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The Mortgage Corner

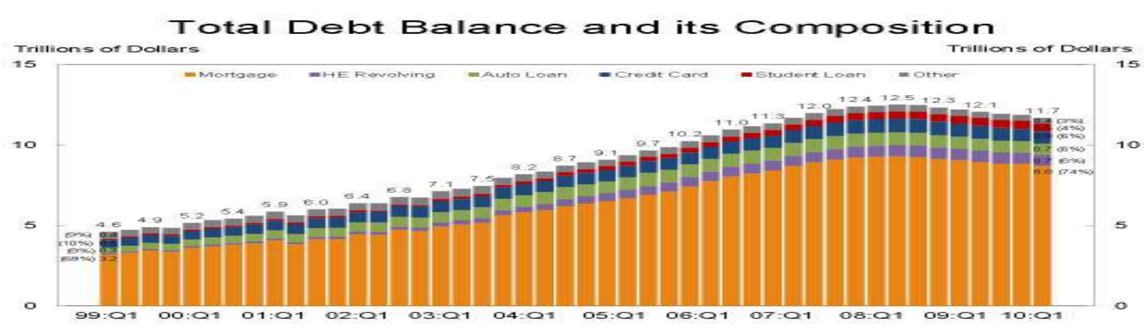
When Will Real Estate Recover?

Ah, this is the $64,000 question we have been asking since 2007, when housing imploded. Are conditions improving? The Fed announced it would continue to hold down interest rates, and loan modifications are helping to cut into the foreclosure inventory, which has declined slightly from its highs.

The Case-Shiller same-home price index, the best measure of national home values, improved in 19 of its 20 metropolitan areas in May. Prices in its 10-city index rose 5.4 percent, and 4.6 percent in its 20-city index. S&P said prices were still moving sideways, in spite of 3 consecutive monthly increases, which probably means they also expect prices to decline in June and July.

This has stabilized prices, but consumers are not yet convinced that the jobs picture will improve. Consumers continue to pay down mainly mortgage debt, says a New York Fed quarterly report on household debt and credit.

> "Aggregate consumer debt continued to decline in the second quarter, continuing its trend of the previous six quarters," said the report. "As of June 30, 2010, total consumer indebtedness was $11.7 trillion, a reduction of 6.7 percent from its peak level at the close of 2008Q3. Excluding mortgage and HELOC balances, consumer indebtedness fell 1.5 percent in the quarter and, after having fallen for six consecutive quarters, stands 8.4 percent below its 2008Q4 peak."



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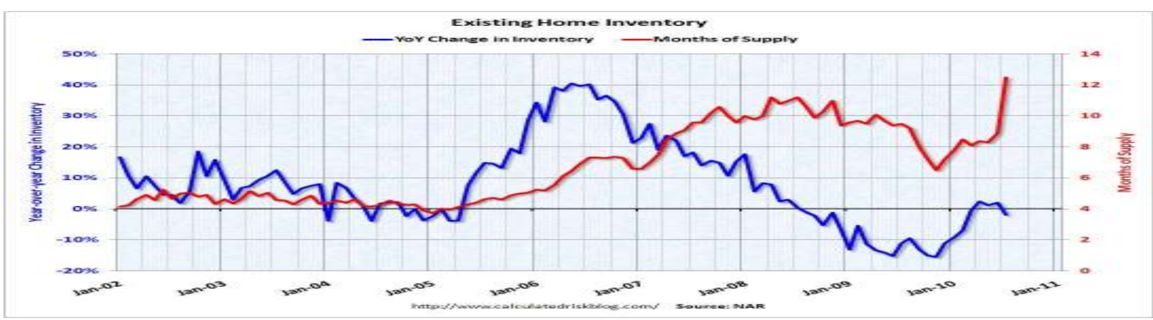
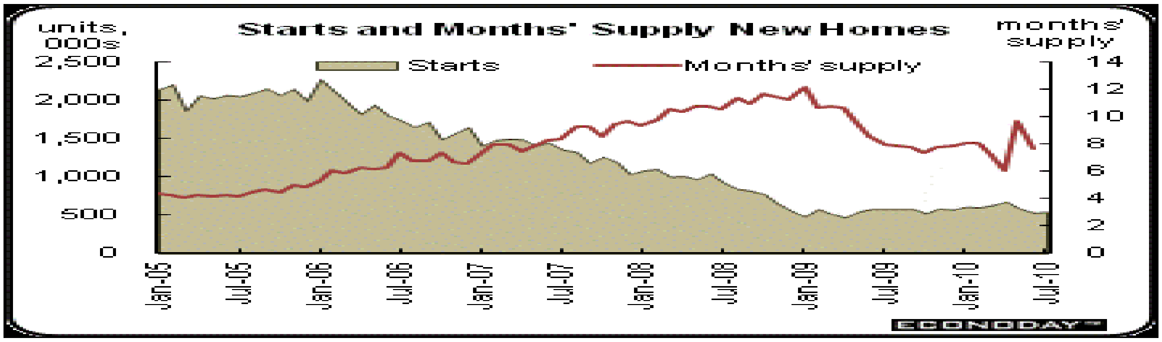
This has not helped new and existing-home sales, recovering from expiration of the first-time homebuyer's tax credit. Existing-home sales, which are completed transactions that include single-family, townhomes, condominiums and co-ops, dropped 27.2 percent to a seasonally adjusted annual rate of 3.83 million units in July from a downwardly revised 5.26 million in June, and are 25.5 percent below the 5.14 million-unit level in July 2009.

Sales are at the lowest level since the total existing-home sales series launched in 1999, and single family sales – accounting for the bulk of transactions – are at the lowest level since May of 1995.

To put that number in perspective, according to the NAR, existing-home inventories increased to 3.98 million units in July from 3.89 million in June, piling up because of the lower sales rate. But the all time record high was 4.58 million homes for sale in July 2008, so inventories have actually declined 1.9 percent year-over-year. Inventory is therefore very much dependent on the sales' rate.



There are some signs of improvement. The latest Federal Reserve survey of Senior Loan Officers indicated an easing of credit requirements for both residential and commercial loans over the past quarter, the first easing since 2008.



And housing starts improved in July – but it was due to the fact that June was revised down. Housing starts in July posted a modest comeback, rising 1.7 percent after an 8.7 percent decrease in June. The July annualized pace of 0.546 million units is down 7.0 percent on a year-ago basis. In fact, the latest number is also down fractionally from the initial June estimate of 0.549. That is, July would have been a decline instead of a rebound were it not for a downward revision to June.

"Consumers rationally jumped into the market before the deadline for the home buyer tax credit expired, said NAR economist Lawrence Yun. "Since May, after the deadline, contract signings have been notably lower and a pause period for home sales is likely to last through September," he said. Even with sales pausing for a few months, annual sales are expected to reach 5 million in 2010 because of healthy activity in the first half of the year. To place in perspective, annual sales averaged 4.9 million in the past 20 years, and 4.4 million over the past 30 years," Yun said.

Since sales' statistics are notoriously imprecise, we can say that real estate sales have been treading water after an initial sales spurt in 2009, though existing-home prices actually increased 0.7 percent in July, indicating that expiration of the tax credits caused most of the sales' decline in the lower-end of the market.

So in spite of record affordability and an oversupply of homes on the market, consumers continue to hold back.

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