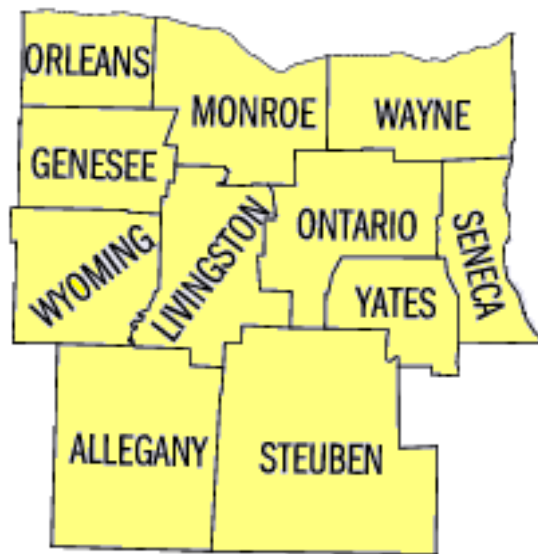




Economic and Market Watch Report

1st Quarter, 2011



*Click on a County to view economic and real estate information at the county and zip code level

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The Greater Rochester Association of REALTORS®

Economic and Market Watch Report

Three entities—One Goal

Strengthening our community through home ownership. The Greater Rochester Association of REALTORS® (GRAR), the Genesee Region Real Estate Information Service (GENRIS) and the REALTORS' Charitable Foundation (RCF) comprise our organization. The Genesee Region Real Estate Information Service (GENRIS) delivers MLS and Property Data services to over 2,500 real estate professionals in the greater Rochester area. The Mission of the Genesee Region Real Estate Information Service (GENRIS) is to be the primary provider of real estate information and technology, and to provide support to its members via a Multiple Listing Service in which all home listings are entered. GENRIS also maintains www.HomeSteadNet.com, provides statistical housing information, administers the lockbox program locally and provides technical support services to its members.

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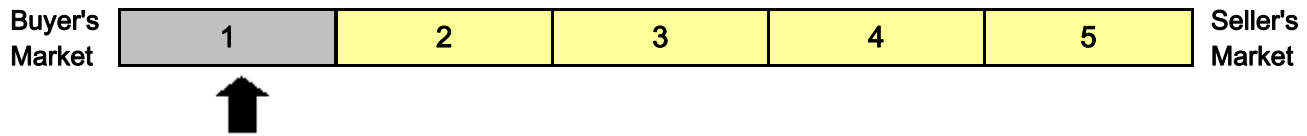
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New York

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Allegany County, NY



Labor Market :

Employment declined by 487 jobs in January and February. The job losses brought about an increase in the average monthly unemployment rate from 8.6% in the fourth quarter to 10.4% for the initial two months of the first quarter. Layoffs continued, which will weigh on buyer confidence and demand in Allegany County. However, mortgage rates remain near record lows, maintaining a favorable buying environment for those with a job.

Housing Market :

	Q4' 10	Q1' 11	Q2' 11 (Forecast)
Average Price	\$119,700	\$134,900	↓
# Homes on the Market *	37	29	↑
# Homes Sold **	2	6	↓
# New Homes Built ***	0	1	↑
Avg # of Days on Market	175	46	↑

* Available as of Mar. 31, 2011.

** May not add to total of zip codes.

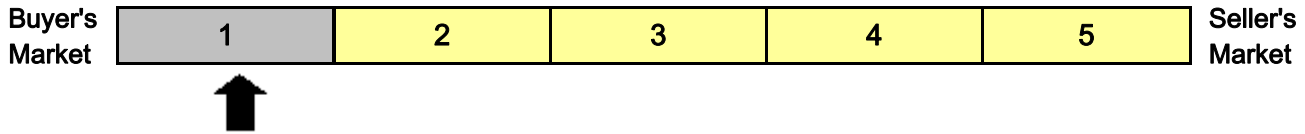
*** During the first two months of 1st quarter.

Data by Zip Codes for Q1 2011

Zip Code	Average Price	Price Change ***	Total # Homes Sold (Quarter)	% Change in # Homes Sold ***	Average Days on Market	% of Asking Price (Sold/ List Price)
14735	\$125,000	N/A	1	N/A	42	96.2%
14802	\$175,000	N/A	1	N/A	23	97.3%
14813	\$48,000	N/A	1	N/A	20	89.1%
OTHER	\$153,800	N/A	3	N/A	65	88.1%

*** % Change of current quarter compared to the same quarter to year ago.

Genesee County, NY



Labor Market :

Employment declined by 887 jobs in January and February. The job losses brought about an increase in the average monthly unemployment rate from 7.3% in the fourth quarter to 8.9% for the initial two months of the first quarter. Layoffs continued, which will weigh on buyer confidence and demand in Genesee County. However, mortgage rates remain near record lows, maintaining a favorable buying environment for those with a job.

Housing Market :

	Q4' 10	Q1' 11	Q2' 11 (Forecast)
Average Price	\$105,100	\$99,400	↓
# Homes on the Market *	145	114	↑
# Homes Sold **	57	26	↓
# New Homes Built ***	NA	NA	↑
Avg # of Days on Market	71	93	↑

* Available as of Mar. 31, 2011.

