



REAL ESTATE TODAY

For the GREATER ALBUQUERQUE AREA

THE HOUSING "BUBBLE"!!!!

by Barbara Madaras

Editor's Note: As you read this excerpted article keep in mind the following statistics regarding the increase in average sales price for a resale single family home in Albuquerque...

8% Increase First Half 2005; 11% Increase Last 12 Months; 16% Increase Last 18 Months. Prior to 2003, the average annual increase 5.5%.

The average sales price in June 2005 was \$206,667! For those of us who can remember when you had to search to find a home for \$100,000, that's culture shock!

There are only 9 other states in the U.S. that have had an increase in the last year higher than the Albuquerque Metro Area has experienced!

WASHINGTON (Reuters), July 5, 2005- Whether it's a national bubble or just pockets of regional froth, an end to surge in home prices could inflict economic harm that would make the 2000 tech bust look tame in comparison.

Even if the market cools in only those parts of the country that Federal Reserve Chairman Alan Greenspan describes as "frothy", the U.S. has a serious problem.

If prices were merely to level off, it could subdue the property-linked activity that has stimulated spending and job growth—crucial supports for the U.S. economy.

Based on benchmarks from a recent study comparing the stock and housing market bubbles, there are about 15 markets that are vulnerable to a housing market correction. These represent about 35 percent of gross domestic product, the broadest measure of the nation's economy.

"A significant correction in consumption spending in these states is bound to have significant effects on national growth," said Thomas Helbling, an economist at the IMF in Washington.

Merrill Lynch estimates the impact on growth could be as much as one percentage point of gross domestic product. Add the knock-on effects to the rest of the economy to any initial spending hit and the situation looks worse.

The study found that while stock market collapses are more frequent, housing busts do a lot more damage.

"The output loss associated with the typical housing price bust was twice as large as that associated with a typical equity price bust," the study said.

FED HOT RHETORIC—The Federal Reserve understands these risks, which is why its top officials have talked of revamping lending guidelines to reduce speculation.

The situation calls for more gradual interest-rate rises, since stopping now would only further fuel the housing boom. When it raised rates Thursday for the ninth straight time in a year, the Fed, the nation's central bank, gave no indication it was prepared to stop in the near future.

A look at the U.S. economy's reliance on the housing sector *Continued on page 2)*

Published by



BARBARA MADARAS
CRS, GRI, e-PRO
REALTOR®
Cell: 505.301.1033
Office: 505.292.8900
AnAlbuquerqueHome
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REAL ESTATE TODAY
coming to you in
November 2004

The Bubble (continued)

in recent years is helpful in gauging the impact of a serious market upset.

American households have enjoyed a \$4 trillion rise in wealth, thanks to a 40 percent gain in house prices since early 2001, according to Merrill Lynch.

Assuming they spend 6 cents of every extra dollar, this adds up to \$50 billion in additional spending each year, contributing about half a percentage point to annual GDP since 2000.

According to Merrill Lynch, "If home prices just level off, this could slice a full percentage point from the GDP growth in 2006."

However, not everyone agrees with the worst-case scenarios.

Jonas Fisher, a senior economist and housing expert at the Chicago Fed, said the assumption that spending was being driving by consumer expectation of home price gains might be flawed.

"Instead, consumer think in terms of long-term trends, and will view much of the price appreciation as temporary or unsustainable," he said.

NEW JOBS—Still, the numbers show housing has had an important impact on both investment and jobs.

Construction-related spending has exerted a powerful force in the economy. A big reason behind the upward revision in first-quarter growth announced... (at) 3.8 percent, was the 11.5 percent jump in annualized housing investment.

Paul Ashworth, North American economist for Capital Economics, says 933,000 of the jobs created in the current U.S. economic upswing owe their existence in one way or another to real estate.

"A full 37.8 percent of all new jobs created have come in construction, real estate, architecture, building supply, home furnishing retailers and building services, even though those sectors only account for 11.6 percent of total non-farm payrolls," he said.

All of this could suffer if housing growth petered out.

"You would get fewer houses being built, fewer real estate agents running around, fewer construction workers..... You don't have to be concerned that house prices fall to worry about the effect on the wider economy," said Ashworth.

