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Interest rates, bubbles, spikes...end of summer? Healthy signs of a market recovering nicely

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Interest rates surely affect a lot of economic actions, don't they? Rates drive real estate in very fundamental ways, we have learned. They drive activity, they drive buyers to be willing to pay a certain price by making the purchase possible and affordable. So what can we learn from today's conditions?

In 1-4 unit markets, cheap money is like candy, can't get enough of it. A (slight) rise in rates certainly put a damper on activity in those markets recently.

Affordability is still a major issue with many homeowners. Either they are still underwater or they can't quality under current requirements for refinancing. Despite government's "willingness" to help, a lot of these homeowners are going to have to wait for the economy to get better in their backyard before they can do much. Others may qualify but own real estate that was purchased in the heat of a moment in the past or that is still victim to poor local market conditions.

Mortgage applications slowed right down as 30 year rates jumped up nearly a full point, according to mortgagenewsdaily.com. The indexes show the drop clearly.

The Realtors (Realtor.org) report that in a report issued at the beginning of August, median prices continued to rise in the majority of metropolitan areas. The report (8/8/13) notes, that despite rising prices and higher mortgage rates, "most buyers remain well positioned to afford a home in their area."

The homebuilders (NAHB) report a similarly rosy picture.

If you believe the press and the organizations out there, there's nothing but blue skies from here on out. Wrong. That may be true in some of our very staid markets but there is still a lot of distress out there. Maybe not as bad as 2011, but nonetheless many owners are affected.

The recently concluded refinancing event allowed a lot of homeowners to get out of high interest rate loans. But many that needed it the most couldn't take advantage of the opportunity.

The mortgage loan industry is looking at well-heeled owners and buyers. Gone (mostly) are the good old days where anybody can get a loan.

Buyers that are buying actually have to have down payments, credit, all those good things that got lost during the Swindle Years. Rumors from realtors note that a lot of local markets are strongly driven by cash buyers, who are parking money in residential real estate as sort of a hedge as well as a refuge.

Looking at current market performance statewide (I know, this is view from the stratosphere), the following is evident. Current month past: median sale price $352,000, 73 DOM, 5,347 listings, and 98% SP/LP ratio. Over three months: median sale price: $350,000, 79 DOM, 5,362 listings (average/mo.) and 98% SP/LP ratio. Over six months: median price: $336,000, 96 DOM, 4,300 listings (average/mo.), and 98% SP/LP ratio. Over the past year: median price: $317,000, 115 DOM, 4,800 listings and 97% SP/SP ratio.

These are all healthy signs of a market that is recovering nicely. Contrast this to 2004. The median price was $346,500, average listings/month, 4,109, 76 DOM, and SP/LP ratio of 98%. Interesting. Are we back yet? Not probably.

Things to watch for as this price spike/blip/bubble matures and interest rates stay where they are or creep up some more and as refinancing continues to drop off include more listings resulting in more "picky" buyer activity from buyers with cash and less speculative activity. This round of buyers (a big cohort) is happy, the next cohort might be smaller and not as willing to pay over asking in many market. One might also want to worry about the Middle East.

It's real estate. There's always something to worry about.

Enjoy the rest of the summer. Good luck in the fall.

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