Real Estate Digest

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Economists: Worst of Housing Bust Is Over

The worst of the housing bust has hit its peak and all that's left is a soft landing, economists said by nearly 2-to-1 in the latest WSJ.com economic forecasting survey. But they still predict that the average selling price of a house will fall this year.

After several years of double-digit percentage increase, it's no secret that housing prices have stopped climbing. The 49 economists responding to the WSJ.com forecasting survey expect home prices, measured by the government's Office of Federal Housing Enterprise Oversight index, to fall by 0.5 percent this year. That contrasts with a 13.4 percent increase in 2005 and 2.8 percent last year.

"We're nearing the end of the slowdown for most markets," said Ethan S. Harris at Lehman Brothers. Prices still have some way to fall before they'll stabilize, but there are signs that the most drastic parts of the downturn—marked by a sharp pullback in demand and new construction—have run their course.

Individual predictions for home prices vary widely, from an increase of seven percent, predicted by Kurt Karl and Arun Raha of Swiss Re, to a 10 percent decline, expected by Maury Harris of UBS. Harris said he expects a large inventory of vacant newly constructed homes to push prices lower in the first half of 2007. Construction companies "built much more than were justified because of investor interest," he said.

Richard DeKaser, an economist at National City Corp., a big mortgage provider, said he thinks the worst is over. "We're starting to see inventories topping out and possibly declining," he said. DeKaser forecast a 1.8 percent decline in prices this year.

The housing market, of course, doesn't move uniformly across the country; some regions or individual cities often have price changes decidedly above or below the national average.

Lehman's Harris expects price declines through the remainder of the year to be confined to "bubble" markets, such as those in Florida, California and cities in Nevada and Arizona, where large numbers of investors have artificially inflated prices.

"There's no reason for prices to be falling in areas without a bubble," he said. "People are just slowing down purchase decisions."

Allen Sinai, at Decision Economics Inc., believes the worst of the bust is over, but he feels housing remains a big risk to the economy. The housing sector subtracted 1.1 percentage points from third-quarter gross domestic product last year, according to preliminary numbers from the U.S. Commerce Department.

"People say all bubbles end in disaster, but this is a small bubble. Home prices are just about 20 percent too high. We need to take it seriously, but in the history of bubbles, this will go down as one of the smaller ones," said Harris.

MARKETS

Last Year's Flippers Are This Year's 'Foreclosure Finders'

As a weak housing market nudges the foreclosure rate higher, this year is looking promising for investors in distressed real estate.

So far, the U.S. housing slump hasn't produced a bonanza for such investors, but lenders stuck with foreclosed property are becoming more inclined to slash

prices or sell properties through auctions, industry experts say.

"We're all going to have to be more creative in the next 12 to 24 months" in selling foreclosed homes, says Chad Neel, president and chief operating officer of Fidelity National Asset Management Solutions, a unit of Fidelity National Information Services Inc., Jacksonville, Fla. Neel's company helps lenders manage and sell foreclosed homes.

Dallas-based Hudson & Marshall Inc. says auction sales of foreclosed properties in 2005 were up 23 percent over 2004. David Webb, co-owner of the auction company, believes sales will rise at least 20 percent in 2007.

The auction firms say their busiest auction markets recently have included Michigan, Ohio, Indiana, Pennsylvania, Texas and Colorado. "Word on the street is that California, Florida and Arizona will also be very active in the next 12 months," Webb says.

Lenders refer to foreclosed homes as REO, short for "real-estate owned." They generally try to sell REO homes as quickly as possible to minimize holding costs, such as insurance, taxes and lawn care.

In the first half of 2006, REO properties accounted for 3.1 percent of all U.S. home sales, up from 2.4 percent two years earlier, according to a study by First American Real Estate Solutions, a unit of First American Corp., Santa Ana, Calif. The study found that those homes sold at a median discount of 14 percent to their estimated value in the first half, compared with 12.5 percent two years before. The discounts reflect the gap between the actual sale price for the homes and the value estimated by a computer model, which takes into account sales of comparable homes nearby and price trends.