** May not add to total of zip codes.

*** During the first two months of 1st quarter.

Data by Zip Codes for Q1 2011

Zip Code	Average Price	Price Change ***	Total # Homes Sold (Quarter)	% Change in # Homes Sold ***	Average Days on Market	% of Asking Price (Sold/ List Price)
14013	\$89,500	-25.10%	1	0.00%	148	100.0%
14020	\$95,100	-5.75%	9	-59.09%	64	97.9%
14036	\$121,500	N/A	1	N/A	105	93.6%
14058	\$85,100	-8.79%	1	-50.00%	683	94.7%
14125	\$73,500	-37.18%	2	-50.00%	73	95.2%
14416	\$36,500	-46.24%	2	-33.33%	20	86.0%
14422	\$155,500	51.26%	2	-33.33%	52	107.3%
14482	\$115,200	-3.44%	7	-22.22%	90	98.6%

*** % Change of current quarter compared to the same quarter to year ago.

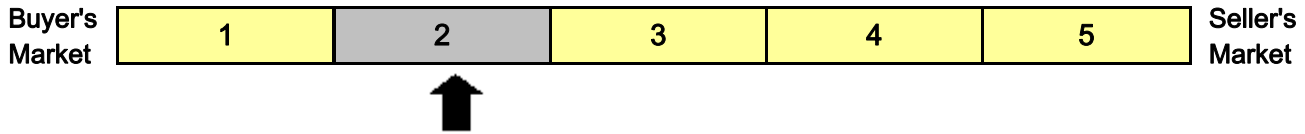
Genesee County, NY

Data by Zip Codes for Q1 2011

Zip Code	Average Price	Price Change ***	Total # Homes Sold (Quarter)	% Change in # Homes Sold ***	Average Days on Market	% of Asking Price (Sold/ List Price)
14525	\$95,700	-27.77%	1	-75.00%	2	99.2%

*** % Change of current quarter compared to the same quarter to year ago.

Monroe County, NY



Labor Market :

Employment declined by 7,965 jobs in January and February. The job losses brought about an increase in the average monthly unemployment rate from 7.5% in the fourth quarter to 8% for the initial two months of the first quarter. Layoffs continued, which will weigh on buyer confidence and demand in Monroe County. However, mortgage rates remain near record lows, maintaining a favorable buying environment for those with a job.

Housing Market :

	Q4' 10	Q1' 11	Q2' 11 (Forecast)
Average Price	\$154,900	\$150,700	↓
# Homes on the Market *	3,271	2,789	↑
# Homes Sold **	1,238	824	↓
# New Homes Built ***	114	58	↑
Avg # of Days on Market	50	57	↑

* Available as of Mar. 31, 2011.

** May not add to total of zip codes.

*** During the first two months of 1st quarter.

Data by Zip Codes for Q1 2011

Zip Code	Average Price	Price Change ***	Total # Homes Sold (Quarter)	% Change in # Homes Sold ***	Average Days on Market	% of Asking Price (Sold/ List Price)
14420	\$130,600	5.07%	17	-29.17%	78	97.1%
14428	\$169,400	-7.18%	10	-16.67%	33	96.4%
14445	\$125,500	33.65%	8	-27.27%	91	94.9%
14450	\$196,900	-0.56%	48	-21.31%	60	96.3%
14464	\$186,800	105.95%	7	-22.22%	72	94.4%
14467	\$145,900	3.70%	14	0.00%	63	98.2%
14468	\$169,200	22.08%	24	-25.00%	41	96.2%
14472	\$222,300	-30.16%	4	33.33%	58	97.7%