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"A realtor can..... impact your ability to effectively sell or buy a property."

For a Buyer, statistics such as Average Price per Square Foot and Number of Sales by Month will assist you in more accurately determining your purchasing power when that purchasing power will have the most strength.

Each edition of "Real Estate Today" will have the most up-to-date statistics

for your area. Two editions are published — one for the Greater Albuquerque Area and one for the Lynnewood Park & Brentwood Hills areas.

And we are always available to work with clients to research other areas.

To receive additional or future copies of either publication, contact us at the information shown on the back cover.

In the meantime.....Enjoy finding out what YOUR HOUSE is worth! Contact **Barbara Madaras** at 505.275.5313 for a FREE Market Analysis.

This publication is not intended as a solicitation if your property is currently listed for sale with another broker.

HOW MUCH WILL YOU NEED to RETIRE?

by Robert Brokamp, Editor, *The Motley Fool*

Are you saving too much for retirement? A recent study by financial planner Ty Bernicke suggests you might be. Using data from the 2002 Consumer Expenditure Survey, Bernicke concluded that investors might be overestimating how much money they'll need in retirement, since spending decreases as we age from our 60s to our 80s and beyond.

Retirees and future retirees have one big question: Which will last longer -- me or my portfolio? The answer depends on many factors, including your asset allocation, your withdrawal rate, your other sources of income, and your health .

But there's also the question of how much you'll need from your portfolio, Social Security, pension, and any post-retirement business. In financial planning circles, this is known as "replacement income," and you've probably heard that you'll need approximately 70% of your pre-retirement paycheck to maintain the lifestyle to which you're accustomed. But is that true? Will it be enough to pay for your cross-country jaunts and your surgically replaced joints?

To answer that question, let's see what real retirees do. The good folks at the U.S. Census Bureau collect household income and spending data every year, and publish the national averages in the riveting Consumer Expenditure Survey. The information is broken down into many categories, including by age. The chart below shows the highlights for 2002.

Average	45-54	55-64	65-74	75++
Income	\$64,974	\$53,162	\$35,118	\$23,890
Expenses	\$48,748	\$44,330	\$32,243	\$23,759
Food in	\$3,528	\$3,114	\$2,877	\$2,195
Food out	\$2,700	\$2,445	\$1,602	\$1,107
Housing	\$15,476	\$13,831	\$10,052	\$8,257
Apparel	\$2,029	\$1,791	\$1,252	\$674
Transit	\$9,173	\$8,449	\$5,731	\$3,178
Medical	\$2,550	\$3,007	\$3,588	\$3,584
Entertain	\$2,565	\$2,297	\$1,371	\$896
Insurance	\$5,323	\$4,838	\$1,853	\$696
Personal	\$4,051	\$2,856	\$1,556	\$479

Income before taxes. Wow, look at that drop-off. If you're in your late 40s or early 50s, enjoy it while you have it, since it seems those are the peak earning years. Perhaps most shocking is that the average household led by someone 75 or older lives on \$23,890 a year. Is that due to an inability to do part-time work, or depleted savings? The survey doesn't say, but my guess is both. According to some studies, more than half of the people who retire are forced to do so because of health problems, not because they want to.

Average expenditures. Notice that there's a \$16,226 gap between the income and the expenditures of the average household headed by 45- to 54-year-olds. That gap serves as extra reserves that could pay for unforeseen large expenses. Now, notice that those gaps are \$2,875 and \$131 for the older

age groups, respectively. That's not much of a cushion. A failed jalopy, damage from a string of hurricanes, or out-of-pocket medical expenses could easily cause expenditures to exceed income.

Food. Keep in mind that these numbers are by household and the average household led by someone in the 45-54 group has 2.7 people, whereas the 75 and over household has just 1.5. So that's the biggest reason for the decline in food expenditures.

But notice that at-home food declined by 38% from the youngest group to the oldest, yet dining-out expenses declined 59%.

Housing. The kids are grown, so there's no need to maintain a four-bedroom house with a playroom in the basement. Also, older folks are more likely to have paid off their mortgages.

