

## **National Housing Market Trends and Outlook: Are we at the cusp of recovery?**

Earlier this month I attended a National Housing Market Trends and Outlook session at the National Association of REALTORS® (N.A.R.) conference in Washington D.C. The Chief Economist for N.A.R., Lawrence Yun, Ph.D., led the session. “We are running into very tough circumstances,” said Yun. “However, are we at a cusp of recovery or going down?”

He said he expects job growth in 2010; though, the unemployment rate is expected to rise above 10%. This is the highest level since the early 1980’s. There are positive underlying factors that might bring the housing market out of this recession leading to a robust market. Yun clarified: “It is not a recession but the affordability factor that brings people to the market.”

The housing affordability index is at an all-time high since they’ve been tracking data. Yun said, “We also have historic mortgage rates. Mortgage rates may follow the Treasuries yield though, which is rising.”

He doesn’t anticipate an immediate pickup in the upcoming months on a national basis. Yun said, “It is critical to see what happens in early summer.” Recently though, many first-time buyers have been responding to credits and incentives. Still, there is a longer delay between pending sales and closings due to short sales. The home-buying process is often a 3- to 6-month process.

Yun said an estimated 20 to 25 percent of all homeowners are underwater and about 50 percent of all recent transactions have been distressed sales: 15 to 20 percent are short sales and 30 to 35 percent are foreclosures. “We need to clear these distressed sales for the market to reach a healthy level. Prices are obviously being distorted down.”

Prices have been declining because inventory is high. Yun cautioned us not be hung up on one national figure due to local market fluctuation. If one looks at a single price measurement it doesn’t tell the whole story. He said, “Only local professional will know what the market conditions are. It is good to analyze from a national level, but for consumers, there is much variation, even in a local market.”

He sees a downward trend in inventory, but it is still elevated. Historically, about a 5-month supply is associated with a robust market. We are at 9 to 9.5 months nationally. He anticipates we will reach 7 to 8 months supply and reach price stabilization in 2009.

The rates are the lowest since President Eisenhower’s days but not on jumbo mortgages. Jumbo mortgage rates still remain elevated and are stalling high-end home sales. High-end existing home sales, homes priced above \$750,000, have seen a tremendous loss in market share. In addition, the month supply of inventory of these homes is 40 months. Yun said, “High-income families contribute heavily in taxes, yet are getting punished on mortgage rates.” Yun believes people may migrate to Florida, Nevada, Arkansas, South Dakota, Washington, Wyoming, or Texas to avoid rising state income tax since they can’t save on federal taxes.

The federal stimulus and falling inventory will help stabilize prices. Nationwide existing home sales increased 10 to 20 percent in the second half of 2009 versus the second half of 2008. California though is seeing a 100 percent increase in home sales in some areas. Yun wondered if California is setting the trend for other states.

Yun spoke about California home sales and said we may be at *our* tipping point. California sales (in general) are rising very fast, more so than he would have anticipated—70 to 80 percent increase in some localities. Prices though are still low. Many in California understand that it is a great time to enter the market. People are sitting and sitting on the fence until they see others entering the market; because they don't want to miss out. There is an extreme boom and bust at least in sales—just not prices as homes purchased were mostly in the lower price range.

Watch the energy price as the catalyst for whether we experience inflation or deflation in 2011, said Yun. If we experience inflation, the winners will be property owners who locked-in a low rate. If we experience deflation, the losers will be responsible homeowners with mortgages.

A good aspect of this market is allowing families who were priced out of the market previously now being able to purchase a home. Home prices are coming down to a justifiable price, perhaps even undervalued, added Yun. There is a little more volatility, but the fundamentals are now back to the basics and at survival level.

New home sales will continue to trend downward because fewer homes are being built. Builders need to cut down on production to reduce inventory. New home inventory for sale is down to 2000-2001 levels. The builders not building are helping on the inventory side. He said builders may not see a recovery till 2010.

The commercial market is getting hit too. Given that the commercial industry lags 1.5 to 2 years behind residential, what can we expect for commercial? Yun said, "We have to get housing back to get the economy back. Once we get it back, the fourth quarter of this year, it will be a year lag before the commercial market turns around."

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