

2009 WICHITA HOUSING MARKET FORECAST

# House of Illusions



# House of Illusions

The housing market has fallen into a bottomless pit, or so it would seem from the nightly news reports. But not everything is as it first appears. Some “facts” that we know are not really true, while others do not mean what we think. Our goal with this year’s forecast is to help you separate reality from illusion so that you may reach your goals in Wichita’s housing market.

- Dr. Stanley D. Longhofer  
Director, WSU Center for Real Estate

*“Illusion: n. Perception of something objectively existing in such a way as to cause misinterpretation of its actual nature.”*

- Merriam-Webster Online

Thanks to the many colleagues and friends who have helped make the 2009 Wichita Housing Market Forecast possible:

- John Beckman, First Horizon Home Loans
- Debra Franklin, WSU Center for Economic Development and Business Research
- Anne Gallagher, WSU Center for Economic Development and Business Research
- Kasey Jolly, WSU Center for Economic Development and Business Research
- Dr. Julie Longhofer, My Lovely Assistant
- Mary Jane Townsend, WSU Center for Economic Development and Business Research
- Jason Van Sickle, WSU Center for Real Estate
- Nikki Yodo, WSU Center for Real Estate

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- Jeffrey T. Van Sickle, McCluggage, Van Sickle & Perry
- William R. Wood II, Foulston Siefkin LLP

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# Real Friends

We are deeply grateful to the following companies and individuals for their generous contributions to support the Center for Real Estate. Without their faithful support, the Center for Real Estate would vanish into thin air. We are especially grateful to **First American Title**, whose contributions directly underwrite the cost of preparing this forecast.



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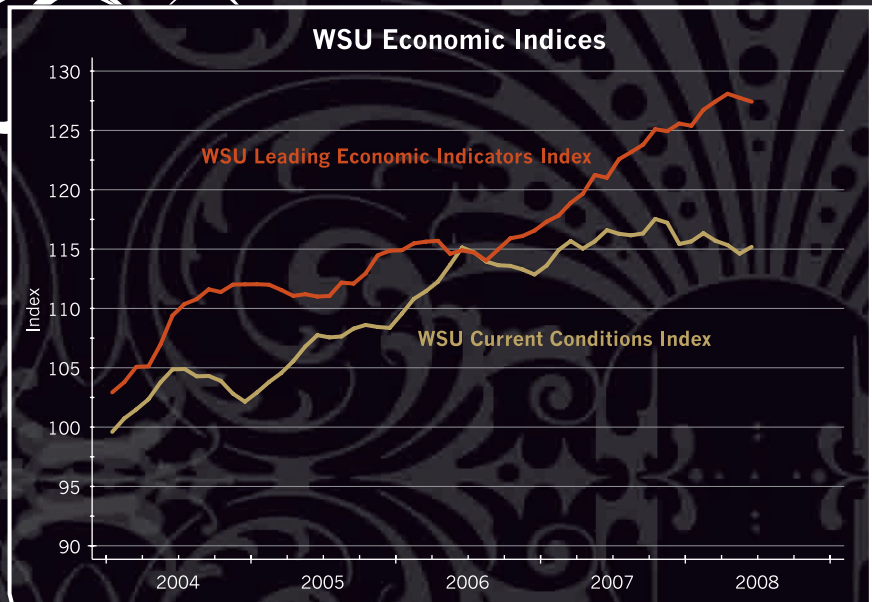
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# Economic Overview **An**

*“The strong local economy has been Wichita’s ace in the hole throughout much of the national housing market downturn.”*



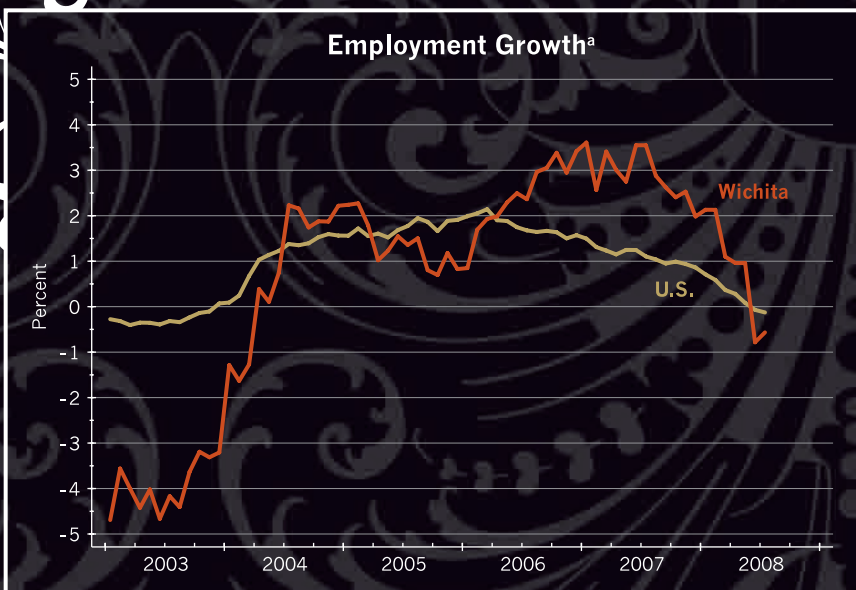
The strong local economy has been Wichita’s ace in the hole throughout much of the national housing market downturn. Now it appears to be more of a wild card. The WSU Current Conditions Index fell slightly over the past year, off 2 percent since its peak in October 2007. Ironically, however, much of this decline has been due to slowing home sales, an important component in the index.

