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Stable Existing-Home Sales Expected in Early 2008, then Gradual Rise

WASHINGTON, January 08, 2008 - Over the next few months, existing-home sales are expected to hold fairly steady as indicated by pending sales activity, then rise later in the year and continue to improve in 2009, according to the latest forecast by the National Association of Realtors®.

Lawrence Yun, NAR chief economist, said there is a pull and tug exerting itself on the market. "On the one hand, we have a pent-up demand from the four million jobs added to our economy over the past two years of sales decline," he said. "On the other, consumers continue to wait for additional signs of market stabilization. There are more people with financial capacity now than in 2005, but many are trying to market-time their purchase. As a result, the exact timing and the strength of a home sales recovery is a bit uncertain. A meaningful recovery in existing-home sales could occur as early as this spring, or it may be further delayed toward late 2008."

The Pending Home Sales Index,* a forward-looking indicator based on contracts signed in November, fell 2.6 percent to a reading of 87.6 from a strong upward revision of 89.9 in October, but remains above the August and September readings and indicates a broad stabilization. The index was 19.2 percent below the November 2006 level of 108.4. "Although there could be some minor slippage in the first quarter, existing-home sales should hold in a narrow range before trending up," Yun said.

The PHSI in the South rose 2.3 percent in November to 100.7 but is 19.8 percent below a year ago. In the West, the index slipped 2.1 percent to 86.6 but is 18.5 percent lower than November 2006. The index in the Midwest fell 4.1 percent in November to 82.1 and is 18.6 percent below a year ago. In the Northeast, the index dropped 13.0 percent in November to 70.1 from a spike in October, and is 19.1 percent below November 2006.

Existing-home sales for 2007 will probably total 5.66 million, the fifth highest on record, then edge up to 5.70 million this year and 5.91 million in 2009, compared with 6.48 million in 2006. Existing-home prices for 2007 are likely to be down 1.9 percent to a median of \$217,600, hold even this year and then rise 3.1 percent in 2009 to \$224,400.

"Rising home prices in the affordable midsection of the country are likely to offset declines in some of the previously hot markets," Yun said.

There are wide variations in housing market conditions around the country, with nearly two-thirds of the metropolitan areas showing price gains. Healthy increases in metro prices are occurring in places such as Pittsburgh; Beaumont-Port Arthur, Texas; San Jose, Calif.; and Bismarck, N.D.

“Our consumer survey shows buyers today are in it for the long-haul, planning to stay in their home for a median of 10 years. This is a wise approach to housing because the data shows the longer you own, the better your investment,” Yun said.

New-home sales are projected at 773,000 for 2007, and declining to 669,000 this year before rising to 730,000 in 2009, but well below the 1.05 million 2006. With an appropriate slowdown in production, housing starts, including multifamily units, are forecast at 1.36 million for 2007 and 1.09 million this year before edging up to 1.10 million in 2009; starts totaled 1.80 million in 2006. The median new-home price should drop 2.1 percent to \$241,400 for 2007, and then rise 0.4 percent to \$242,200 this year and gain another 5.9 percent in 2009.

“Some policy changes, such as raising the loan limit on conventional mortgages, would provide a significant boost to home sales, increase liquidity, strengthen home prices and lessen foreclosures, but it is unclear as to if and when the measure will be implemented,” Yun said. NAR strongly supports raising the Government-Sponsored Enterprise loan limit to at least \$625,000 from the current \$417,000 so that more consumers will have access to lower interest rates on safe conforming mortgages. “NAR estimates that raising the GSE loan limit will result in interest rates savings for an additional 330,000 homeowners,” he said.

NAR also encourages the Fed to make a single lump-sum cut in the Fed funds rate to 3.5 percent at the January Federal Open Market Committee meeting, rather than a series of modest cuts throughout the year. “Consumers are also looking to market-time interest rates, and the expectations of further rate cuts are pushing some home buyers to delay. Monetary policy will be much more effective with a one-time large cut, rather than a series of small cuts,” Yun added.

The 30-year fixed-rate mortgage is expected to rise slowly to the 6.3 percent range by the end of this year, but an additional cut in the Fed funds rate would lower short-term interest rates.

Growth in the U.S. gross domestic product (GDP) is seen at 2.1 percent in 2007, below the 2.9 percent growth rate in 2006; GDP growth will probably be 2.0 percent this year.

After averaging 4.6 percent for both 2006 and 2007, the unemployment rate is estimated to rise to 5.3 percent in the second half of 2008. Inflation, as measured by the Consumer Price Index, is projected at 2.9 percent for 2007 and 3.1 percent this year; it was 3.2 percent in 2006. Inflation-adjusted disposable personal income is forecast to grow 3.1 percent for 2007, the same as in 2006, and then grow 1.6 percent this year.

The National Association of Realtors®, “The Voice for Real Estate,” is America’s largest trade association, representing more than 1.3 million members involved in all aspects of the residential and commercial real estate industries.

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*The Pending Home Sales Index is a leading indicator for the housing sector, based on pending sales of existing homes. A sale is listed as pending when the contract has been signed but the transaction has not closed, though the sale usually is finalized within one or two months of signing.

The index is based on a large national sample, typically representing about 20 percent of transactions for existing-home sales. In developing the model for the index, it was demonstrated that the level of monthly sales-contract activity from 2001 through 2004 parallels the level of closed existing-home sales in the following two months. There is a closer relationship between annual index changes (from the same month a year earlier) and year-ago changes in sales performance than with month-to-month comparisons.

An index of 100 is equal to the average level of contract activity during 2001, which was the first year to be examined as well as the first of five consecutive record years for existing-home sales.

Existing-home sales for December will be released January 24; the next Forecast / Pending Home Sales Index will be released February 7.