Healthier housing market, but dampening sales expected

by Bend_Weekly_News_Sources

Tighter lending criteria and fallout from the subprime loan debacle will lead to a healthier housing market with greater assurance that owners can handle mortgage adjustments, but higher loan standards will slow the housing recovery, according to the latest forecast by the National Association of Realtors.

David Lereah, NAR's chief economist, said the changes are necessary for the long-term health of the housing market. "We want to people to be able to stay in their homes with mortgage terms they understand and can handle," he said. "Simply stated, a loan with the lowest monthly payment probably isn't in your best interests -- borrowers need to understand worst-case scenarios. If you're in a mortgage you aren't comfortable with, now is an excellent time to refinance, if you can, with historically low rates on safer conventional loans."

Last week, Freddie Mac reported the 30-year fixed-rate mortgage was 6.17 percent. The 30-year fixed rate should rise slowly to 6.6 percent by the end of this year, so borrowers who need to refinance should act soon. "Tighter lending standards will dampen home sales a bit, but by less than a couple of percentage points from initial projections. We still forecast 2007 to be the fourth highest year on record for existing-home sales, and housing remains a great long-term investment," Lereah said.

Existing-home sales are likely to total 6.34 million in 2007 and 6.52 million next year, in contrast with 6.48 million in 2006. New-home sales are seen at 904,000 this year and 935,000 in 2008, below the 1.05 million last year. Housing starts are estimated at 1.47 million in 2007 and 1.55 million next year, down from 1.80 million units in 2006.

"As home sales moderate, overall home prices will be essentially flat this year," Lereah said. "The good news is that inventories remain well below the levels experienced during the last housing downturn in the early 1990s, and supplies are close to balance in many areas."

The national median existing-home price will probably slip 0.7 percent to $220,300 in 2007, following a 1.0 percent rise last year. The median new-home price is projected to increase 0.4 percent to $246,200 this year, after gaining 1.8 percent in 2006. Modest growth is expected next year, with existing-home prices increasing 1.6 percent and new-home prices rising 2.0 percent.

"When you look at housing activity in 2007, especially during the first half of this year, the percentage change in median home price is being distorted as the composition of sales shifts geographically from high-cost markets to moderately priced areas, in contrast with the sales distribution a year earlier," Lereah said. "Within given markets, most areas can expect minor price gains."

The unemployment rate should average 4.6 percent in 2007, the same as last year. Inflation, as measured by the Consumer Price Index, is likely to decline to 2.1 percent this year, compared with 3.2 percent in 2006, while growth in the U.S. gross domestic product is forecast at 2.3 percent in 2007, down from 3.3 percent last year. Inflation-adjusted disposable personal income will probably rise 3.1 percent this year, up from a gain of 2.6 percent in 2006.

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