*** % Change of current quarter compared to the same quarter to year ago.

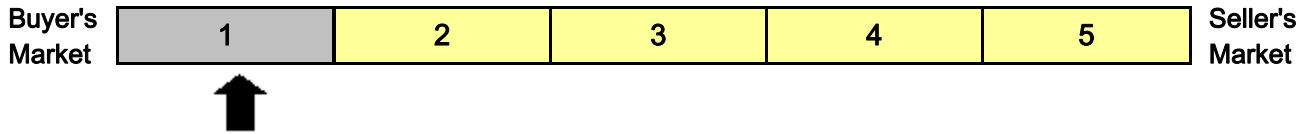
Monroe County, NY

Data by Zip Codes for Q1 2011

Zip Code	Average Price	Price Change ***	Total # Homes Sold (Quarter)	% Change in # Homes Sold ***	Average Days on Market	% of Asking Price (Sold/ List Price)
14506	\$173,500	-27.71%	1	0.00%	29	96.9%
14514	\$139,000	-18.14%	7	133.33%	84	95.7%
14526	\$192,900	-13.23%	33	6.45%	51	97.0%
14534	\$283,900	9.66%	58	31.82%	68	94.0%
14543	\$265,000	129.84%	2	-50.00%	51	95.5%
14546	\$118,000	5.17%	1	-83.33%	16	98.4%
14559	\$163,200	-3.55%	29	-14.71%	75	96.0%
14580	\$212,000	4.59%	66	-24.14%	64	94.4%
14586	\$151,700	-1.04%	15	15.38%	58	97.4%
14606	\$87,700	-2.66%	31	-18.42%	47	97.0%
14607	\$184,500	20.59%	3	-25.00%	31	93.9%
14608	\$81,700	-8.72%	5	25.00%	35	96.5%
14609	\$83,000	-1.66%	46	-37.84%	48	95.3%
14610	\$155,600	-33.22%	25	13.64%	42	95.4%
14611	\$50,500	3.91%	9	-40.00%	52	93.5%
14612	\$148,500	35.25%	40	-41.18%	63	95.8%
14613	\$59,500	48.75%	9	-18.18%	104	98.9%
14615	\$77,100	1.72%	17	-52.78%	55	96.1%
14616	\$98,400	3.14%	53	-25.35%	67	96.2%
14617	\$122,400	5.79%	39	-25.00%	72	96.9%
14618	\$211,600	-1.31%	32	-5.88%	46	96.0%
14619	\$47,600	-16.78%	9	-55.00%	48	88.2%
14620	\$100,900	-12.34%	24	-4.00%	43	93.0%
14621	\$57,700	-5.10%	8	-57.89%	43	97.3%
14622	\$93,200	-16.11%	16	-44.83%	66	97.1%
14623	\$108,900	-4.97%	27	28.57%	50	95.1%
14624	\$124,300	-1.97%	47	-25.40%	45	97.3%
14625	\$147,000	-32.23%	13	-18.75%	51	94.9%
14626	\$148,800	7.05%	26	-52.73%	41	96.9%
OTHER	\$116,500	-73.66%	1	-66.67%	2	101.4%

*** % Change of current quarter compared to the same quarter to year ago.

Ontario County, NY



Labor Market :

Employment declined by 696 jobs in January and February. The job losses brought about an increase in the average monthly unemployment rate from 7% in the fourth quarter to 8.7% for the initial two months of the first quarter. Layoffs continued, which will weigh on buyer confidence and demand in Ontario County. However, mortgage rates remain near record lows, maintaining a favorable buying environment for those with a job.

Housing Market :

	Q4' 10	Q1' 11	Q2' 11 (Forecast)
Average Price	\$202,300	\$171,200	↔
# Homes on the Market *	716	600	↑
# Homes Sold **	165	116	↔
# New Homes Built ***	26	6	↑
Avg # of Days on Market	76	82	↑

* Available as of Mar. 31, 2011.

** May not add to total of zip codes.

*** During the first two months of 1st quarter.

Data by Zip Codes for Q1 2011

Zip Code	Average Price	Price Change ***	Total # Homes Sold (Quarter)	% Change in # Homes Sold ***	Average Days on Market	% of Asking Price (Sold/ List Price)
14424	\$164,100	-1.50%	22	-45.00%	78	96.0%
14425	\$138,700	-8.99%	10	0.00%	49	94.8%
14432	\$121,900	14.46%	5	-54.55%	115	93.9%
14456	\$96,500	-1.43%	21	50.00%	101	91.6%
14469	\$152,800	4.95%	12	50.00%	57	95.6%
14471	\$187,400	46.29%	6	-33.33%	144	92.7%
14475	\$75,000	-72.48%	1	-50.00%	32	93.9%
14512	\$262,300	123.23%	3	0.00%	34	98.9%

*** % Change of current quarter compared to the same quarter to year ago.

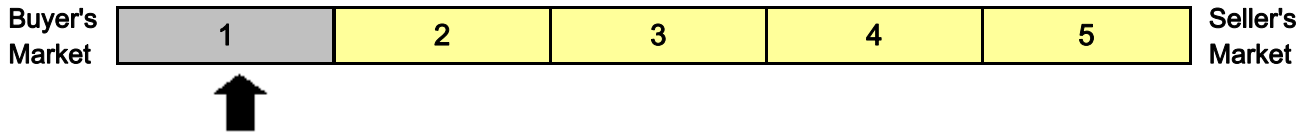
Ontario County, NY

Data by Zip Codes for Q1 2011

Zip Code	Average Price	Price Change ***	Total # Homes Sold (Quarter)	% Change in # Homes Sold ***	Average Days on Market	% of Asking Price (Sold/ List Price)
14532	\$85,100	-50.12%	3	-40.00%	63	99.6%
14537	\$79,800	N/A	1	N/A	41	99.9%
14548	\$53,000	-50.97%	1	-75.00%	36	91.5%
14561	\$118,000	3.33%	1	-66.67%	3	102.7%
14564	\$234,400	-9.57%	22	37.50%	67	95.9%
OTHER	\$343,400	20.62%	8	-20.00%	156	97.1%

*** % Change of current quarter compared to the same quarter to year ago.

Orleans County, NY



Labor Market :

Employment declined by 462 jobs in January and February. The job losses brought about an increase in the average monthly unemployment rate from 9.2% in the fourth quarter to 11.2% for the initial two months of the first quarter. Layoffs continued, which will weigh on buyer confidence and demand in Orleans County. However, mortgage rates remain near record lows, maintaining a favorable buying environment for those with a job.

Housing Market :

	Q4' 10	Q1' 11	Q2' 11 (Forecast)
Average Price	\$98,000	\$94,600	↓
# Homes on the Market *	224	189	↑
# Homes Sold **	69	34	↓
# New Homes Built ***	NA	NA	↑
Avg # of Days on Market	86	124	↑

* Available as of Mar. 31, 2011.

