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The Mortgage Corner

NAR HOME PREDICTS LOWER HOME SALES

Home sales during the rest of the year will be lower than earlier projections as the market works its way through an inventory and price imbalance, according to the National Association of Realtors.

David Lereah, NAR's chief economist, said the most obvious effect in the near term will be with home prices. "A year ago we had record home sales and tight supply with buyers bidding over the asking price," he said. "This year sales are slowing, homes are plentiful and sellers are negotiating. Under these conditions, we'll probably see prices dip temporarily below year-ago levels as the market works through a build up in housing inventory."

"This is a normal pattern during a market correction, but home prices should return to positive territory within a few months and annual appreciation will be slower than historic norms," Lereah said. "Keep in mind that over time, home prices rise at the rate of inflation plus one-to-two percentage points – buyers in most of the country who plan to stay in their home for a normal period of homeownership can pretty well bank on those historic averages, but people who purchased last year with the intent of flipping are likely to get burned."

The national median existing-home price for all housing types is expected to grow 2.8 percent this year to $225,900, with the median new-home price rising only 0.2 percent to $241,400. New-home appreciation is dampened by builders offering incentives to reduce inventory.

Existing-home sales are forecast to fall 7.6 percent to 6.54 million in 2006, the third best year after consecutive records in 2004 and 2005. New-home sales should to drop 16.1 percent this year to 1.08 million, the fourth highest on record. Housing starts are projected to decline 9.6 percent to 1.87 million in 2006.

NAR President Thomas M. Stevens said higher interest rates slowed home sales during the first half of the year. "The slowdown occurred mostly in higher cost markets, while other areas continued to expand," said Stevens. "The shift we've seen lately results from psychological factors with buyers on the sidelines trying to time the market. Both buyers and sellers need to understand what's going on within their local market areas, so it's even more important now to work with a professional who can guide you through current changes and the negotiation process."

The NAR holds to its prediction that the 30-year fixed-rate mortgage is likely to rise to 6.7 percent in the fourth quarter, even with tame inflation and slowing housing sales. This is while conforming fixed rates are currently 5.875 percent and jumbo amounts 6.125 percent on the west coast for a 1 point origination fee.

This writer believes that the combination of no more Fed rate hikes and a slowing economy means that interest rates could decline even further from current levels by year end.

Lereah is more upbeat about next year. "Mortgage rates are one of the bright spots in the economy right now, with an unexpected decline recently in the 30-year fixed rate to a narrow range around six-and-a-half percent," Lereah said. "This should encourage some of the nearly 4 million people who've found newly created jobs over the last two years."

Lereah says the unemployment rate is expected to average 4.8 percent for 2006, while annual inflation, as measured by the Consumer Price Index, is forecast at 3.5 percent. Growth in the U.S. gross domestic product should be 3.4 percent this year. Inflation-adjusted disposable personal income is projected to grow 3.5 percent in 2006.