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## **Broad impact from the current housing market**

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The last year certainly has been an interesting and challenging market for housing. Initial expanding inventories and a decrease in demand set the stage for declining local markets. In August of this year, a growing debt crisis in the subprime mortgage market became clear. The deteriorating demand (and yields) for collateralized debt obligations (CDO) became clear. Although the headlines initially talked exclusively about subprime mortgages which comprise a portion of the CDO market, the problems are much more widespread.

The general lowering of mortgage underwriting criteria and a variety of misplaced incentives on the origination of these loans, have a wide and deep impact on the housing market. There is an increasing concern that these problems will affect the entire economy with some even forecasting a recession. The major concern is significant erosion in consumer confidence.

Adjustable rate resets, defaults and foreclosures are predicted to dampen the housing market through 2008 and possibly into 2009 according to the 2008 Emerging Trends in Real Estate published by Pricewaterhouse Coopers. Consumer spending levels in the fourth quarter will be an important indicator of the health of the economy going forward into 2008.

The declining economy has already been felt in the housing market where there has been a delay in the hoped for recovery. In addition, builders, both on a national and local level, are in the process of selling down their land inventory to reduce carrying costs.

On the lending side, lenders and fixed income investors are applying much more strict underwriting criteria. This has resulted in a spreading slowdown throughout the economy. On the fixed asset lending side, there has been a decreasing loan-to-value requirement resulting in larger equity positions required to take down long-term financing.

The potential for these factors to dampen economic activity is uncertain. It is clear that the effect on the property markets has been a move toward a buyer's market and concern that those who have purchased at historically high price levels may be in for a rough ride.

Jonathan Avery, MAI, CRE is president of Avery Associates, Acton, MA. By Jonathan Avery

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540