** May not add to total of zip codes.

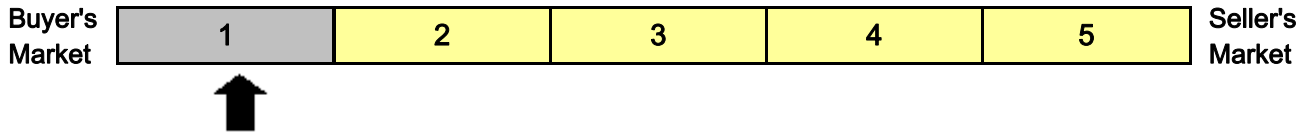
*** During the first two months of 1st quarter.

Data by Zip Codes for Q1 2011

Zip Code	Average Price	Price Change ***	Total # Homes Sold (Quarter)	% Change in # Homes Sold ***	Average Days on Market	% of Asking Price (Sold/ List Price)
14098	\$91,000	-48.15%	2	-33.33%	146	94.4%
14103	\$75,000	-30.23%	8	-33.33%	280	91.6%
14411	\$82,500	-0.60%	8	-55.56%	77	88.7%
14470	\$100,700	30.61%	9	-18.18%	48	96.8%
14476	\$116,900	N/A	3	N/A	88	98.6%
14477	\$138,000	N/A	3	N/A	72	94.8%
14571	\$103,000	5.64%	1	-50.00%	159	93.7%

*** % Change of current quarter compared to the same quarter to year ago.

Seneca County, NY



Labor Market :

Employment declined by 384 jobs in January and February. The job losses brought about an increase in the average monthly unemployment rate from 7.5% in the fourth quarter to 9% for the initial two months of the first quarter. Layoffs continued, which will weigh on buyer confidence and demand in Seneca County. However, mortgage rates remain near record lows, maintaining a favorable buying environment for those with a job.

Housing Market :

	Q4' 10	Q1' 11	Q2' 11 (Forecast)
Average Price	\$117,900	\$111,500	↔
# Homes on the Market *	168	133	↑
# Homes Sold **	49	29	↔
# New Homes Built ***	NA	NA	↑
Avg # of Days on Market	80	116	↑

* Available as of Mar. 31, 2011.

** May not add to total of zip codes.

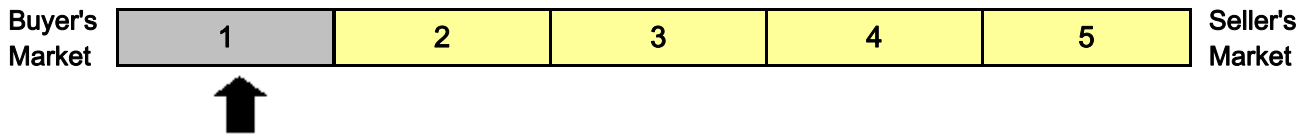
*** During the first two months of 1st quarter.

Data by Zip Codes for Q1 2011

Zip Code	Average Price	Price Change ***	Total # Homes Sold (Quarter)	% Change in # Homes Sold ***	Average Days on Market	% of Asking Price (Sold/ List Price)
13148	\$105,000	-46.67%	12	9.09%	113	92.5%
13165	\$81,600	0.49%	10	-37.50%	113	88.8%
14521	\$172,000	22.86%	3	0.00%	78	98.0%
14541	\$179,400	-13.54%	2	-50.00%	287	92.0%
14847	\$112,000	-51.30%	1	0.00%	3	86.8%
OTHER	\$170,000	58.29%	1	-75.00%	89	97.1%

*** % Change of current quarter compared to the same quarter to year ago.

Steuben County, NY



Labor Market :

Employment declined by 1,104 jobs in January and February. The job losses brought about an increase in the average monthly unemployment rate from 9.2% in the fourth quarter to 11% for the initial two months of the first quarter. Layoffs continued, which will weigh on buyer confidence and demand in Steuben County. However, mortgage rates remain near record lows, maintaining a favorable buying environment for those with a job.

Housing Market :

	Q4' 10	Q1' 11	Q2' 11 (Forecast)
Average Price	\$162,300	\$114,100	↓
# Homes on the Market *	212	195	↑
# Homes Sold **	50	22	↓
# New Homes Built ***	0	2	↑
Avg # of Days on Market	99	109	↑

* Available as of Mar. 31, 2011.

** May not add to total of zip codes.

*** During the first two months of 1st quarter.

Data by Zip Codes for Q1 2011

Zip Code	Average Price	Price Change ***	Total # Homes Sold (Quarter)	% Change in # Homes Sold ***	Average Days on Market	% of Asking Price (Sold/ List Price)
14572	\$69,400	-14.64%	4	33.33%	178	91.4%
14808	\$49,900	42.57%	1	0.00%	6	100.0%
14810	\$130,600	N/A	3	N/A	103	97.3%
14823	\$131,000	174.06%	1	0.00%	87	93.6%
14826	\$162,500	170.83%	2	100.00%	109	81.5%
14840	\$159,400	6.27%	7	250.00%	80	92.2%
14873	\$42,000	-41.50%	1	-80.00%	175	84.2%
14885	\$43,000	N/A	1	N/A	186	95.6%