According to the survey, average annual mortgage costs dropped from \$4,061 for the 45-54 crowd to \$408 for those 75 and older.

Apparel and services. A big 67% drop in this category. That's partially explained by having fewer bodies in the house to clothe. But it's probably also the result of no longer having to maintain a work-related wardrobe.

Transportation. The costs of buying a vehicle drop more (about 72%) with older consumers than the costs of maintaining one (a 62% decline for gas and a 52% drop in repairs). The conclusion is that the more mature motorists don't drive as much -- partially because they no longer have a daily commute -- and thus they don't have to replace their vehicles as often.

Health care. No surprise here. Expenses actually increase as we age. The average 75-and-over household spends 41% more than the average 45-54 household, even with fewer people under the roof. As the cost of health care keeps rising, this will prove to be the Achilles heel of many retirement plans.

Entertainment. This is a fuzzy category. It included admissions, pets, audio-visual equipment, and playgrounds . But people have different ideas of what is entertainment." Indeed, many people have told me that their expenses increased after they retired because the time they used to spend working was now filled with playing -- which can be expensive, depending on your toys. I couldn't find "travel" or "airfare" or "cruise" or "parachuting" in the Consumer Expenditure Survey. However, I can tell you that spending on alcohol declined 69%, while spending on books remained fairly constant.

Insurance and pensions. These expenditures dropped a whopping 87%. The main reason: Non-workers no longer have to pay Social Security taxes, which are considered an insurance expense. After all, those taxes are known as FICA taxes, named after the Federal Insurance Contributions Act.

Personal taxes. This category saw the biggest decline from the 45-54 group to the 75-and-older group -- an 88% drop. Work-related income is taxed at a higher rate than many forms of retirement income. Plus, most retirees are in lower tax brackets.

Of course, these numbers are national averages. The important numbers are what *you* will spend in retirement. Look those categories over again. How much change do you expect? Do you think your entertainment budget will drop 65%? Do you want it to? Knowing exactly how much you will spend and comparing it to the income you expect will answer the question of whether you're ready to retire.

Robert Brokamp is the editor of the Motley Fool Rule Your Retirement newsletter service. The Motley Fool is "Fools Writing for Fools".

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(Recipes for the Culinarly Challenged)



!EASY SUMMER PIE!

(OH SO DECADENT!)

WHITE CHOCOLATE KEY LIME PIE

- 1 cup whipping cream
- 1 (11 oz) package white chocolate morsels
- 1 tablespoon sour cream
- 1 teaspoon grated lime rind
- 1/3 cup fresh Key Lime or fresh Lime juice*
- *(Key Lime juice is available bottled in many grocery stores)
- 1 (9 inch) ready-made graham cracker crust or your favorite recipe
- Lime slices for garnish

Combine cream and white chocolate morsels in a medium saucepan over low heat.

Cook 5 minutes or until morsels melt, stirring constantly.

Remove from heat.

Add sour cream, lime rind and juice.

