

MORTGAGEPLANNER

July/August 2007

The Future of the Mortgage Industry

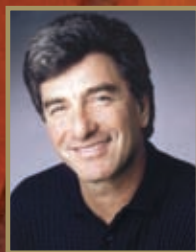
Lights! Camera! Action!

The Millionaire Mortgage Planner Conference
August 21-22 ★ Hollywood ★ USA



Jay Leno

Leading With His Chin



T. Harv Eker

What is Your
Money Blueprint?



Loral Langemeier

Waking Up Those
Lazy Assets



Mark Victor Hansen

Win the Heart of
Your Business

StrategicEquity **PHOTOS**
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25 Reasons the
Bubble Theory
Doesn't Fly

Perception vs. Reality

Wilbur Wright wasn't referring to the real estate market, yet the concept is every bit as applicable today. The "bubble" word has been uttered so many times by those with a pulpit that it's considered true in the minds of the masses. Just as many still believe that owning your home free and clear is the pinnacle of personal financial freedom, most of us now know that dispelling even deeply rooted conventional wisdom in favor of the facts can be enlightening and tell an altogether different story. As kids, we learn to fold paper into airplanes and delight in watching them sail across the room. As an older fellow with a desire to defy gravity, I learned that airplanes of the aluminum persuasion don't really sail on the air, rather, the curvature of the wing creates a pressure differential so the wing is literally sucked up into this void. As long as there is "relative wind" or the motion of air over the wing at a sufficient speed, that wing,

by Brian Larrabee



**Brian Larrabee
ready to take
off in an old
barnstormer
bi-plane.**

**“If we worked on
the assumption
that what is
accepted as true
really is true,
then there would
be little hope
of advance.”**

**— Wilbur Wright
(1867-1912)**

and therefore the plane, will fly. Coming to that mind-bending realization is not unlike the “aha” moment when you learn that paying off your mortgage is a mistake.

After earning my own wings and honing my skills in the cockpit, I yearned for even more excitement. I found this by doing aerobatics in a vintage, open cockpit bi-plane and again in a glider over the northern hills of Napa Valley. Yeah, I know, why fly upside down in a roofless plane that’s older than me or try one without a motor? Good question! But, since I’m the same guy that never landed in a plane until his third flight (I jumped out to descend by parachute the first two times), this was sedate.

Glutton for punishment that I am, I sought out this ultimate adrenaline rush of aerobic flight in an old barnstormer bi-plane again the next year over the cool waters of Nantucket Sound. It is funny what can go through your mind as you hit the point near the top on a loop where you go weightless and the blue sky and glare from the sun filling your canopy turns into that unusual horizon where the ground is on top and the sky is down below. For those of you that haven’t been

there, absent the headache, it’s not too much different than waking up with your head hanging upside down off that beachside picnic table after a night of overindulgence in margaritas.

What occurred to me at that precarious point was that old ground school lesson about the curvature of wings creating lift and the ability to fly. What made me recall this after spending all that time top side down in a perfectly good airplane? It was the sudden realization that the lift giving curves of my wing tops were now facing the wrong way! So as we’re completing our crest and begin hurtling towards the white capped waters three thousand feet below, I relax the throttle, tighten my grip on the stick ‘til my knuckles turn white, feel the air rushing by faster and faster, sense the blood that had momentarily pooled in my head find its way back to my feet, prep my body for the tremendous “g” force of pulling up at the bottom of the loop and make a casual mental note to ask my instructor why we weren’t dead.

Back on terra firma, with the goggles and leather helmet stowed away, my wallet drained of cash, I posed my question about inverted wings to the instructor. “That’s complicated, you might just want to do some research” is about all he mustered in return.

“Research” he said. Well that rings true, whether it’s the theory of flight or learning what really makes the real estate market tick. Given obfuscation in our news or resting comfortably in our own ignorance, our knowledge is incomplete. Research and information fills the void.

Speaking of voids, the air pockets created as the general media throws out hooks to grab our attention sufficiently enough to prevent us from flipping channels while we sit through three minutes of commercials distort the truth at best. At worst, it leaves us at the controls of our own destiny with all of the aerodynamic security of a cinder block at 30,000 feet.

Confronted with a gut instinct fueled by years in all things housing-related telling me one thing and a steadily

growing prop wash of analysts, so called experts and probably more than a few survivors of the “tech-wreck” now seeking redemption by berating the run up in real estate values singing a different tune, it was time to do some real research and to put this “bubble” theory back in the hangar.