*** % Change of current quarter compared to the same quarter to year ago.

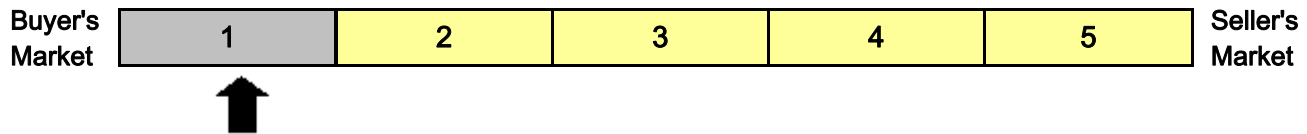
Steuben County, NY

Data by Zip Codes for Q1 2011

Zip Code	Average Price	Price Change ***	Total # Homes Sold (Quarter)	% Change in # Homes Sold ***	Average Days on Market	% of Asking Price (Sold/ List Price)
OTHER	\$67,000	-47.24%	2	-33.33%	79	95.1%

*** % Change of current quarter compared to the same quarter to year ago.

Wayne County, NY



Labor Market :

Employment declined by 1,194 jobs in January and February. The job losses brought about an increase in the average monthly unemployment rate from 7.9% in the fourth quarter to 9.8% for the initial two months of the first quarter. Layoffs continued, which will weigh on buyer confidence and demand in Wayne County. However, mortgage rates remain near record lows, maintaining a favorable buying environment for those with a job.

Housing Market :

	Q4' 10	Q1' 11	Q2' 11 (Forecast)
Average Price	\$129,300	\$118,100	↓
# Homes on the Market *	596	530	↑
# Homes Sold **	167	92	↓
# New Homes Built ***	5	1	↑
Avg # of Days on Market	86	82	↑

* Available as of Mar. 31, 2011.

** May not add to total of zip codes.

*** During the first two months of 1st quarter.

Data by Zip Codes for Q1 2011

Zip Code	Average Price	Price Change ***	Total # Homes Sold (Quarter)	% Change in # Homes Sold ***	Average Days on Market	% of Asking Price (Sold/ List Price)
13143	\$110,000	83.64%	1	0.00%	109	84.7%
13146	\$54,000	-52.21%	1	0.00%	8	90.2%
14433	\$76,900	-12.41%	5	150.00%	73	93.6%
14489	\$69,800	-29.14%	7	0.00%	189	95.9%
14502	\$164,600	10.47%	9	-47.06%	67	97.9%
14505	\$155,200	61.67%	8	0.00%	9	99.1%
14513	\$108,500	15.67%	17	-22.73%	112	95.0%
14516	\$64,600	-70.19%	4	33.33%	111	96.3%

*** % Change of current quarter compared to the same quarter to year ago.

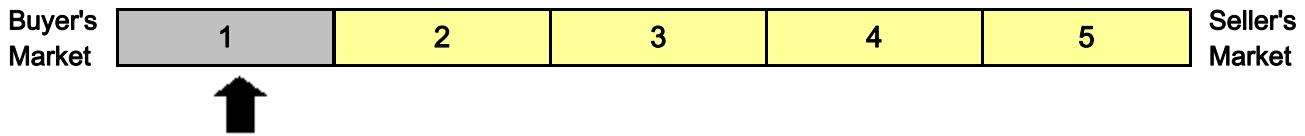
Wayne County, NY

Data by Zip Codes for Q1 2011

Zip Code	Average Price	Price Change ***	Total # Homes Sold (Quarter)	% Change in # Homes Sold ***	Average Days on Market	% of Asking Price (Sold/ List Price)
14519	\$156,200	2.23%	12	-20.00%	53	97.0%
14522	\$68,600	-30.14%	3	-75.00%	90	90.0%
14551	\$83,100	34.68%	6	-25.00%	44	94.6%
14568	\$155,500	30.56%	9	-30.77%	42	96.1%
14589	\$152,500	14.49%	3	-70.00%	92	97.6%
14590	\$81,300	-38.41%	7	-30.00%	129	94.9%

*** % Change of current quarter compared to the same quarter to year ago.

Wyoming County, NY



Labor Market :

Employment declined by 175 jobs in January and February. The job losses brought about an increase in the average monthly unemployment rate from 8.6% in the fourth quarter to 10.6% for the initial two months of the first quarter. Layoffs continued, which will weigh on buyer confidence and demand in Wyoming County. However, mortgage rates remain near record lows, maintaining a favorable buying environment for those with a job.

Housing Market :

	Q4' 10	Q1' 11	Q2' 11 (Forecast)
Average Price	\$96,500	\$120,400	↔
# Homes on the Market *	46	47	↑
# Homes Sold **	17	7	↔
# New Homes Built ***	8	3	↑
Avg # of Days on Market	73	80	↑

* Available as of Mar. 31, 2011.

** May not add to total of zip codes.

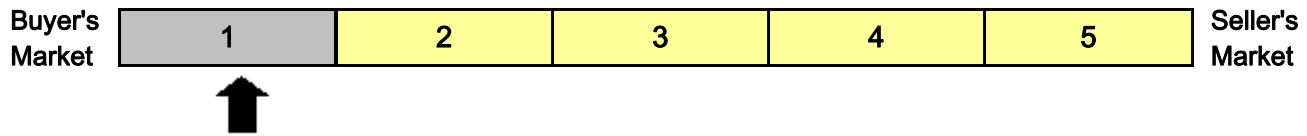
*** During the first two months of 1st quarter.