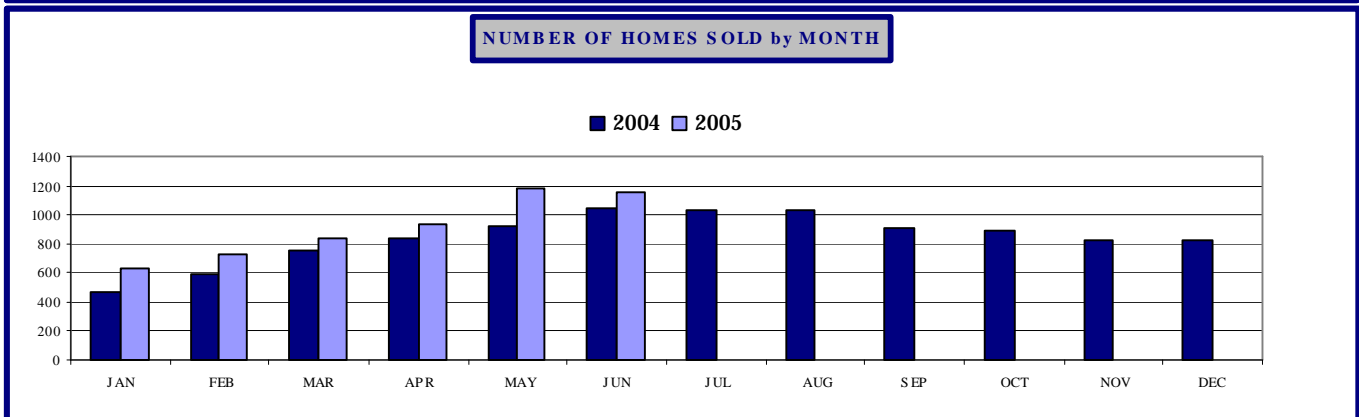
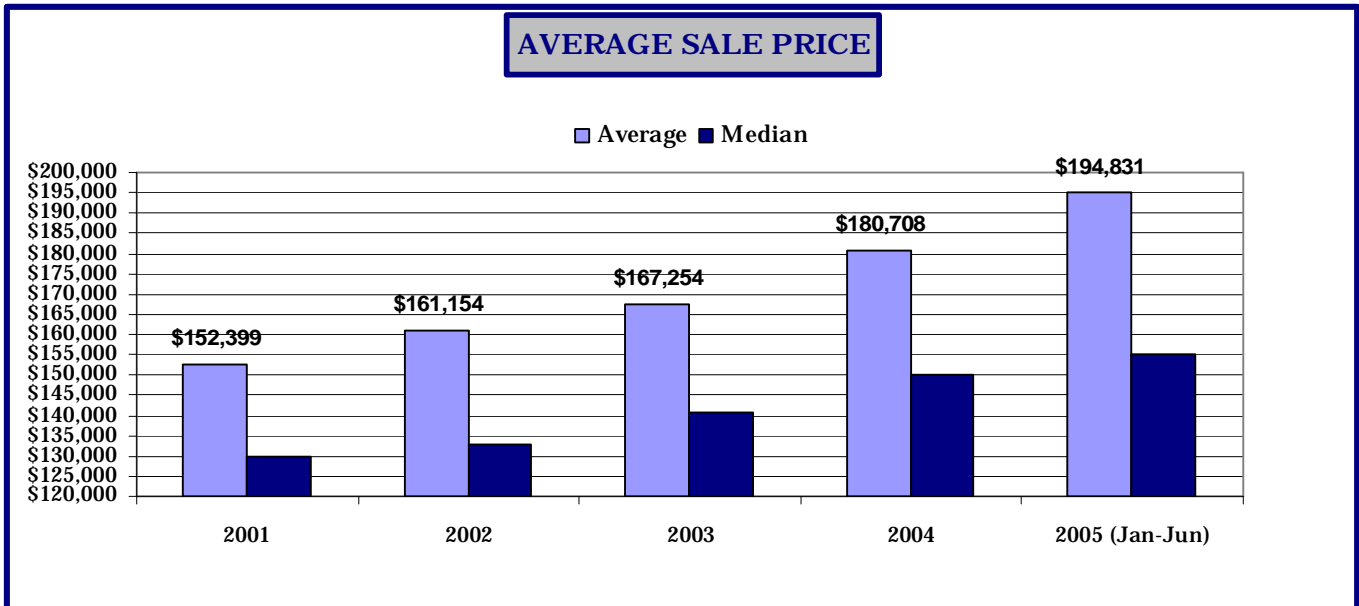
Pour into crust.

Cover and chill at least 8 hours.

ENJOY!



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Charts are derived from Multiple Listing Service statistics which are deemed reliable but not necessarily correct.

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Barbara Madaras

Coldwell Banker Legacy
505.301.1033 505.292.8900
www.AnAlbuquerqueHomeForYou.com BarbMadarCB@aol.com



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Barbara Madaras, Realtor



8200 Carmel NE
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BARBARA MADARAS, Realtor

505.301.1033 www.AnAlbuquerqueHomeForYou.com BarbMadarCB@aol.com
COLDWELL BANKER LEGACY 8200 CARMEL NE ALBUQUERQUE, NM 87122 505.292.8900

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