# Ace in the Hole?

In contrast, the WSU Leading Economic Indicators Index has risen steadily in each of the last five years, although it did decline slightly this summer.

After two stellar years, employment growth in Wichita has slowed in recent months, turning negative this summer. Whether employment rises in the coming year depends in large part on whether the strong backlog of aircraft orders holds firm in the wake of a slowing national economy.

*“Ironically, the recent decline in the WSU Current Conditions Index has been due to slowing home sales.”*



# Mortgage Markets A Dis

If there is one area where the national housing market downturn is affecting the Wichita market, it is through the reduced availability of credit. According to a recent Federal Reserve survey, three quarters of all domestic commercial banks have tightened their standards for residential mortgages.

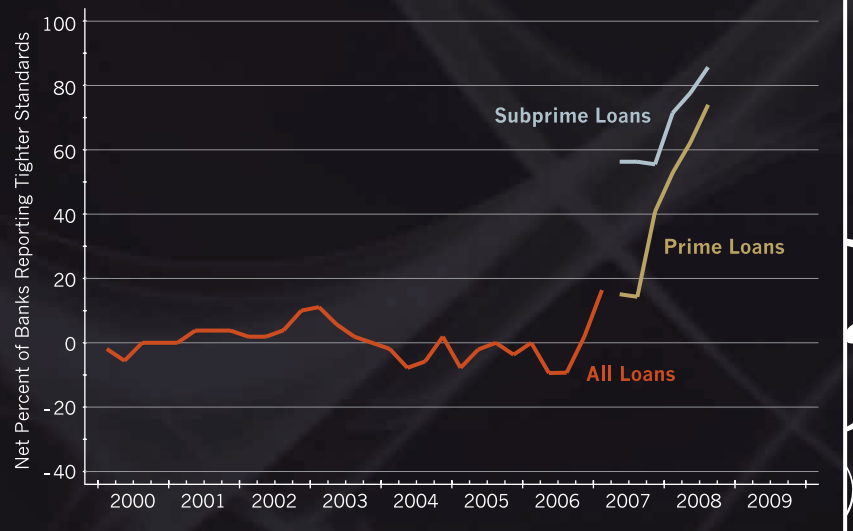
Zero down payment mortgages have performed a disappearing act over the past year. Likewise, lenders are now applying more traditional income and creditworthiness guidelines.

*“30-year mortgage rates are expected to remain low for the foreseeable future.”*

*“Zero down payment mortgages have performed a disappearing act over the past year.”*

While these changes may be good in the long run, they are putting the squeeze on first-time homebuyers, who must now save for a down payment and repair their credit before they buy a home.

**Tightening Mortgage Credit Standards<sup>a</sup>**



Sources: Board of Governors of the Federal Reserve System; Federal Home Loan Mortgage Corporation (Freddie Mac); Mortgage Bankers Association  
 Notes: a) Beginning with the April 2007 survey, the “all loans” category was separated into “prime,” “subprime,” and “alternative” mortgage products  
 b) Mortgage Bankers Association August 2008 forecast of the 30-year conventional mortgage rate

# Disappearing Act

*“The easy credit of recent years has not led to a sharp rise in local foreclosure rates.”*

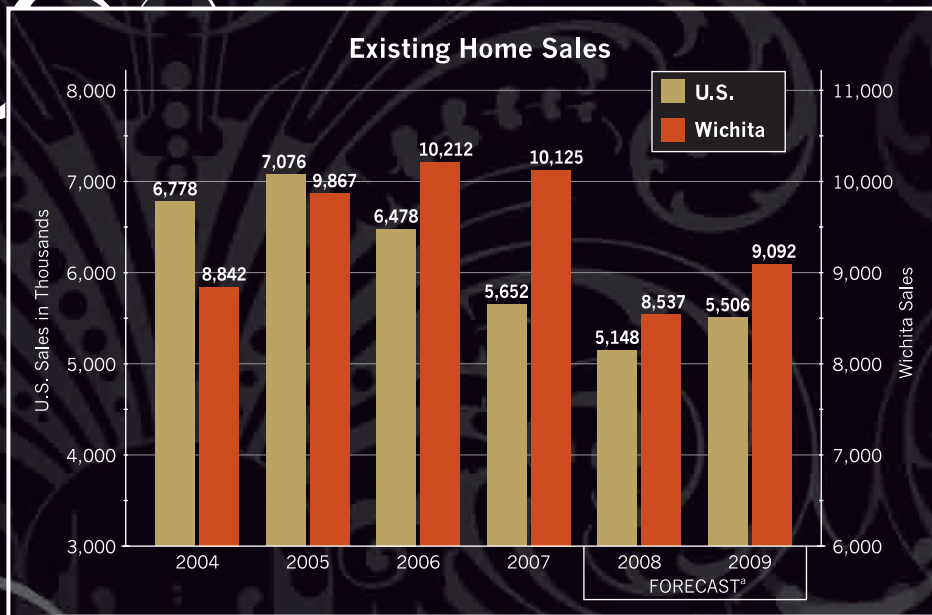


The good news is that mortgage rates are still quite low by historical standards, and are not expected to rise substantially for the foreseeable future. In addition, the easy credit of recent years has not led to a sharp rise in the Sedgwick County foreclosure rate, in contrast to what has happened in many other parts of the country.



