Open House: Housing market likely to pick up next year

by Jim_Woodard

The sluggish home sales market should bottom out by the end of the first quarter of this coming year, it was noted in a recent study and report from the National Association of Home Builders.

Despite current market problems, the housing market will start to turn around next year for a number of reasons. The overall economy and job growth will continue to move ahead at a decent pace, core inflation is under control, the credit crunch in mortgage markets is showing signs of easing, the supply-demand equation will be better balanced as builders begin to whittle down their excess inventories, and another Federal Reserve interest rate reduction of a quarter-point on Oct. 31 will help keep mortgage rates low.

That's the prediction of David Seiders, chief economist for the association.

"With the housing sector facing a large backlog of unsold inventory, new construction starts and permits won't begin to move forward until sales firm up. Home sales should bottom out by the end of the first quarter of next year, and housing starts will be up in the third quarter, assuming the inventory overhang stabilizes," he said.

The tightening standards for home mortgages will not derail a national recovery in the housing market, according to the association. However, it will complicate the system for a while.

The negative impact of the new standards on housing markets comes in two forms. First, tightening lending standards have reduced the availability of some loans and raised the price to riskier borrowers. Second, it creates the potential for a cycle of defaults and price declines, depending on the local home price environment and strength of the local economy, the National Association of Home Builders report noted.

The association's short-term forecast is based on several assumptions - skillful management of monetary policy by the Federal Reserve, maintenance of solid growth in personal income and employment, a manageable wave of home mortgage foreclosures and better performance of mortgage markets going forward.

The report observed that the long-term potential for housing activity is very good.

"By the end of 2009, we may be at a pace of 1.5 million units of new housing production (including manufactured homes). Once we are out of the woods, we should see good growth in front of us - maybe 2 million units per year," it stated.

Q: Are all real estate markets now in trouble?

A: While there is much press coverage about today's troubled real estate markets, there are many markets throughout the country that have minimal subprime mortgage exposure and are now experiencing a stable market.

These markets experienced modest and sustainable home price appreciation during the boom years and have relatively strong local economies. The markets are positioned to outperform the national trends with earlier and stronger recoveries than the more troubled markets, according to the National Association of Home Builder's chief economist.

These little-publicized markets are primarily located in the Pacific Northwest, mountain states and in the Southeast. The areas are now recording single-family home construction permits at or above pre-boom levels.

"The contrast between the strongest and weakest markets across the country points out substantial regional variation and suggests that steep nationwide home price declines and mortgage defaults are unlikely," Seiders said.

Q: Are mortgage problems deepening?

A: Not according to one report. It noted good news on the mortgage front. More people are managing to keep up with payments on mortgage loans made in recent months, according to data from First American Loan Performance, a research firm.

The trend reflects more conservative lending policies adopted by mortgage companies this year in the wake of a surge in defaults and foreclosures, said Mark Carrington with First American.

"Even so, defaults continue to rise in proportion to the overall number of home loans outstanding nationwide, mostly those made between 2003 and 2006 when lending standards were growing more lax," he said.

Q: Is it common for college students or their parents to purchase a residence near the campus instead of signing up for a dorm?

A: It is indeed becoming increasingly common. Parents of college-bound offspring are purchasing a condo or small house in the area of the college for their student's residence while attending the college or university. In some cases, it appears to be more cost-effective than paying for a room in a dorm.

The student will often rent out a portion of the purchased unit to another student to minimize the investment. When the student's attendance at the college is completed, the unit will be sold, hopefully at a profit.

There are now about 3 million campus houses and condos that have been purchased by students or their parents, according to a report from the National Association of Realtors. That represents about 8 percent of the nation's 37.4 million investment properties, but excludes 6.8 million vacation homes.

In addition to the possible financial advantage, owning such a residence gives the student more freedom and a choice of roommates. For parents, it offers a chance to recoup some of the rising costs of higher education, assuming it turns out to be a good investment.

Many parents are spooked by the unknowns in such an arrangement. Can the extra space be rented at the projected rental amount? Will the student handle his extra freedom responsibly? Will the property later sell at a profit? These and other concerns tend to keep the dorms fully occupied.

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