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Improvement in Mortgage Market Bodes Well for Housing in 2008

WASHINGTON, October 10, 2007 -

Conditions in the mortgage market are improving for consumers, which should help to release some pent-up demand in early 2008, according to the latest forecast by the National Association of Realtors®.

Lawrence Yun, NAR senior economist, notes that widening credit availability will help turn around home sales. “Conforming loans are abundantly available at historically favorable mortgage rates. Pricing has steadily improved on jumbo mortgages since the August credit crunch, and FHA loans are replacing subprime mortgages,” he said.

Yun said it’s important to place the current housing market in perspective, and that 2007 will be the fifth highest year on record for existing-home sales. “Although sales are off from an unsustainable peak in 2005, there is a historically high level of home sales taking place this year – a lot of people are, in fact, buying homes,” he said. “One out of 16 American households is buying a home this year. The speculative excesses have been removed from the market and home sales are returning to fundamentally healthy levels, while prices remain near record highs, reflecting favorable mortgage rates and positive job gains.”

He emphasized all real estate is local with naturally large variations within a given area. “Markets like Austin, Salt Lake City and Raleigh have been outperforming recently and will continue to do well next year,” Yun said. “Other areas like Denver and Wichita will likely move up in the price growth rankings due to very positive local economic developments.”

Existing-home sales are expected to total 5.78 million in 2007 and

then rise to 6.12 million next year, in contrast with 6.48 million in 2006. New-home sales are forecast at 804,000 this year and 752,000 in 2008, down from 1.05 million in 2006; a recovery for new homes will be delayed until next spring.

“A cutback in housing construction is a positive sign for the market because it will help lower inventory and firm up home prices,” Yun said. Housing starts, including multifamily units, are likely to total 1.37 million in 2007 and 1.24 million next year, down from 1.80 million in 2006.

NAR President Pat V. Combs, from Grand Rapids, Mich., and vice president of Coldwell Banker-AJS-Schmidt, said, “Housing is still a good long-term investment, and we’ll be seeing a broad, modest improvement in home prices in 2008. With widely varying conditions, the best advice for consumers is to consult a Realtor® in their area to learn about local market conditions because supply and demand can change from one neighborhood to the next.”

Existing-home prices will probably slip 1.3 percent to a median of \$219,000 in 2007 before rising 1.3 percent next year to \$221,800. The median new-home price should drop 2.1 percent to \$241,400 this year, and then increase 1.0 percent in 2008 to \$243,900.

The 30-year fixed-rate mortgage is expected to average 6.4 percent for the next two quarters and then edge up to the 6.6 percent range in the second half 2008. Additional cuts expected in the Fed funds rate will help to keep mortgage interest rates historically favorable.

Growth in the U.S. gross domestic product (GDP) is estimated at 2.0 percent this year, below the 2.9 percent growth rate in 2006; GDP is likely to grow 2.7 percent next year.

The unemployment rate is forecast to average 4.6 percent this year, unchanged from 2006. Inflation, as measured by the Consumer Price Index, is expected to be 2.8 percent in 2007, compared with 3.2 percent last year. Inflation-adjusted disposable personal income will probably increase 3.6 percent in 2007, up from 3.1 percent last year.

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