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## **Housing: Are there any signs of life out there?**

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With the stock market sinking to new lows, a new administration unable to rally the country, credit markets still iced up, banks and corporations issuing more bad news, and climbing unemployment, it's not a pretty sight out there.

Most of us don't even think that "markets" have yet recognized the commercial real estate crisis currently in progress yet. And some of us don't believe the bad bank news is over. The big banks we know about - but what about all the Main St. little banks out there hoping to tough it out those non-performing commercial loans? There may be a latter day RTC in our future yet!

Can we draw any hope from the housing market which has been suffering for these several years? Let's assume no further major unpleasantness is ahead. (Keep fingers crossed.) That is to say, while there is the clear potential for more bad news, a lot of this has been "priced" into the market.

Here is the bad news. Unemployment is going to continue to climb. That's not necessarily the worst thing that can happen since this indicator does not respond immediately.

The Conference Board Consumer Confidence Index is showing negative. The National Association of Home Builders shows single digits, i.e., no improvement. Building permit activity is down. This is less worrisome since permit activity is not going to pick up until existing inventory is being steadily absorbed and credit is more available than it is now.

On the other hand, inflation is low and energy prices have retreated for the time being: don't count on that being permanent. The Conference Board's U.S. leading index is showing slightly positive for the second month. The board notes that it is too soon to say that the contraction started in July 2007 is ending.

Rates are low. However, it's tough to qualify. It's as lenders decided to enjoy saying "no" and regressing to lending the old fashioned way. A number of lenders tell me that in this low rate environment, most portfolio lending is done with healthy spreads built into the seemingly low cost of funds.

As regards real estate, the Fed Beige Book (Feb 2009) notes housing markets remain in the "doldrums" with some exceptions - Cleveland, San Francisco, Richmond, Dallas. In Boston, the reports notes "steep" declines in December and January. Inventory continues to decline, which is a hopeful sign, counterbalanced by low levels of activity.

Part 2 will appear in the April 10th edition of the New England Real Estate Journal in the Appraisal and Consulting section.

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