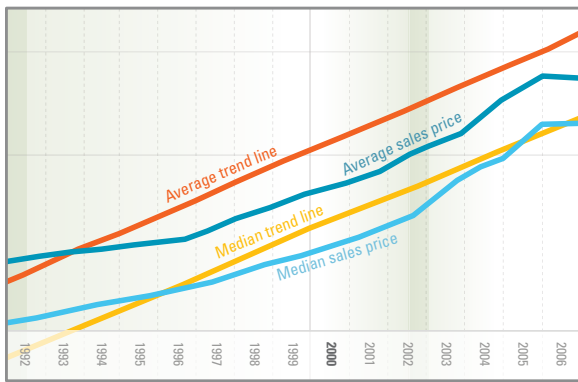
Reality Check

Allow me to share some of the things that I’ve learned.

1 Using national median sales prices, real estate values have risen by about 6.6% since 1963. Hardly a supersonic pace.

2 The “bubble” as it’s referred to, is a short number of years during which values had exceeded that 6.6% average by a large margin. Funny thing is that for 21 years prior, the appreciation rate was decidedly below average.

3 These last few years of above average appreciation have done nothing but bring the country back to the 42 year trend line after quite a few years below it. This is no “bubble,” it’s just catch up time. (See illustration below).

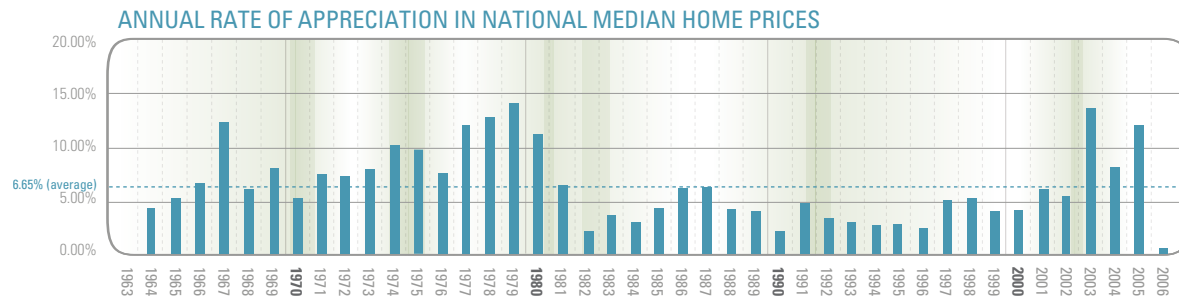


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4 Economists say that housing has outpaced the rate of wage increase. This is true, but they’re using measures not necessarily reflective of today’s society.

5 In fact, the average annual increase in “disposable income” is approximately 6.4%. I’d say that’s pretty close to the average appreciation rate of 6.6%.

6 The housing participation rate is slightly under 70%. That’s a record high and it reflects a growing demand which can only lead to higher prices.



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7 Not only low rates, but longer loan terms and more flexible loan options have allowed many to become new homeowners. Most of these individuals will not go back to being renters.

8 Population growth advances at close to 3 million people per year. As we have an average of fewer than 3 people residing in each housing unit, we'll continue to need more than a million new homes per year.

9 As buildable land becomes scarcer due not only to density but tougher restrictions and wetlands laws, both land and existing home prices will rise.

10 Interest rates rise and fall with the presence or absence of inflationary pressure. In housing, inflation will cause prices to rise yet falling rates can eclipse deflationary forces by stimulating affordability, increasing participation and demand and in turn, fuel price increases or at least, prevents declines. Some houses are a luxury item, yet, they still provide one of the most basic of all necessities — shelter. The need for that won't disappear in good times or bad.

11 Economists say houses have outpaced inflation and that's a recipe for a fall. I say housing is a hedge against inflation (see prior reason).

12 Housing is one of the last great tax deductions available to the average person.

13 I might change my mind if Mr. Shiller sells his houses but his wife won't let him (listen to Barry Habib's and Sue Woodard's MMG conference call with Mr. Shiller). Mr. Shiller is about the biggest housing bear going. If even he refuses to hibernate during his perceived storm, that's pretty telling.

