higher rate of return than found in the stock market, all things considered.

So the next time a client asks you whether it's still a good time to invest in real estate, you can reassure them that is.

***Please contact me if you would like to receive a copy of my Gift of Knowledge Interview with NAR Economist, David Lereah!***