Data by Zip Codes for Q1 2011

Zip Code	Average Price	Price Change ***	Total # Homes Sold (Quarter)	% Change in # Homes Sold ***	Average Days on Market	% of Asking Price (Sold/ List Price)
14011	\$72,500	-41.20%	1	-80.00%	66	96.8%
14530	\$185,000	186.38%	2	-50.00%	140	90.3%
14569	\$93,500	-4.59%	2	-60.00%	57	85.1%
OTHER	\$106,500	N/A	2	N/A	54	88.8%

*** % Change of current quarter compared to the same quarter to year ago.

Yates County, NY



Labor Market :

Employment declined by 314 jobs in January and February. The job losses brought about an increase in the average monthly unemployment rate from 6.3% in the fourth quarter to 7.8% for the initial two months of the first quarter. Layoffs continued, which will weigh on buyer confidence and demand in Yates County. However, mortgage rates remain near record lows, maintaining a favorable buying environment for those with a job.

Housing Market :

	Q4' 10	Q1' 11	Q2' 11 (Forecast)
Average Price	\$152,600	\$160,500	↔
# Homes on the Market *	212	199	↑
# Homes Sold **	43	26	↔
# New Homes Built ***	NA	NA	↑
Avg # of Days on Market	116	88	↑

* Available as of Mar. 31, 2011.

** May not add to total of zip codes.

*** During the first two months of 1st quarter.

Data by Zip Codes for Q1 2011

Zip Code	Average Price	Price Change ***	Total # Homes Sold (Quarter)	% Change in # Homes Sold ***	Average Days on Market	% of Asking Price (Sold/ List Price)
14478	\$106,800	-20.77%	2	0.00%	108	98.4%
14507	\$270,000	57.25%	5	66.67%	80	81.4%
14527	\$155,400	-34.82%	14	-36.36%	110	92.0%
14544	\$66,100	N/A	2	N/A	9	100.5%
14842	\$74,900	-30.97%	1	0.00%	30	100.0%
OTHER	\$113,000	-55.16%	2	100.00%	50	83.7%

*** % Change of current quarter compared to the same quarter to year ago.

Others

Data by Zip Codes for Q1 2011						
Zip Code	Average Price	Price Change ***	Total # Homes Sold (Quarter)	% Change in # Homes Sold ***	Average Days on Market	% of Asking Price (Sold/ List Price)
13021	\$30,800	-17.20%	3	0.00%	53	90.3%
13041	\$121,000	N/A	1	N/A	70	86.7%
13057	\$215,000	N/A	1	N/A	186	95.6%
13063	\$82,000	N/A	1	N/A	10	96.5%
13064	\$450,000	N/A	1	N/A	6	93.8%
13090	\$120,000	-4.69%	1	0.00%	64	100.1%
13117	\$115,000	N/A	1	N/A	405	95.9%
13143	\$115,900	122.88%	1	0.00%	156	100.0%
13152	\$325,000	N/A	1	N/A	167	92.9%
13206	\$53,300	35.28%	2	0.00%	14	94.3%
13211	\$66,000	N/A	1	N/A	43	100.0%
13440	\$36,600	N/A	1	N/A	34	114.2%
14067	\$92,300	N/A	2	N/A	56	97.2%
14094	\$70,000	-28.13%	2	100.00%	23	103.8%
14105	\$89,100	15.41%	2	100.00%	139	103.7%
14127	\$176,000	N/A	1	N/A	205	97.8%
14207	\$52,000	N/A	1	N/A	22	96.3%
14214	\$41,000	N/A	1	N/A	44	102.5%
14414	\$111,100	4.52%	8	14.29%	32	98.1%
14423	\$99,200	-45.34%	3	-25.00%	143	93.6%
14435	\$333,000	382.61%	1	0.00%	135	90.0%
14437	\$68,800	6.34%	8	60.00%	59	90.0%
14454	\$202,500	-26.68%	7	-41.67%	64	94.3%
14466	\$46,100	N/A	1	N/A	37	100.2%
14480	\$132,000	21.10%	1	0.00%	32	96.0%
14481	\$60,000	-38.02%	2	0.00%	65	93.8%
14485	\$175,000	0.00%	1	0.00%	12	101.9%
14487	\$170,400	29.78%	8	33.33%	116	94.8%
14502	\$25,000	N/A	1	N/A	55	62.7%
14510	\$54,000	-36.32%	4	-55.56%	91	88.6%
14517	\$101,800	-39.01%	4	300.00%	21	89.4%
14533	\$99,300	-82.11%	3	200.00%	4	94.7%
14815	\$149,000	N/A	1	N/A	179	91.5%

*** % Change of current quarter compared to the same quarter to year ago.

Investor and Cash Purchases Drive a Sales Resurgence

By Ken Fears

Manager of Regional Economics

The spring market started off well. Nationally, sales were up from the summer dull drums, but prices were headed downward. A closer look revealed a healthy market working to correct itself. However, these dynamics were unique to a few regions and not all markets shared in the sales recovery.

Nationally sales fell sharply in the wake of the Federal tax credit and by July home sales volume reached its lowest level in a decade. But, by January, the national sales volume at an annualized rate had reached roughly the same rate as a year earlier. This surge in demand was pinned on buyers trying to purchase in advance of mortgage rates which rose from an all-time low of 4.17% for a 30-year fixed in November. Since January, sales eased, but remain near levels reached last spring, when the Federal tax credit was in effect.

The factors driving sales this spring are different from last spring, though. According to NAR's monthly REALTOR® Confidence Survey, the share of distressed sales has risen dramatically equaling 40% of all sales in March.

