

Real Estate Prices Are Now Going Down!

The below article was written by Karim Rahemtulla and reprinted by permission of The Accelerated Profits Report. For more information or to sign up for the monthly report, call 1-410-864-1600.

Alan Greenspan has now declared several times, beginning on October 8th of last year that the housing market has most likely seen its darkest days. I did a double take each time.

Has “The Maestro” fallen prey to the same ill-conceived thinking that is so pervasive on Wall Street? I think so.

According to my own GIRLI Indicator (Greenspan International Real Estate Loss Indicator), the former Fed chairman must be thinking more about the bottom line of the big builders than he is about the little guy.

He’s not alone. Just last month, a number of major investment firms upgraded home building stocks...only to report the next week that they saw nothing less than disaster ahead in the housing market.

One of the healthiest builders, D.R. Horton, is a very well managed company with a pristine balance sheet and a portfolio that encompasses all economic strata. Yet recently, it said, “The company’s cancellation rate (homes canceled divided by gross homes sold) for the fourth quarter of 2006 was 40%.”

The View Down Your Street Is the Ultimate Proof

Almost half of all potential buyers have backed out...but heck, I don’t need to see D.R. Horton’s numbers. I can just look down the street to see a “For Sale” sign on every other house.

I have always wondered who owned all these houses that were on sale. No one I knew had more than one house, unless it was their business to buy and sell homes as investments.

But an inexplicable number of homes were being built, on top of apartments being converted into condos. Real estate wealth seminars were everywhere.

Who are these people? Could they be the NASDAQ 2000 investors resurrected? No, nobody needs to learn that lesson twice.

During the NASDAQ bubble, the regular guy got sucked into a market that was manipulated from start to finish by low-float Nasdaq small caps. The manipulation was concocted and implemented by irresponsible investment banks that sold their reputations for quick hits from IPOs.

For the most part, they got away with it. But Joe Sixpack got killed. And now, he is being sucked back in by the lure of quick profits from dirt.

And, unfortunately, he is once again being helped along by the irresponsible comments from people like Greenspan, and the Commerce secretaries and the housing lobby and the high dollar realty companies.

The “Great Idea” That’s Costing Homeowners \$1 Trillion

What do you expect the financial minds to say when rates were at 3%? Lock in a fixed rate mortgage and don't speculate? No. Instead, Greenspan said at the time that adjustable rate mortgages made a lot of sense.

Here's one of the early results: Homeowners, especially those who have interest-only or so-called "teaser-rate" mortgages, could see their monthly payments more than double. Interest rates will rise about \$300 billion in adjustable-rate mortgages this year alone, according to First American Real Estate Solutions, a research group. That figure is projected to skyrocket to more than \$1 trillion for each of the next two years.

So, while the brokers are upgrading homebuilding stocks and trying to make it seem that the worst is over for housing, I have some news for you. The housing bust is not today's news. It is going to be tomorrow's.

Still Own? Get Out Now, Before it's Too Late

By this time next year, home prices in high growth places like Nevada, California, Florida and Arizona will not be down 5% as the experts are saying, but could fall two or three times that number.

Right now sellers aren't selling. They are in denial – still waiting for Santa to deliver their asking price...or close to it. When homeowners finally adjust prices to reflect the marketplace reality – Katie, bar the door – prices will fall like dominoes.

My advice is to take the first reasonable offer and count yourself lucky.

Case in point: A contractor who does some work for me is selling his house. He told me six months ago that it was on the market. I asked him if he had any bites. He said he had one but was offered \$5,000 less than his asking price. He would wait it out.

I mentioned politely that he should call the potential buyer back and offer to sell it to him at the lower price. He, of course, declined. The house remains on the market today...and will likely be there this time next year as well.

In the meantime, the owner will have spent at least \$20,000 in mortgage interest, maintenance, insurance and property taxes. Multiply that by several thousand and you see what the future of real estate in the United States looks like a few months down the line.

Greenspan: The Right Advice... At the Wrong Time

Cut back to Greenspan for a minute. Greenie had an impeccable history of being right. But, even more impressive is his ability of being right too early.

Remember "irrational exuberance"? If you had listened to him then, you would have missed out on huge gains in the market. Right course, wrong time...because the market did crash two years later. So, what can we learn from his latest statement?

Based on my trusted GIRLI Indicator, we are about two years away from seeing the bottom in the real estate market.

Karim Rahemtulla is one of the country's foremost specialists in options trading and is co-founder and chairman of Mt. Vernon Research.