

re: real estate

MARKET UPTURN PREDICTED Second Half of Year

Although existing-home sales have been soft since the beginning of this year, they are expected to improve notably during the second half of 2008, according to a forecast by the NATIONAL ASSOCIATION OF REALTORS® (NAR). Statistics suggest a sizeable pent-up demand for homes, according to NAR Chief Economist Lawrence Yun, which will be released into the marketplace as excessive home-buyer pessimism about the market begins to subside.

"Ever since the credit crunch last year home sales have noticeably declined," says Yun. "Subprime lending accounted for 20 percent of the market, and that suddenly disappeared last August. For brokers, these have been tough times, but given that we have historically low mortgage rates, I believe we'll see an increase in sales the second half of the year."

Steady Increase in New-Home Sales

Yun believes existing home sales will start showing a sustained increase within a few months. High mortgage loan limits should translate into more sales in high-cost markets, while wider access to affordable credit should increase sales activity this summer as pent-up demand begins to be met.

NAR predicts existing-home sales will rise 6.6% to 5.74 million in 2009. Parts of the country that should see improvement include the Northeastern region and oil-patch states of Texas, Oklahoma, Louisiana, and Arkansas.

Weak home sales related to jumbo-loan problems depressed home prices in the first half of this year. But Yun expects steady liquidity improvements in this conforming market will help prices recover during the second half of 2008. The aggregate existing-home price is expected to decrease slightly to a median of \$215,800 for 2008 before increasing 3.7% to \$223,800 in 2009, according to NAR estimates.

New-home sales will decrease 25.7% to 576,000

this year before rising 4.6% to 602,000 in 2009, projects NAR. Housing starts are expected to fall 26.3% in 2008, then drop another 0.5% in 2009. The median new-home price is projected to dip 3.6% to \$238,400 in 2008 before increasing 4% to \$247,800 in 2009.

In addition, combined sales of vacation and investment homes declined with the overall market in 2007, while still accounting for a third of all existing- and new-home sales, which is in line with historic norms, according to NAR. Yun attributes the decline to a reduction in discretionary purchases, which is common during periods of uncertainty, and the significant tightening of credit during the second half of 2007.

Move Toward Safer Mortgage Products

Yun anticipates that more people will begin to apply for alternative low-cost, sound mortgage products such as prime conforming loans and FHA government-backed loans. Plus, Congress is likely to pass a temporary home buyer tax credit during the second half of the year, which should further stimulate sales.

The 30-year fixed-rate mortgage should average 5.8% in the second and third quarters of 2008, then increase to an average of 6.3% in 2009, according to NAR. Some people in the REALTOR® community favor additional interest rate cuts to drive mortgage rates even lower, but Yun cautions that further cuts could fuel inflation.

"Another interest rate cut by the fed does not automatically result in lower mortgage rates and could actually backfire," he says. "If interest rates are too low, it's easily possible mortgage rates would rise as lenders compensate for inflationary risk."

What can you as a broker do to increase business activity? Spread the news about the pent-up demand and call your legislators to encourage them to lift the loan limit on Fannie/Freddie-backed loans. This will help battle the current pessimism about the market and restore home-buyer confidence.

Resources

www.REALTOR.org/research

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- Lawrence Yun,
Chief Economist, NAR