# Existing Homes Illusion of

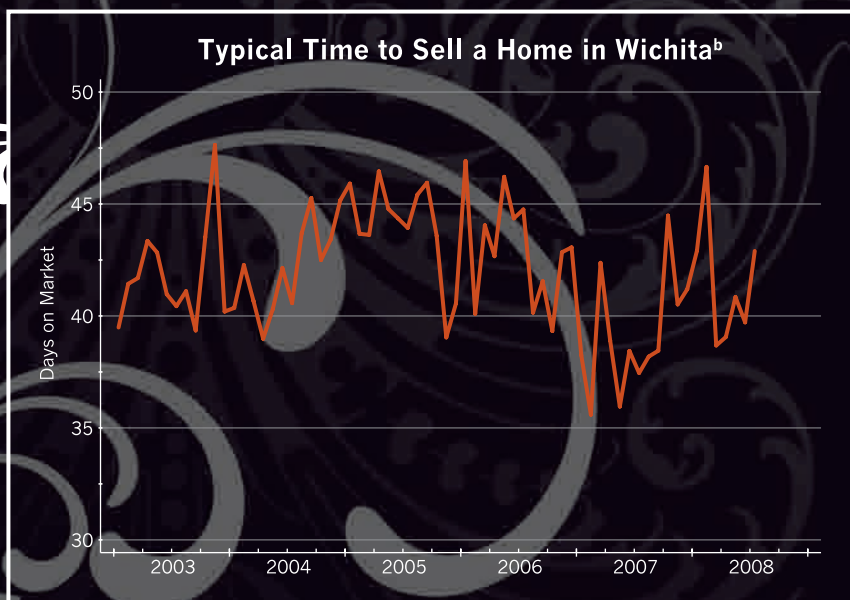
*“The reality is that Wichita’s housing market remains fairly balanced.”*



There is so much we think we know about the housing market right now. But separating the reality from illusion is not always as easy as it seems.

Wichita home sales have fallen over the past year, as tightening mortgage standards have forced some first-time homebuyers out of the market. Even more important, however, has been the pall cast by continuing stories about the national housing market downturn.

*“Existing home sales should rebound in 2009, rising by 6.5 percent.”*





# r Reality?

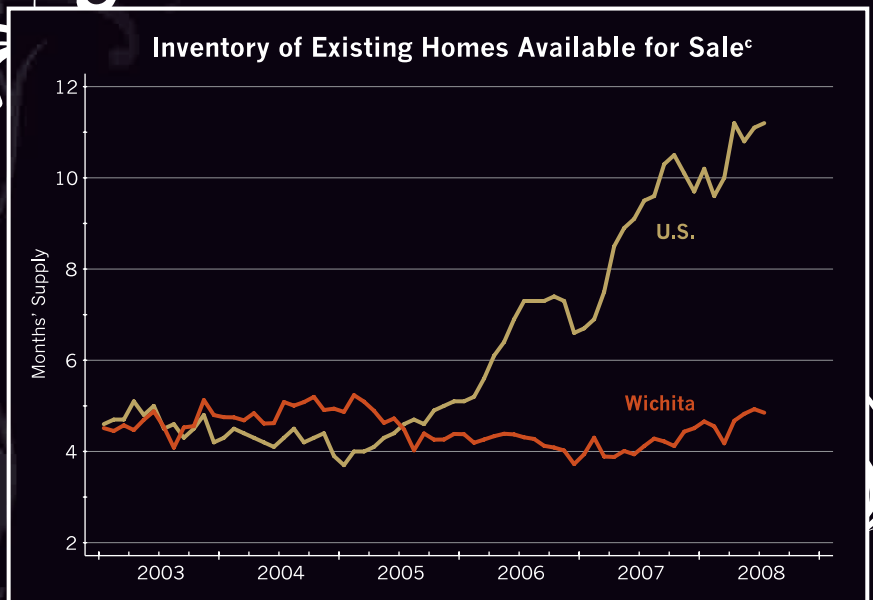


*“Reality, in fact, is always something you couldn’t have guessed.”*

- C.S. Lewis

The reality is that Wichita’s housing market remains fairly balanced, even as home sales have slowed. Homes on the market are still selling quickly (typically in about 40 days), and we have less than a five months’ supply of existing homes available for sale on the market.

When will sales rebound? It depends in large part on when potential buyers decide to dispel the illusion cast by national news reports and begin looking instead at the reality of our market.