It has taken a while for foreclosures to mount. The housing boom of recent years reduced foreclosure rates because most people who fell behind on their loans could refinance or quickly sell their homes for at least enough to pay off the loans. At the end of this year's second quarter, only about one percent of all home mortgage loans outstanding were in the foreclosure process, down from an average of 1.2 percent over the past decade, according to the Mortgage Bankers Association. Doug Duncan, chief economist for the association, expects a modest rise in foreclosures over the next year or two.

People with weak credit records who have taken out loans over the past year are falling behind on payments at a rapid clip, according to a recent report by mortgage analysts at UBS AG in New York.

REO sales are a lagging indicator of the housing market because at least a few months elapse between a borrower's default and the foreclosure.

In Los Angeles County, which has strong housing demand and an extreme shortage of space, the median discount on REO homes was just 1.7 percent in last year's first half. In Ohio's Cuyahoga County, where job losses have left a glut of empty homes, the discount was about 30 percent.

Builders Starting Fewer Houses

Home builders are sending a mixed message to the housing market, on one hand reporting their confidence in the market is up, but on the other dramatically reducing their number of housing starts.

The Commerce Department reports starts declined 14.6 percent in October and permits declined by 6.3 percent. Overall, starts are 27.4 percent below where they were a year ago.

Toll Brothers, one national home building company, is reporting that orders dropped 58 percent in the fourth quarter and its revenues declined 10 percent.

The National Association of Home Builders reports its members are a bit more confident in the market than they have been in the past several months. Builder confidence moved from an index of 31 in September to 33 in the most recent survey. A NAHB official said the rise in the index suggested builders believe the market decline has bottomed out.

LAW

Judge: Non-documented Renters Have Rights

A federal judge has told Escondido, Calif. city officials they cannot enforce a law that forbids landlords from renting to illegal aliens.

Two Escondido landlords had filed a lawsuit challenging the city ordinance. The lawsuit argues that many undocumented workers have children who are legal citizens and therefore should not be denied the opportunity for housing. The ruling at least temporarily requires the city to ignore the ordinance, pending a trial on its constitutionality.

TRENDS

Generation X May Boost Sagging Real-Estate Market

The housing market may be in a slump, but the industry's long-term trends look promising as younger generations begin to buy and trade up.

Generation X, typically defined as those born between 1965 and 1979, comprise a little more than half of the market for newly constructed homes, said James Chung, president of Reach Advisors, a Boston-based marketing strategy and research firm.

"Generation X is in the heart of their

entry-level home-buying years and are just now entering their peak trade-up years," Chung said. "They haven't yet stolen the thunder of the boomers when it comes to trade-up homes. It's a big shift coming up for home builders and developers."

Partly because many Gen-Xers are buying into the market after the run-up in housing prices began about a decade ago, they tend not to be as moved by deluxe kitchens, huge square footage and "prestige addresses" as their older counterparts are, he said.

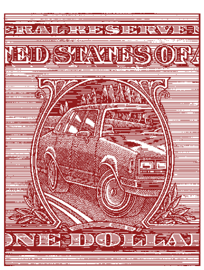
"It's the trade-off generation. It's no longer sort of the live-large mindset," Chung said. "They're living under different economic realities than their predecessors. They carry 70 percent more debt than the baby boomers did at that point in their lives because of the cost of housing. Almost all of that is housing debt."

Many are forgoing master suites and separate wings for kids and adults and instead seeking smaller footprints with space designed for family usage rather than individual usage, Chung said.

As for Generation Y, also know as the echo boomers, who were born after 1980, it's premature to draw conclusions, said Gadi Kaufmann, chief executive of Robert Charles Lesser and Co., a real estate advisory firm.

"Gen Y is going to be in student housing and rentals for the next six years," he said.

New Homebuyer Catch-phrase: 'Miles per House'



Get ready to add a couple of new phrases to your lexicon: "House miles" and "miles per house."