Furthermore, the share of investors and those who can pay all-cash increased dramatically, even higher than their respective shares prior to

the first-time home buyer tax credit. Anecdotally, we have been told that the share of traditional listings are much lower this spring than at the same time last year as the tax credit induced more trade-up buyers to take advantage of the strong market conditions.

These developments may sound ominous, but they are exactly what are needed. First-time buyers rarely have the knowledge to renovate a home let alone the financing, so letting experienced investors take over helps to clear the market of this glut of foreclosed and short-sold housing that typically sell at roughly 20% below market. The softness of prices likely reflects the higher share of distressed sales, which will burn off eventually. Furthermore, the fact that investors are willing to jump in suggests that they feel that prices and or rents are undervalued...as sign that bodes well for long-term price trends.

Here in the market covered by the Greater Rochester Association of REALTORS® sales volume was 24.1% lower in the 1st quarter of 2011 than over the first three months of last year. On the other hand the average price was 4.9% above last year's median. Without local data on the share of distressed sales and investor purchases it is difficult to say whether the local market is following the national trend. However, the decline in sales volume appears to diverge with the national trend.

The national housing market has been erratic this spring, but is substantially stronger than the dog-days of last summer. While the thought of investors swarming the market sounds ominous, they are needed to clear away the overhang of distressed properties in regional markets. Once complete, the national housing market and banking system will be one step closer to long-term stability and growth.



Demand is Key

by Lawrence Yun, *NAR Chief Economist*

The housing market continues to show fragility. Home sales have risen broadly - by more than 20 percent from their low point last year. At the same time, home prices slid down after the homebuyer tax credit expired last summer. A review of several local MLS data indicates a fairly consistent downward trend in the ratio of the "final sales price"-to-"original listed price", implying that homes are not being priced to sell from the start.

The most recently available data are mixed. While existing home sales – which measure actual closings – fell 9.6 percent in February, pending sales – which measure contracts to purchase – rose slightly. Snowy weather in a number of areas of the country hurt both closings as well as pending contracts – as evidenced by deeper downturns in activity in the Midwest and Northeast regions.

And new construction? New home sales are stuck in a rut. Only 19,000 newly constructed homes were sold in February. That translates into 250,000 new home sales (at a seasonally annualized rate) which would represent the worst activity in at least 50 years. But the new home sales figure is more reflective of supply than demand. Homebuilders continue to express concerns about the lack of construction loans to build new homes. The banks, in order to abide by regulatory requirements, have to put aside a larger capital reserve for what are considered riskier loans and, hence, have largely shunned homebuilders (even though bank profits have recovered quite nicely the past two years). With housing starts at historic lows, there are just not that many newly built homes that can be sold. In fact, the inventory of new homes for sale is also at 50-year lows.

New homes are also selling at a higher price than normal in relation to the price of existing homes, which is likely putting off some potential buyers of new property. Why? Because the price of new homes has to account for much higher commodity prices as part of the construction cost and, therefore, new homes need to sell at above these input costs in order for the builders to turn a profit. This is hard to do in the current environment where existing homes are being discounted by 30 to 40 percent off the price of new homes. Historically, the price differential between existing homes and new ones has been 15 to 20 percent.

Perhaps the banks have concerns about lending to homebuilders because they anticipate a continuing large number of foreclosed properties that they themselves will be stuck with. Of the mortgages in serious delinquency, the share of those over 90 days late in payment has modestly come down from its peak but still remains very high at 8.5 percent at the end of 2010. In normal years, it should be less than 2 percent. Therefore, the inventory and the sale of distressed properties will continue to account for a large portion of housing activity this year and probably next year as well. The share of distressed sales, either a foreclosure or homes requiring a short sale bank approval, edged up to 39 percent of all existing-home sales in February. These distressed sales need to take place because it means getting these homes into the hands of financially sound homeowners and thus will help reset the conditions for a healthy housing market in the future.

Recent homebuyers have been highly successful with historic low default rates, and a sizable number – in fact one third of all buyers – have made their home purchase with all-cash and thus a zero chance of default.

The faster pace of incoming distressed inventory into the marketplace does not necessarily mean a further slump in the housing market. The key is demand. If these distressed inventories are quickly picked up by buyers, then no worries. But if distressed inventories linger in the marketplace then we can expect a notable further decline in home values. All indications point to plenty of ready buyers for foreclosed homes,

Chief Economist's Commentary

not uncommonly with multiple offerings. So housing demand appears to be present at the moment and could grow as the economy turns for the better.

The number of homes available for sale at the end of February – both normal and distressed properties – was 3.5 million, but look for the inventory to climb to about 4 million by the end of this summer. This upswing in inventory is a normal seasonal occurrence – more homes are listed through the spring and summer months. The rising inventory will be met by rising demand through those spring and summer months. The peak months for sales closings are May, June, and July with sales roughly doubling that in winter months (on a non-seasonally adjusted, raw number basis).

Last year the demand arose from the home buyer tax credit. This year the demand will come from improving job market conditions. The latest jobs figures (released April 1) show that a net 216,000 new jobs were created in March alone, with 478,000 job creations in the first three months of this year. We are on track for a 2 million new jobs for 2011. Yes, mortgage rates will surely rise – but not alarmingly. Expect around a 5.7 percent average rate on a 30-year fixed mortgage by year-end, up from the current 5 percent rate.