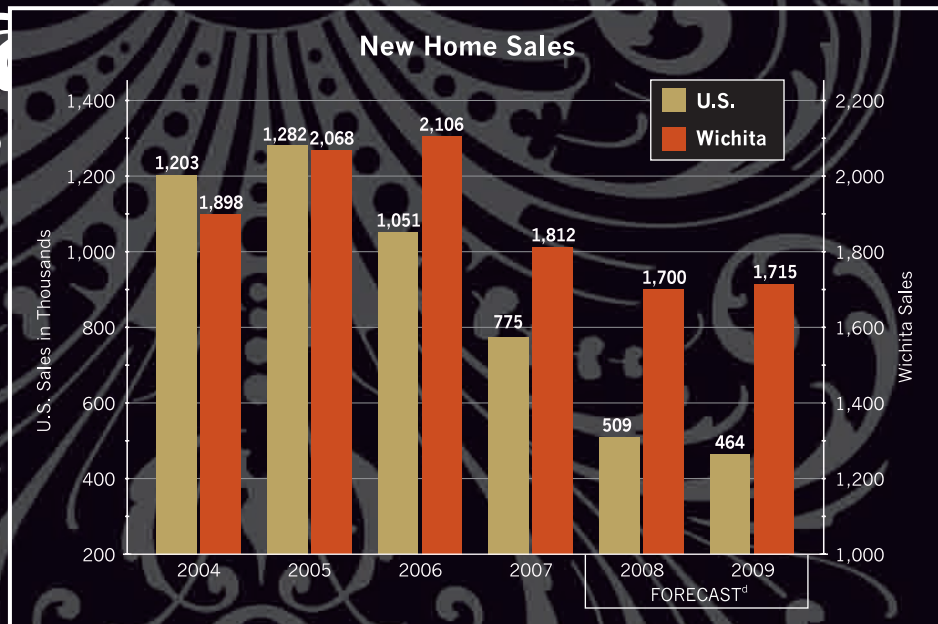
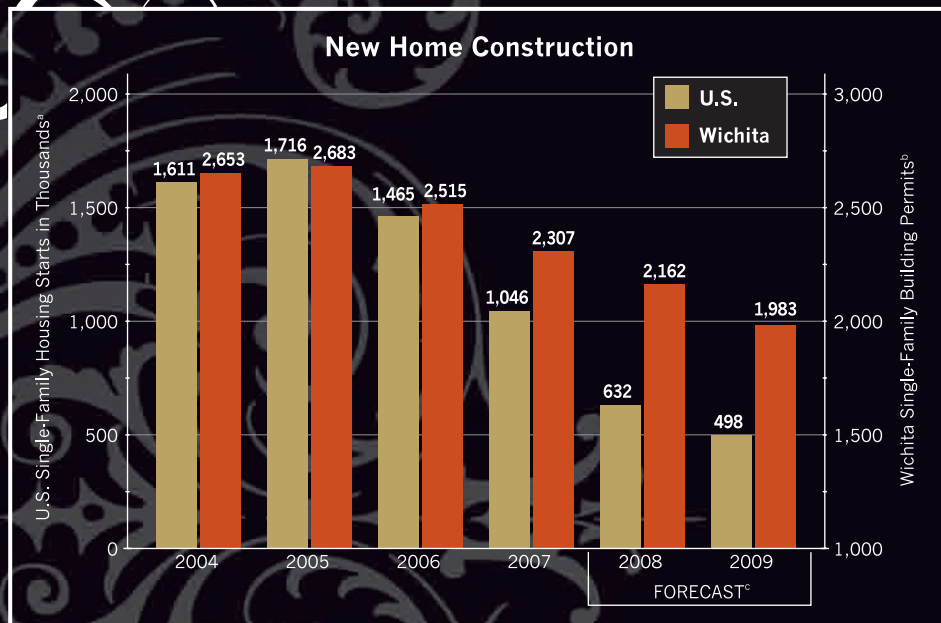


Notes: b) Median number of days between listing and contract dates, seasonally adjusted  
 c) Ratio of active existing home listings to existing home sales, seasonally adjusted



# New Homes Escaping the Trap

Lately it seems that Wichita's new home market has been chained in a trap. New home sales have fallen sharply since 2006 as fears about the credit crunch and a possible recession have discouraged many potential buyers.



*“The current new home inventory shouldn't present the long-term overhang problems that will be felt in some markets across the U.S.”*

Sources: Wichita Area Builders Association; U.S. Census Bureau/U.S. Department of Housing and Urban Development; National Association of REALTORS®; South Central Kansas MLS; WSU Center for Real Estate

Notes: a) New privately owned single-family housing units started (housing starts)  
 b) Single-family residential building permits in the Wichita area as collected by the Wichita Area Builders Association

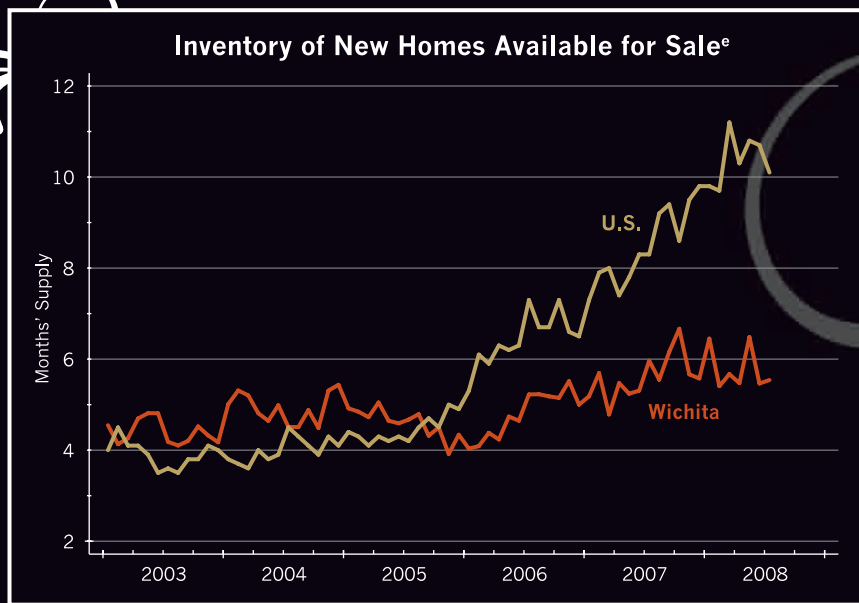
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*“Construction growth will resume once new home sales rebound, which should begin in 2009.”*

Although inventories have risen over the past three years, the current five to six months' supply is not excessive and shouldn't present the long-term overhang problems that will be felt in some markets across the U.S.

When will we escape the trap we're in? The first step is for new home buyers to recognize that the problems in other parts of the country are not all that relevant for us in Wichita.

