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Housing market supply/demand fundamentals

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Recent headlines are telling the tale of the continuing housing market bubble hangover:

"Staggering Backlog of REO Houses Facing Foreclosure" - Fitch Ratings - 12/15/11

"For Every Two Homes For Sale, There is One in the Shadows" - Corelogic - 12/22/11

"Home Prices Fall in Major Cities" - Standard & Poor's Case/Shiller Index - 12/27/11

These headlines report the severe excess supply of homes in the face of slack demand in many markets across the country. Not only is there less demand, but also the issue of "effective demand - purchasing power" is clearly playing a role. The declining purchasing power resulting from high unemployment and associated underemployment leaves a substantial gap between asking prices and purchasing power.

Short sale, REO sale and bank haircut are terms commonly heard in today's market. It is way to simplistic to say that these are terms describing a continuing disaster. Rather these are terms for a correcting market and who is taking the "hit." Sadly, this continues to be a market where equity disappears. However this is also a market where the seeds of opportunity are being planted. Today's buyers are taking advantage of pricing not seen for many years.

2012 will surely see many of the homes in the "shadows" come to market. How much further the price correction will go depends in large part on local conditions of supply and demand. Locally, many of the well-to-do suburbs of Boston have likely bottomed out. The more urban market, harder hit by the mortgage crisis, will see more decline as the inventory of bank owned properties comes to market for liquidation.

One thing is clear - government attempts to prop up the market have been ill conceived and largely ineffective. The market needs to be closer to equilibrium between supply and demand in order to heal and recover. This is not always a pretty process, but disaster recovery seldom is.

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