Studies conducted by Urban Land Institute experts suggest younger home buyers, worried about the cost of gas, will increasingly be interested in how many miles a home is located from employment, retail, education and entertainment areas.

Miles of travel involved to get to various places will be deal-breakers, according to senior resident fellows William Hudnut, John McIlwain and Robert Dunphy. The experts also predicted there will be more focus on home heating and cooling bills that directly impact affordability.

Media Reporting Not a Factor In Buyer Decisions

The news media have been reporting heavily on the decline in the housing market, but surprisingly prospective buyers say that the reports are not affecting their decision to buy or not. A survey by the National Association of Home Builders says home buyers' top priorities are price, interest rates and their housing needs—and not news media reports on market conditions.

The group further said that while news media can be important information resources for consumers, the final decision actually rests on whether the buyer can afford the house and how it will impact their budget, lifestyle and long-term wealth.

Home Seekers Moving to Apartments

What real estate agents are losing in sales in the depressed housing market, apartment building managers appear to be picking up.

"Demand for apartment residences continues to rise, and should remain strong so long as employment keeps rising," says Mark Obrinsky, chief economist for the National Multi Housing Council.

According to the NMHC, apartment demand has been improving for 13 consecutive quarters as measured by lower vacancy rates, higher rents or both. About 55 percent of large apartment building owners rate availability as "tight," while only 14 percent rated availability as "loose." About 31 percent said there had been no change in the past quarter.

FSBO Sales Declining

The National Association of Realtors has released its latest profile of home buyers and sellers, showing that FSBO sales are declining but the use of limited service brokers may be increasing.

According to the numbers, about 12 percent of sales in 2006 were FSBOs, compared to 13 percent in 2005. NAR said FSBO sales have declined from a high of 18 percent in 1997.

The survey found that nine percent of respondents used "limited service" brokers and eight percent used "minimal services," such as just listing a property in the MLS. NAR said there were no benchmark numbers for limited service brokerage, but it believes more brokers are now offering unbundled services and the trend is likely to continue.

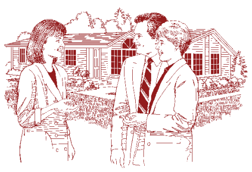
AGENTS' CORNER

'No Smoking' Signs On Agents' Cars?

Every agent knows a clean car is a must for driving around clients. But agents in Baytown, Texas now must ensure a smoke-free car as well. Voters have extended the city's no-smoking ordinance to all public places and work environments, including vehicles, where consumers could be exposed to second-hand smoke.

Opponents of the measure said that, in theory, real estate agents who convey home buyers to properties may now be required to place 10 by 14 inch placards on their cars stating "No Smoking." With passage of the ordinance, it will be up to the City Council to define exactly what areas must comply with the smoking ban.

Seniors Find Niche In Suburbs



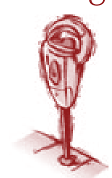
Suburban sales agents hoping to develop a new niche may want to consider watching the seniors market, according to a new Brookings Institution report released by the Mortgage Bankers Association.

The researchers are forecasting that suburban America will get older as Baby Boomers decide to age in place, and more older people move out from central cities.

Alternatively, urban cores will continue to be comparatively younger as immigrants and younger native-born Americans are attracted to downtown environments because of job, entertainment and cultural opportunities.

The report, which studied a broad range of migration patterns, also said minority populations are spreading to all sectors of the nation now, rather than being concentrated in specific cities. It said, for instance, a decade ago 55 percent of all Asians and Hispanics lived in 10 major cities – a third of them in New York or Los Angeles. Today, fewer than half of Asians and Hispanics live in those cities and only 22 percent in New York and Los Angeles.

"Super Parking" For Agents?



The Chicago City Council is considering a "super parking permit" that would allow holders to park on any restricted-parking residential street without fear of being ticketed.

The proposal, being supported by real estate agents, would allow individuals to purchase the permit for $300 per year.

Agents say the "super permit" would allow them to park on residential streets that otherwise allow only residents to park. Agents say they need the permits to avoid being ticketed while showing homes.

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