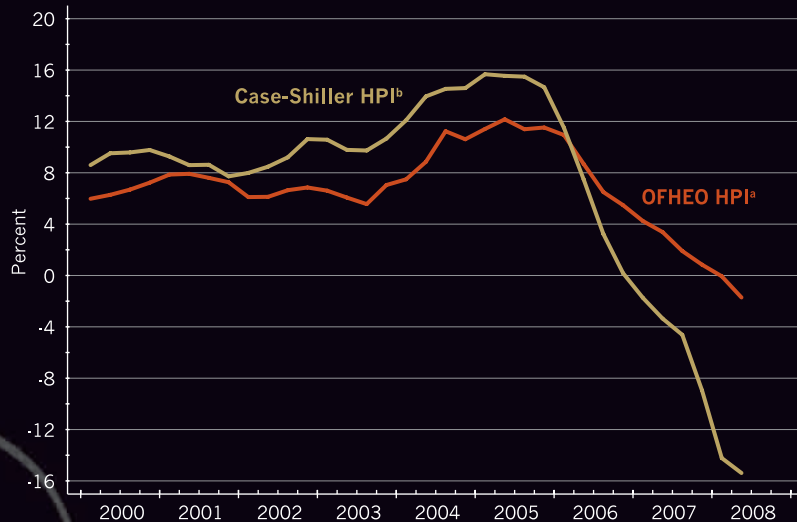


Notes: c) U.S. forecast is the National Association of REALTORS® August 2008 forecast of national single-family housing starts  
 d) U.S. forecast is the National Association of REALTORS® August 2008 forecast of national new single-family home sales  
 e) Ratio of active new home listings to new home sales, seasonally adjusted



# Home Prices Defying Gravi

### U.S. Home Price Appreciation



The national headlines just get worse and worse. According to the widely-cited S&P Case-Shiller index, U.S. home prices in the 2nd quarter fell by 15 percent from their values a year earlier.

Such reports make great headlines, but it turns out that the Case-Shiller index is heavily biased toward what is happening in the largest, most expensive markets across the U.S. A better reflection of typical U.S. home prices is provided by the OFHEO house price index, which showed that prices fell by less than 2 percent through the second quarter of this year.

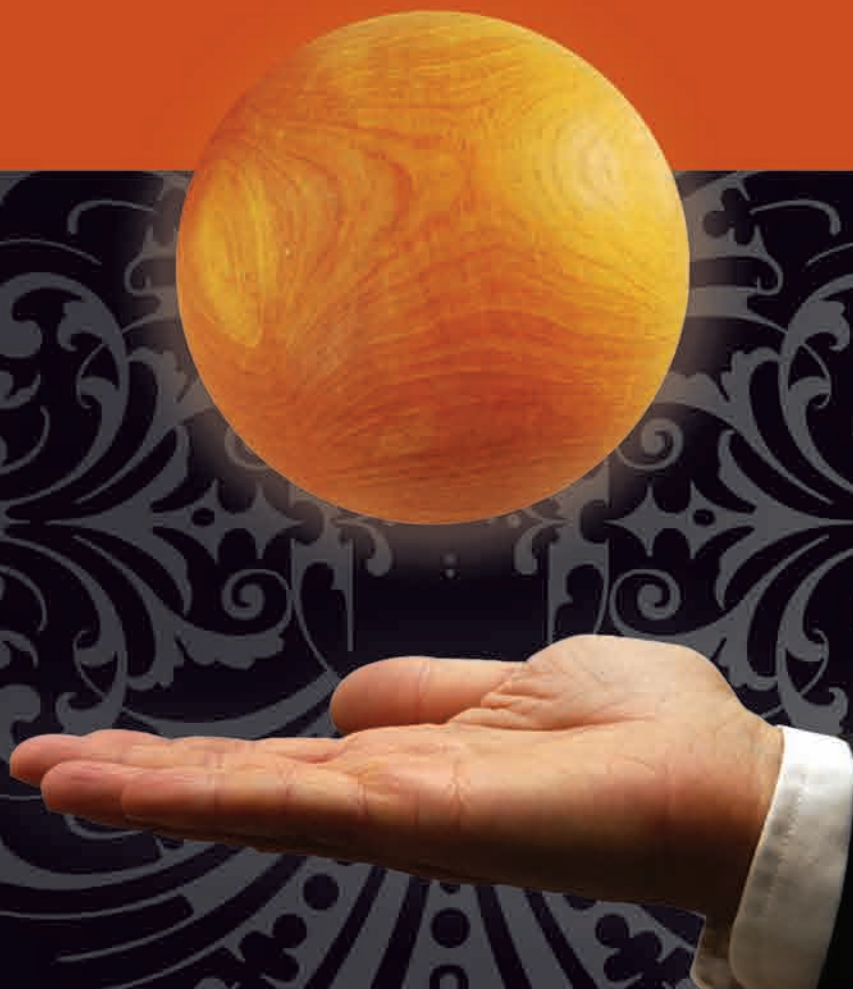
*“The Case-Shiller index is a poor measure of what is happening to the values of most American homes.”*

