POSITIVE NEWS FOR REALTORS IN '08

NAR economist underlines real estate's silver lining

December 21, 2007 By: Bernice Ross

In all the years I've been writing this column, I have never received such an outpouring of response as I did from the two November articles on how media coverage of negative housing news is hurting our industry.

In spite of gloom and doom of recent news reports on the state of the nation's housing, there is plenty of good news, the most recent of which comes from the National Association of Realtors.

Laurence Yun, the chief economist for NAR, had plenty of positive news for Realtors at last month's conference. Yun attributed much of today's subprime mortgage problem to greed. Wall Street wanted the 10-12 percent return that subprime mortgages yielded as opposed to the smaller returns from more traditional mortgage products. His take on the Wall Street types: "They gambled. They lost."

Yun's outlook for 2008 sees a shift from greedy speculators to serious homeowners. 2008 will be a year of opportunity where there will be serious, healthy business. Furthermore, Yun predicted that the market returns to normal by 2009.

According to Yun, one of the biggest mistakes that reporters make is talking about national trends. Nationally, 2007 was the fifth best year ever on record. Home prices declined about 1.5 percent after a 50 percent run up in prices.

The challenge is that national numbers are pretty much irrelevant. Yun argues that talking about national averages is about as effective as having a national weather forecast. Like the weather, all real estate markets are local. In fact, you may have a buyer's market and a seller's market operating within a single market area based exclusively upon price point. Here are the other key pieces of positive news from Yun's economic report:

1. New housing starts:

Even though these are dropping, there was too much building in recent years. The market is simply adjusting to normal supply-and-demand pressures. The inventory is "being controlled which makes stabilization occur more quickly."

2. Foreclosures:

According to Yun, the 41 percent increase in foreclosures has resulted primarily from investor-heavy real estate purchases in Arizona, California, Florida and Nevada. The majority of these individuals are flippers whose investments did not payoff. More importantly, the number of foreclosures in Utah, New Mexico, North Carolina and South Carolina is actually declining.

3. Under-priced markets and superstar cities:

Although the coastal markets are still overpriced, Middle America is under priced. Nevertheless, Yun cites a new trend termed, "superstar" cities. These cities will command premium prices, regardless of what the market does. There is so much wealth concentrated in these areas, that measurements are simply not predictive. In addition to London, Paris, Tokyo and New York, Yun also identified San Francisco, Miami and Seattle as potential new superstar cities.

4. The recovery has started:

Other than the three states hit heavily by job losses in the automotive industry (Indiana, Michigan and Ohio), the states that first experienced a downturn in the Northeast, are now in recovery. Specifically, Connecticut, Massachusetts, New York and Rhode Island were the first to feel the slump and are now well into a recovery. Furthermore, there appears to be a pent-up demand for first-time buyer properties due to a large number of Gen Ys (born 1977 to 1994) that are now buying their first homes. Falling interest rates will motivate many of these buyers to step into the market now.

5. New jobs and corporate profits are still strong:

Corporate profits are still strong with companies as diverse as Microsoft and Jack Daniels reporting close to record profits. Furthermore, the economy has generated 4 million net new jobs and wages are rising.

6. A weak dollar may harbinger more foreign investment in U.S. real estate:

Although the decline of the U.S. dollar will end up costing us more when we go overseas or purchase imports, it has resulted in more manufacturing jobs returning to the U.S. It also may mean more foreign investment in U.S. properties as well. Just a few years ago, the Canadian dollar was only worth 70 cents in U.S. currency. Today, the Canadian dollar has been hovering at about $1.05 to $1.10 U.S. What this means is that we can expect more Canadians and Europeans to be purchasing U.S. property, because our prices are approximately 50 percent cheaper than they were just three years ago.

7. Real estate: Still the best shelter:

For those agents who represent reluctant first-time buyers, Yun points to some interesting research from the Federal Reserve. Between 1995 and 2004, the average renter accumulated $4,000 in wealth. In contrast, the average homeowner accumulated $184,400. Furthermore, the typical homeowner holds their property for six years. Within this period of time, NAR's research shows that approximately 97 percent of the homeowners will have a positive equity position after that period of time.

Bottom line:

2008 represents the best window that buyers will have to find excellent deals with excellent financing. Get the word out there. If they wait, prices and interest rates will be higher and the reluctant buyer may be forced out of the market.