

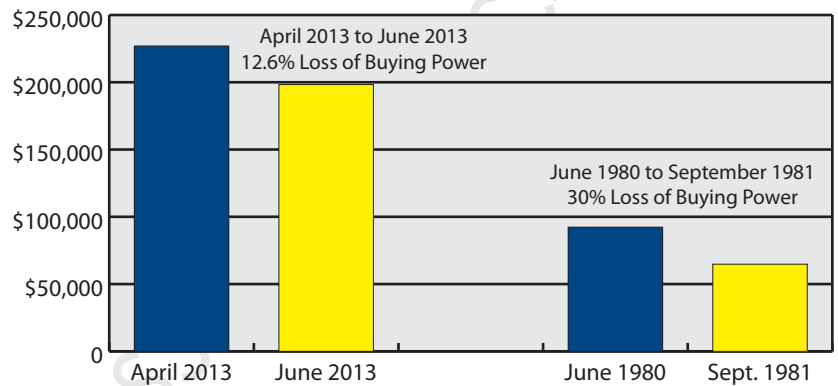


### MORTGAGE RATES UP A FULL POINT IN 60 DAYS. AND THE SKY ISN'T FALLING.

Well, we knew rates would bottom out – and they did. From a low of 3.35% for 30-year fixed mortgages at the end of April, rates jumped to 4.46% by the end of June. (Since the end of June, rates have fluctuated about 10 basis points above and below that mark.) That jump in rates means that there was a 12.6% loss of buying power. A monthly payment to support the purchase of a \$400,000 home in April now only supports a \$350,000 purchase.

In the past when rates have bumped up after a prolonged period of lower rates, the number of buyers has actually increased in the short term. Folks who were waiting for the absolute bottom realized that they may have waited a bit too long and jump in before rising rates price them out of the kind of home they want. And that's exactly what has happened this time. Through the first four months of 2013, total new contract activity in Montgomery County was up 3% compared to 2012, but contract activity rose 14% in May and June.

**BUYING POWER**  
With a \$1,000 Mortgage Payment



However, higher rates will undoubtedly put a damper on demand in the months ahead, simply because buyers may no longer be able to afford the home they want. Removing folks from the pool of possible homebuyers will ease some of the upward pressure on home prices. And this dampening of demand comes at a time when the number of homes coming on the market is finally beginning to increase. So, with the prospect of more supply and less demand, why are we so confident the sky isn't falling?

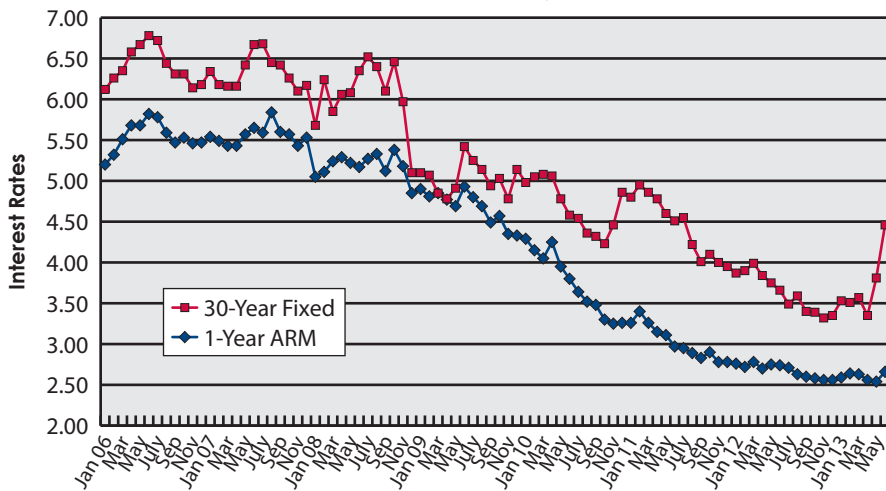
First, we've seen this before. In July 1980 when McEneaney Associates opened for business, mortgage interest rates averaged 12.71%. By September 1981, rates had climbed to 18.45%, representing a 30% loss of buying power in just over a year. (Already feel a little better about today's rates?) But people still bought homes, and believe it or not, home prices actually rose slightly during that period of time. Because owning a home made long-term sense, just like it does now, buyers, sellers and lenders figured out ways to make it work. Sellers offered financing, lenders wrapped assumable first trusts with second trusts - and people bought and sold houses.

Second, by any historical measure, today's mortgage interest rates are still incredibly low, and there are very attractive alternatives as well. At the end of April, there was very little difference between the rates for 30-year fixed rate mortgages and those for adjustable rate loans. Today, a 5-year ARM averages 3.17%, well over a point lower than 30-year loans. It is further good news that there won't be any of the ridiculous, teaser-rate, no-money-down mortgage products developed to bring unqualified buyers to the market like we saw during the boom last decade. People will buy homes because they need or want to move, and can afford to do so.