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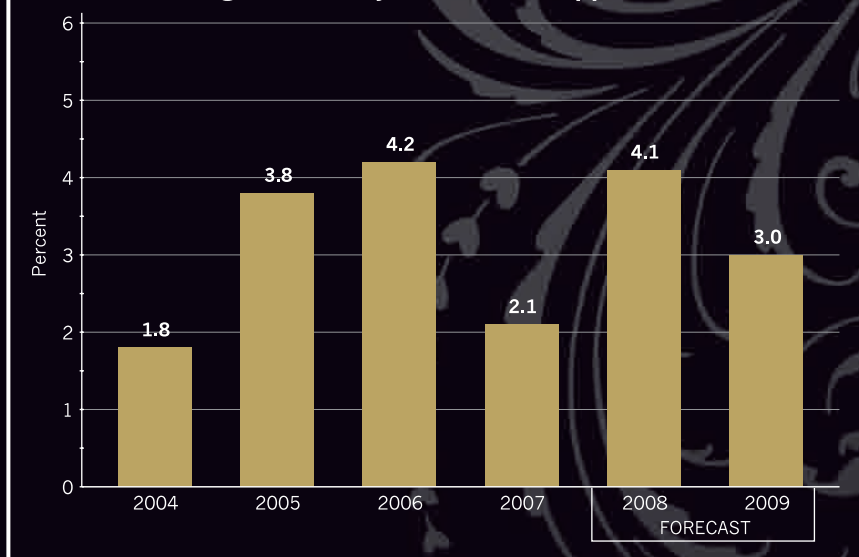
*“Reality is merely an illusion,  
albeit a very persistent one.”*

- Albert Einstein

Here in Wichita, home prices continue to defy the gravity of the national press reports, with prices rising by 3.3 percent over the past year. This appreciation should accelerate through the end of this year, before slowing somewhat in 2009.



**Sedgwick County Home Price Appreciation<sup>c</sup>**



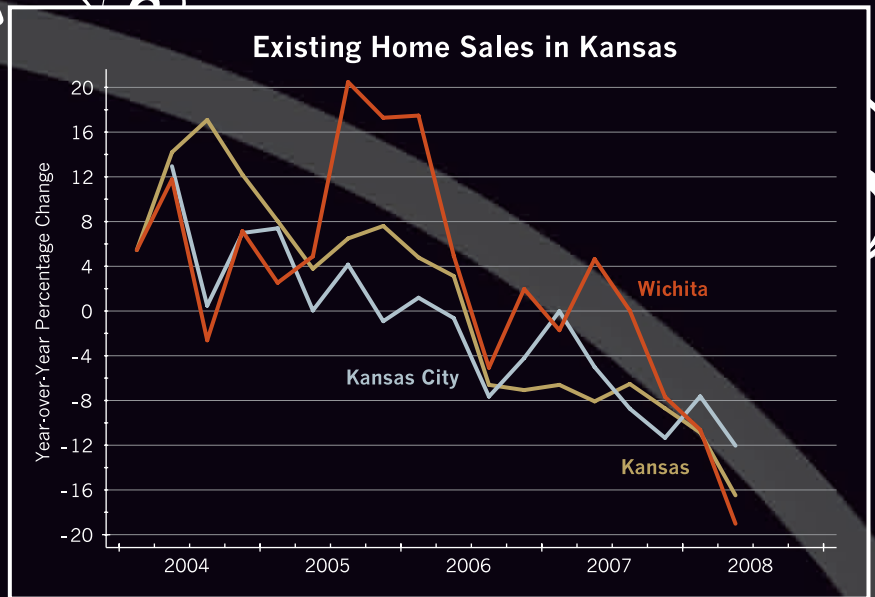
*“Wichita area home prices should rise by 4.1 percent in 2008 and another 3.0 percent in 2009.”*

Notes: b) Year-over-year percentage change in the Standard & Poors, Case-Shiller U.S. house price index  
c) Year-over-year percentage change as measured using 4th quarter values



# Kansas Homes State of th

“Existing home sales have slowed throughout the state over the past two years.”



You already know how well we cover the Wichita housing market. What you may not know is that we track the rest of the state as well. Here is just a sampling of the data we have.

