

REAL ESTATE PRICES

"DOES A REAL ESTATE BUBBLE EXIST?"



Compliments of

No one knows for sure whether or not a so-called "bubble" in real estate prices exists. Economists have different views on this subject. Few economists seem to be predicting a significant drop in national real estate prices. Some, however, are expressing caution about the potential for prices to continue to rise in certain markets at the high rates seen over the past few years.

REGIONAL REAL ESTATE PRICES IN 2004

Prices have risen rapidly in some markets, most notably on both coasts. Many areas of California, for example, have experienced significant appreciation. Here are some recent statistics from the California Association of Realtors website (www.car.org):

- The median price of a single-family home in California was over \$450,000 - this is 22% higher than the 2003 median of \$372,700.
- The percent increase in the median price of a single family home increased by double-digits for the third consecutive year in 2004.
- 2004 will be a record year for sales, which are projected to increase 3% over last year's record sales figure of 601,800 existing detached homes.

PROPERTY PRICE HEDGING

One company, Macro Securities Research, has begun working with the American Stock Exchange and Chicago Mercantile Exchange to develop a financial hedging product that might help protect home-owners against a rapid drop in home prices. See www.macromarkets.com for more information.

POSSIBLE INTEREST RATE CHANGES IN 2005

From a recent RisMedia.com article, according to Larence Yun, a senior economist at the National Association of Realtors, interest rates could rise from the current 5.6% for a 30-year fixed rate mortgage to just under 7% – a level still considered favorable compared to trends in the last three decades. Mr. Yun does not believe that rising rates are likely to have a significant effect on home purchases, although they could prevent some buyers from expanding their real estate investments. As a rule, buyers lose 10% of their purchasing power for every 1 percent increase in mortgage rates. For example, an investor who could afford to purchase a \$500,000 property with a 30-year fixed rate loan at 6% would typically be looking at purchasing a \$450,000 property if rates went up 1% to a 30-year fixed rate loan at 7%.

EXCHANGE, DON'T SELL: Regardless of what happens to interest rates, investors who exchange, rather than sell their investment properties, have all of their net equity available to reinvest in a better performing replacement property.



ASSET PRESERVATION
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