Today's rising rates will moderate the market, not kill it.

### 30-YEAR FIXED AND 1-YEAR ADJUSTABLE RATES

Month-End Mortgage Rates - January 2006-June 2013

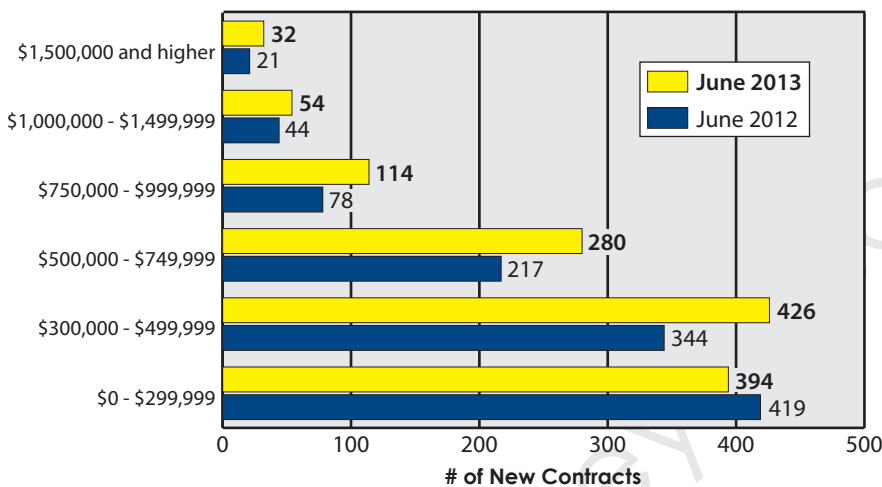


### MORTGAGE RATE TRENDS

- 30-year fixed interest rates at the end of June averaged **4.46%**, compared to 3.66% at the end of June 2012.
- One-year ARMs were 2.66% at the end of June 2013 vs. 2.74% at the end of June 2012.
- While 3-year rates have jumped more than a point, one-year adjustable have barely moved. While not shown on this chart, 5-year adjustables have moved up less than half a point.

### NEW CONTRACT ACTIVITY

Montgomery County - June 2012 vs. June 2013 by Price Range

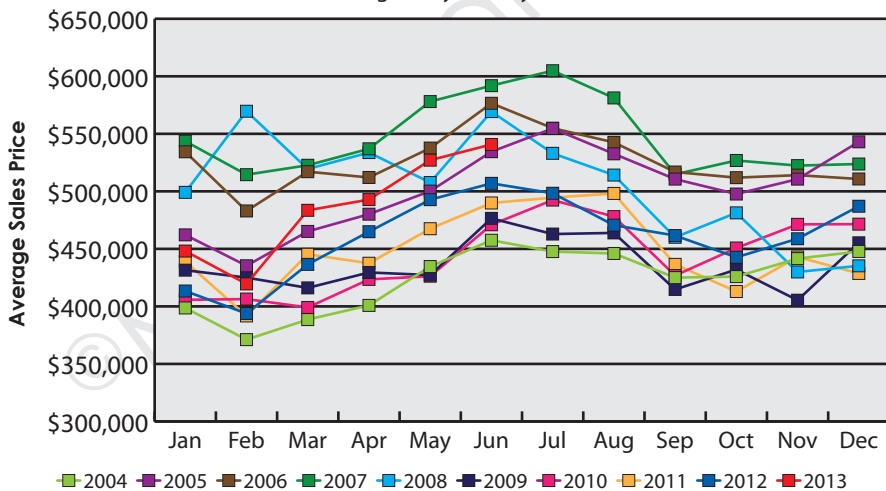


### NEW CONTRACT ACTIVITY

- The number of new contracts ratified in June 2013 was **up 15.8%** from the number of contracts ratified in June 2012, and contract activity year-to-date is **up 7.1%**.
- **23.5%** of all homes going under contract in June 2013 had a price reduction before going under contract.
- And **67.2%** of all homes going under contract in June were on the market 30 days or less; this time last year it was 51.2%.

### AVERAGE SALES PRICE

Homes in Montgomery County - 2004-Current



### AVERAGE SALES PRICE

- The average sales price in June 2013 was **\$540,758**, **up 6.7%** from the June 2012 average price of \$506,941.
- Remember that these indicators are arithmetic computations based on all properties sold and **do not** indicate the appreciation or depreciation of any individual property.



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202.552.5600

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