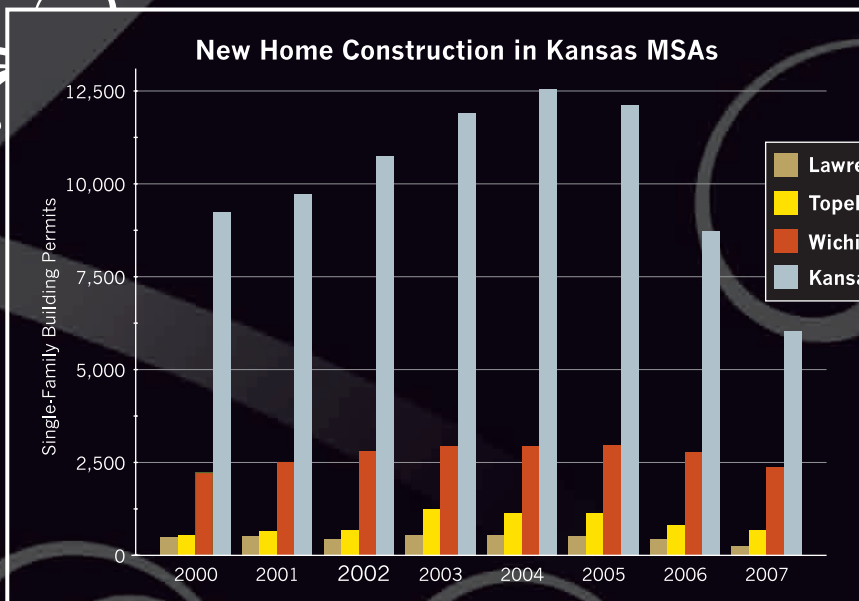
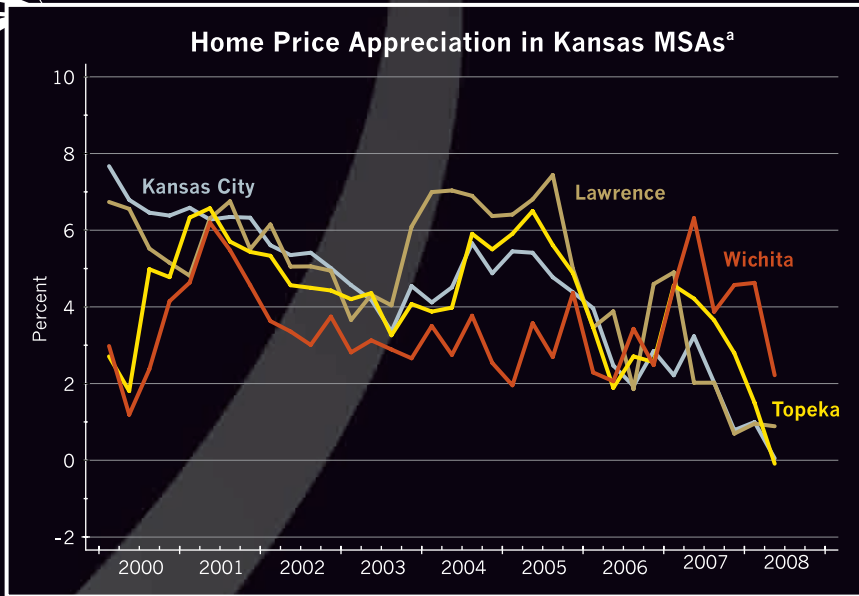
“The illusion that times that were are better than those that are, has probably pervaded all ages.”

- Horace Greeley



# e Market

*“Topeka is the only metropolitan area in Kansas that has seen home prices fall over the past year.”*



Note: a) Year-over-year percentage change in the OFHEO all-transactions house price index



# FAQs **Beating the Shell Game**

With all the negative housing market stories of late, buying or selling a house may feel like a shell game. Any time can be a good time to buy or sell if you go into the market with open eyes and good counsel.

Here are some common questions we've been hearing of late.

## *I'd like to buy my first house, but I'm afraid I won't be approved for a mortgage.*

Actually, loans for first-time home buyers are widely available and mortgage rates are still quite low. But you will need some savings for a down payment and closing costs, generally at least three to five percent of the purchase price, and more is better.

In addition, your credit score is more important than ever before, as it can affect not only whether you are approved, but also what rate you will pay.

Regardless of your past credit, it is worth getting a pre-approval before you shop for a home. Many lenders will do this for free, and it will help you know whether you are ready to buy a home and how much you can afford if you are.

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## *I've heard about all these mortgage scams. How do I find a good lender?*

First, get references from your real estate agent or friends and neighbors who have recently obtained new mortgages. Make sure your lender has been in the business for a while and will continue to be in the future. It's also good to work with a local lender. That way, if any problems arise you have someone you can meet with face-to-face to get them resolved.

Next, don't delude yourself about how much you can afford to pay on a mortgage. Many of the people losing their homes to foreclosure these days simply over-stretched themselves, taking on more debt than they could handle.

Finally, if a deal seems too good to be true, it probably is.





*I'm ready to move up, but I'd have to sell my current home. Isn't the market flooded with homes for sale right now?*

Actually it's not. Although sales have been down this year, so have listings. As a result, the inventory of homes available for sale is remarkably low (less than a five months' supply in July).



*Even so, it will take forever to sell my home.*

Not true. In the first half of this year, more than three quarters of all homes sold in less than three months. The homes that sit on the market for a long time are typically in poor condition or listed for an unreasonable price. Homes that are in move-in condition and properly priced continue to sell quite quickly.



**Look for more helpful tips, resources and links for homeowners and buyers on our website at [realestate.wichita.edu](http://realestate.wichita.edu).**

# Roundtable Star Performers

*Each August, the Center for Real Estate brings together the area's top residential real estate professionals for our annual Real Estate Roundtable. As we look into the mist to forecast the future, we are indebted to the real magicians who know the tricks of the trade and provide their insights to help us separate reality from illusion.*

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LeAnn Adams, Grubb & Ellis | Martens Commercial Group  
Marsha Allen, RE/MAX Realty Professionals

Kathy Baker, Prudential Dinning-Beard

Stephen Banks, Wichita/Sedgwick County MAPD

John Beckman, First Horizon Home Loans

Liliya Bell, WSU Real Estate Student

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Jeremy Broadstreet, Wells Fargo Home Mortgage

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Brian Brundage, Mike Grbic Team - Coldwell Banker

Bradley Bugner, Community Bank

Elissa Buller, Grubb & Ellis | Martens Commercial Group

Don Burford, Jeff Lange Real Estate

Cindy Carnahan, The Carnahan Group - J.P. Weigand & Sons, Inc.

Sue Christensen, Mortgage Centre a Division of Equity Bank

Bud Cortner, Keller Williams Hometown Partners

Joan Downs, C. Downs Realty

Kevin Dreiling, Restaurant Management Company

Lily J. Duncan, Lily Duncan Realty, Inc.