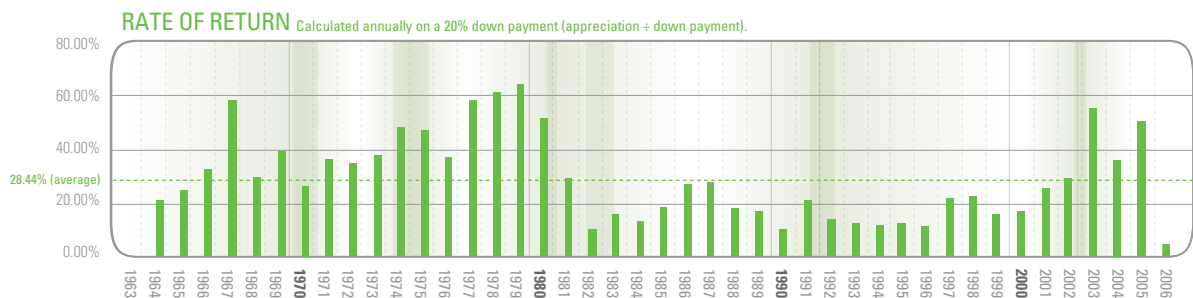
14 Average house sizes alone are growing at better than 1% per year. Bigger houses cost more money.

15 An increase of 6.6% in house prices earns you about 28% on your 20% down payment and that's before the tax deductions.

16 Cities will always remain where they were first built. Even if their locations were selected by their proximity to navigable waterways and prone to hurricanes, floods, volcanoes or earthquakes. Some have even been rebuilt in the same place after proving the probability of natural disaster is very real.

17 Since the highest paying jobs are usually in cities, you have to live close enough to work there. Since most people want those jobs, they will all pay more to live close enough to get there without spending four hours in the car or on the train every day.

18 Supply and demand. We all need a place to live; we don't need stocks; we don't need tulip bulbs; we don't need frozen orange juice futures, just a glass will do. In other words, you can't compare something



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with enduring intrinsic value (basic shelter and land) to something with fleeting or even no future value beyond the paper on which it's printed.

19 Most houses are made of wood. It takes a long time to grow a tree (I didn't have to do much research to figure this one out). The components of our homes and the cost of the labor to assemble them are at the least protected by inflation for, unless our homes are abandoned to the elements, they are quite durable.

20 At least so far, we make our own houses, not the Chinese.

21 The cost of mortgage financing across all measured households, is only about 11% of disposable income. While this is clearly skewed by older homeowners with little or no payments, it still underlines the overall degree of affordability.

22 Our population is aging. As a group, the highest percentage of home owners falls into the higher age brackets. In other words, the older you are, the more likely you are to own a home and as the boomers age, we will have even more owners.

23 Single person occupancy. As more people live ever longer, single occupancy continues to grow. While it may not be the most financially prudent, have you tried telling Grandma she has to leave or "shack up?" Emotional attachment and good old stubbornness are not factors that economists usually model. But they should.

24 Speaking of stubbornness, most would-be sellers confronted with the realization that if they sell, it will be for less than they truly thought their house to be worth will simply remove it from the market and wait until the market returns.



Brian Larrabee
sitting in a glider
cockpit in Napa.

25 A house is more than just a house, to most, it is a home. It's where we raise our families; it's where we carve our histories into door frames; it's where we form our memories of youth, marriage, parenthood and beyond.

Growing Opportunities

So, despite what the media may tell us, despite what Wilbur Wright was told, to those that warn of the impending crash, I say sure, the possibility exists. Yet, if it does, it'll be due not to fundamentals gone wrong but a self fulfilling prophecy seeded by ignorance and unfounded panic. It seems to me that despite a little upheaval, turbulence or even temporary inversion, the housing market, just like the wing of a plane, will keep on flying.

Back in the Wright Brother's day, crowds gathered in the dunes at Kitty Hawk knowing that they might see something heavier than air take flight or perhaps witness a sensational crash. This is not too far from the collective expectations for our housing market today. Have we witnessed a short departure from the ground followed by a "soft landing" or are we expecting a crash? As Mortgage Planners, I think we all should be like the one really smart individual in the crowd back at Kitty Hawk who sensed the real opportunity and bought up all the land around that little strip of once desolate land that's now a national historical treasure and destination for thousands of tourists.

Opportunity disguises itself in many ways. Rarely is it obvious. Knowing the history of our market best prepares us to anticipate the future, identify those opportunities for your clients and fly at the leading edge of your practice. ■

Brian T. Larrabee

is a 27-year veteran of the real estate and mortgage banking industries and founder of Estate of Mind, Inc, a publisher of educational and promotional products for mortgage and real estate professionals. Learn more at www.estateofmindinc.com.