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Are we recovering and is it sustainable? We will be sure only after it is!

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As news of the economic recovery trickles into various media sources, the health of the housing market remains at the forefront. The data that populates the media and blogs is so mixed however that even the experts are hedging their bets. Dueling reports such as consumer confidence and spending are up on the same day that reports of existing home sales are down are boggling at best.

We all want a recovery, housing and macroeconomic, to continue and to be sustainable. How do we know what is sustainable or when will we know? There are several realities in today's housing market that make it difficult to forecast.

The tax credit incentives have ended and while opinions are mixed as to how many sales were achieved, most agree that there will be fewer sales now that this stimulant is gone. Many of the sales credited to the tax incentive were driven by those who were already in the market, and much like the auto incentives, jumped in to qualify for the credit. Either way, we expect to see that rush to slow in the next six months from the busy activity of this spring and last fall.

Even so, activity levels and demand remain strong because of another incentive that has no known deadline. While interest rates are at five year lows, most experts anticipate the Federal Reserve will change interest rates upward as the economy improves. This element has always been a key driver of business in real estate. Those who are on the edge of purchasing tend to jump into the buyer pool when they think interest rates might rise.

The affordability index gets pulled down quickly though with each bump in rates, especially in entry level price points. Someone looking for a home in a price range of $450,000 loses about $25,000 of buying power with a half percentage point mortgage rate increase. This may knock them out of their price range, or at the very least they'll lose flexibility in negotiating power.

Another factor impacting the housing recovery is impending foreclosures. We do not know how many homeowners have yet to face foreclosure, or how many are just starting to default due to trailing financial problems and job loss. Even though there are reports of new jobs being added, there is still widespread unemployment and the impact of that has yet to be felt.

We know that more than 60% of the loan modifications subsidized by the government have resulted in repeat default in the first year. Yet it is still unknown how many loans are on bank books in some stage of default, or how many foreclosed homes will eventually come to market. Moving these homes into more financially stable ownership is a positive move. However, the absorption of this shadow inventory is of some concern, as it could be priced low and impact existing, non-distressed homes for sale.

One of the most hotly watched areas is the high priced home market, and again, mixed results send mixed messages. There has been new and encouraging activity in the high end downtown Boston market as some very expensive properties have been sold as their asking prices were reduced. Not all the money was lost in the recession! People have been on the sidelines watching for good opportunities. Some of the sales were provoked by downsizing or retiring owners, by income or job losses, or relocation.

In many cases however, trading up from a high priced property to an even higher priced one is a discretionary financial move and appears rare as many sales over $2 million have stagnated. With any price point, there needs to be motion in one market segment to achieve motion in the next, and if no one is buying up, there is no one buying in the price point below.

Interestingly, many believe that the success of this recovery was viewed as a "bottom up" recovery, meaning the entry level markets had to "buy in" for existing homeowners to "move up". Thus the logic and impetus for the tax credit stimulus. However, the market was so value driven that the entry level buyer was looking for the bargain and only pounced when there was a deal to be had. This means that sellers had to reduce their prices so low that their equity was impacted, and therefore their buying power was impacted as well.

Yes, the recovery is sustainable, but no one is going on record with defining what that means today, and no one is predicting what the "new normal" will be for unit sales, price growth, employment or income growth. The housing recovery is sustainable, and we will be sure only after it is!

Robert Shortsleeve is the regional vice president of Coldwell Banker Residential Brokerage New England, Waltham, Mass.