

## August 2007: Real Estate Woes

Millionaires and the affluent again have their finger on the pulse of national economic woes and are showing their deep concern over housing and real estate, which 43% say is the biggest concern affecting their economic outlook.

This anxiety about housing and real estate is a dramatic rise from 9% in this past May, and 11% a year ago.

Real estate, which many economists believe to be the lynch pin of the American economy has taken a beating over the last year. Foreclosures rose 9% between June and July of this year, and 93% in the same time period from last year.

As recently as June, the affluent were bullish on real estate, still considering it a good investment, per the Coldwell Banker Previews International Luxury Survey of 310 affluent homeowners with homes worth \$1M or more. Per that survey, more than half of affluent homeowners expected their property value to appreciate at least somewhat during the following year, and a tenth expected significant gains. These results run counter to what the rest of the country was feeling in June, showing that the affluent feel less affected by the whims of the market than the average homeowner or investor. However, as the subprime bubble popped, Spectrem research shows that those opinions seem to have shifted.

The situation looks to be moving from bad to worse in the near term; roughly \$370 billion in adjustable-rate mortgages will reset this year, per First American CoreLogic. This means that millions of Americans will have to pay a lot more per month to avoid foreclosure. On top of that, newer mortgages are becoming more difficult to acquire with newly conservative lenders requiring as much as 20% down and a credit score of at least 700, dropping the number of eligible buyers by two-thirds for five times as many homes.

If you compare this valley in real estate to that which occurred after the housing boom in the 1980's, when housing prices fell 20% from 1989 to 1996, what the country is now experiencing could become worse, because the present boom has become bigger, per Yale economist Robert Shiller of the Case-Shiller index, which tracks national housing prices.

Though many are still waiting to see what happens with interest rates, which is the second highest concern for the affluent at 7% in Spectrem survey, the anxiety produced by this volatile market is already wearing on exhausted affluent investors. Unemployment rates held steady in August at 4.6% but the strain placed on many real estate correlated industries, including construction, auto sales, mortgage brokers, architects, and lawyers is showing, with a record monthly drop of 4,000 jobs lost in August (the first of its kind in 4 years) indicating a deeper stress on the economy, which may prompt the Federal Reserve to drop a key interest rate when it meets again on Sept. 18th. This painful credit squeeze and housing debacle has Wall Street and investors of all stripes nervous, pulling back, and waiting by the sidelines.

The Iraq War, concern over which was as high as 39% in February of this year, has taken a backseat to the rampant real estate anxiety, perhaps also due to Washington lawmakers responding to the public outcry about the war and finally discussing troop withdrawal plans in a more cooperative manner. Despite continued political turmoil surrounding the Bush administration, the affluent seem to be more content with the direction the country is moving in terms of the Iraq War.

As the real estate crisis deepens, the affluent are pulling back and justifiably worried. The next few weeks and months will be crucial in setting the tone for the country's coming economic future.

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