Sandy Dunn, New Home Marketing

Mark Farha, Farha Development

Grant Farha, Mike Grbic Team - Coldwell Banker

Stephen Farmer, Bank of America

Becky Forcht, Wells Fargo Home Mortgage

Jeremy Fouse, Mike Grbic Team - Coldwell Banker

Gary Franz, RE/MAX Associates of Newton

Angie George, Plaza Real Estate

Curtis Gibson, Grubb & Ellis | Martens Commercial Group

Dustin Girrens, First Horizon Home Loans

Patrick Goebel, Star Lumber & Supply Co., Inc.

Michael Gonzales, M.E.G. Investment Group

Mike Grbic, Mike Grbic Team - Coldwell Banker

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Steven Hadley, SNB Bank of Wichita

John Head, Coldwell Banker Stucky and Associates

Gary Hill, Coldwell Banker Stucky and Associates

Charlie Houlik, Keller Williams

Tod Howard, M.E.G. Investment Group

Jill Johnson, Dave Neal and Associates

Penny Johnson, Keller Williams

Dorsha Kirksey, Sedgwick County Housing Department

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Lonny McCurdy, McCurdy Auction Service

Sandy McRae, Prudential Dinning-Beard

Kate Mix, Prudential Dinning-Beard

Troy Moellinger, Estates Unlimited

Carole Morriss, J.P. Weigand & Sons, Inc.

Clifford Nies, Nies Construction

Vince Nikkel, Coldwell Banker Stucky and Associates

Barry Park, Fidelity Bank

John Potochnik, Copperleaf Creek, LLC

Shari Rickard, Real Estate Connections, Inc.

Linda Robbins, J Russell

Steve Robl, Robl Construction

Sonja Rogers, Keller Williams

Susan Rowl, Sunflower Bank / WSU Real Estate Student

Tammy Sanders, Coldwell Banker Stucky and Associates

Patty Sanders-Dowty, Prudential Dinning-Beard

Dana Schafer, Verus Bank

Cathy Schmitt, Flint Hills Realty Company

Gary Schmitt, Intrust Bank

Kirissa Shipp, Mike Grbic Team - Coldwell Banker

Wayne Short, RE/MAX Realty Professionals

Barbara Smith, New Home Marketing, Inc.

Sarah Stanton, WSU Real Estate Student

Bryon Stevens, J.P. Weigand & Sons, Inc.

Debi Strange, Prudential Dinning-Beard

Frank Stucky, Coldwell Banker Stucky and Associates

Amelia Sumerell, Plaza Real Estate

Larry Theurer, United Country - Theurer Auction

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Alissa Unruh, J.P. Weigand & Sons, Inc.

Lawrence Volbrecht, Estates Unlimited

Gary Walker, J.P. Weigand & Sons, Inc.

Chuck Warren, Plaza Real Estate

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Danielle Wildeman, J.P. Weigand & Sons, Inc.

Karen Wilkins, J.P. Weigand & Sons, Inc.

Melissa Womack, J Russell

James Wood, New Home Marketing, Inc.

Greg Yocom, Prudential Dinning-Beard

# Forecast Summary

## HOUSING MARKET ACTIVITY

	2007				2008	
	Q1	Q2	Q3	Q4	Q1	Q2
HOME PRICE APPRECIATION <sup>a</sup>	3.78	2.86	2.07	2.12	2.44	3.34
EXISTING HOME SALES	2,061	3,018	2,810	2,236	1,843	2,445
Volume <sup>b</sup>	224,684	364,818	344,892	260,745	209,182	309,376
Median Price	90,000	108,833	106,000	97,900	95,000	112,800
Percent of List <sup>c</sup>	98.15	98.84	98.42	97.86	97.95	98.62
Days on Market <sup>d</sup>	46	33	35	44	49	35
Months' Supply <sup>e</sup>	4.04	3.94	4.21	4.36	4.46	4.81
NEW HOME SALES	402	523	452	435	362	464
Volume <sup>b</sup>	81,977	107,085	97,932	94,997	81,098	113,874
Median Price	169,281	169,900	185,403	180,510	191,206	197,698
Months' Supply <sup>e</sup>	5.22	5.34	5.89	5.97	5.84	5.81
BUILDING PERMITS <sup>f</sup>	561	653	605	488	487	576

## HOUSING MARKET FORECAST

	2008		2009			
	Q3	Q4	Q1	Q2	Q3	Q4
Home Price Appreciation <sup>a</sup>	3.87	4.05	3.86	3.49	3.18	3.00
Existing Home Sales	2,310	1,943	1,652	2,768	2,539	2,136
New Home Sales	439	435	368	489	437	421
Building Permits <sup>f</sup>	605	494	477	543	524	438

Sources: WSU Center for Real Estate using data provided by the Sedgwick County Appraiser's Office; South Central Kansas MLS; Wichita Area Builders Association

Notes: a) Year-over-year percentage change in the WSU HPI for Sedgwick County

b) Millions of dollars

c) Median sale price as a percent of listing price

d) Median number of days between listing and contract dates

e) Quarterly average of the seasonally adjusted monthly ratio of active listings to sales

f) Single-family residential building permits in the Wichita area as collected by the Wichita Area Builders Association



## *First American Title Insurance Company*

First American Title is the leading provider of title insurance, abstract products, and closing services in the state of Kansas. Tracing First American history to 1889, we continue our commitment to service by providing the real estate information you need to make timely and accurate decisions. Backed by industry-leading technology, we deliver efficiency to support your real estate needs.

**FIRSTAMKS.COM**



The WSU Center for Real Estate is the premier resource for data and analysis of area real estate markets. Our website offers the most comprehensive source of historical data compiled from a variety of published sources, along with insightful analysis into the latest market trends.

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