The second-home market should also begin to show a recovery this year. Stock market gains are providing the financial wherewithal for wealthier households to buy vacation homes. Investors, looking for diversification and an inflation hedge, are looking at deeply discounted homes to generate rental income. The median price of an investor purchased home in 2010 was cheap – at \$94,000. That is certainly better than putting money in the bank and getting essentially nothing in return, as well as protecting against the possibility of devalued currency from potential rising inflation and very high budget deficits. One thing that was lacking for the second home market in the past two years was mortgages to buy a non-primary occupant homes – because government-backed mortgages are not there for these properties. An eye-popping 59 percent of investor home purchases were made with cash in 2010.

Finally, as the housing market is trying to get back on a firm recovery track, we should be wary of unintended consequences of some of the consumer protection legislation that is out there – such as that focused on what we call QRMs. The new rule on Qualified Residential Mortgages (QRMs) could mean significantly reduced credit availability. The QRM rule says that a lender must set aside additional capital for any losses (i.e., reserve fund) and for 'skin-in-the-game' to loan funds for what are considered non-qualified mortgages. But the end result could be that mortgages become readily available to only the upper-income segment of society. Many working and middleclass Americans - who may have good though not pristine credit scores – may have to scrape up a very large downpayment, perhaps upwards of 20 percent, in order to buy a home.

Prior to 2000, the housing market was just fine and stable. Many middle-class households purchased homes and thus became successful homeowners even though they did not put 20 percent down. That is because households stayed well within their budget and lenders did not hand out funny toxic mortgages. We need to simply revisit what worked in the past rather than imposing onerous new regulations. Government regulatory actions, though perhaps emanating from goodhearted intentions, unfortunately can lead to unintended harsh outcomes. In the case of housing, they could wind up denying working-class Americans the opportunity to become homeowners. The QRM rule could well be the most important regulation impacting the housing market in upcoming years. Washington bureaucrats should not jeopardize what is a staple of the American Dream – homeownership.

Economic Monitor

This table reflects data available through April 1, 2011.

Monthly Indicator	Recent Forecast	Likely Direction Over the Next Six Months	Forecast
<p>Existing-home sales declined in February to a seasonally adjusted annual rate of 4.88 million units – down 9.6% from January and 2.8% below the pace in February of 2010. Even so, the pace of re-sales remained 26.4% above the cyclical low in July of 2010, and January’s re-sales figures were revised upward to 5.40 million units</p>	Feb 2011 4,920 Jan 2011 5,400 Feb 2010 5,020		Pent up demand finally set to be unleashed, though slowly
<p>New home sales also declined in February, posting a seasonally adjusted annual rate of 250,000 units – off 16.9% from January’s sales pace and 28.0% off the pace in February of 2010. While the number of new homes available for sales was unchanged at 186,000, the month’s supply did rise to 8.9 based on the current sales rate.</p>	Feb 2011 250 Jan 2011 301 Feb 2010 347		Recovering stock market helps with down payment to buy expensive homes
<p>Housing starts posted a seasonally adjusted annual rate of 479,000 units in February – 22.5% below the pace in January and 20.8% below the pace in February 2010. Both single- and multifamily starts were off on a month to month basis, but multifamily starts were up by more than 54% from a year ago.</p>	Feb 2011 479 Jan 2011 618 Feb 2010 605		Banks with huge cash pile looking for places to lend including to builders
<p>Housing affordability continues at very high levels. NAR’s Housing Affordability Index posted a reading of 192.3 for February, up slightly from January’s index and ahead of the 178.5 index registered in February of 2010. Continued low home prices – and an improving economy – are contributing to the record levels of affordability.</p>	Feb 2011 192.3 Jan 2011 192.2 Feb 2010 178.5		Down from record high levels
<p>Mortgage rates The average 30 year fixed mortgage rate was 4.83% in March – a decline from the 4.95% in February and 4.97% a year ago. Historic low inflation rates and the recently increased demand for U.S. securities allowed fixed mortgage rates to drift lower.</p>	Mar 2011 4.83% Feb 2011 4.95% Mar 2010 4.97%		High budget deficit raises borrowing costs
<p>Employment The U.S. economy added a net 216,000 jobs in March, with the private sector accounting for 230,000 new payrolls. Sectors that gained the most jobs included durable manufacturing, retail, education and health care, and professional and financial services, while the public sector (mainly local governments) shed positions. The unemployment rate fell again – to 8.8% which is its lowest level in two years.</p>	Mar 2011 +216 Feb 2011 +194 12-month total: +1,300		1.5 to 2 million net new jobs in the next 12 months
<p>Economic Growth Real GDP increased at a 3.1% annual rate in the fourth quarter of 2010. This is the third estimate of GDP based on more complete data. As a comparison, real GDP increased 2.6% in the third quarter of last year. The healthy GDP growth was due primarily to increases in consumer spending and exports. In fact, consumer spending rose 4.0% in the fourth quarter of last year, with spending on durable goods increasing 21.1%</p>	2010:IV +3.1% 2010:III +2.6% 2009:IV +5.0%		Nothing exciting but steady growth

Notes: All rates are seasonally adjusted. Existing home sales, new home sales and housing starts are shown in thousands. Employment growth is shown as month-to-month change in thousands. Sources: NAR, Bureau of the Census, Bureau of Labor Statistics and Freddie Mac.