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Existing-Home Sales to Stabilize Before Upturn in Second Half of 2008

WASHINGTON, April 08, 2008 -

Little change is expected in existing-home sales over the next few months, before improving notably during the second half of the year, according to the latest forecast by the National Association of Realtors®.

Lawrence Yun, NAR chief economist, said the market will come into clearer focus this summer. “Existing home sales could start to show a sustained increase within a few months, unless there are some additional economic problems or excessive inflationary pressure,” he said. “We’re looking for essentially stable sales in the near term, before higher mortgage loan limits translate into more sales in high-cost markets. The wider access to affordable credit should increase sales activity notably this summer as pent-up demand begins to be met.”

The Pending Home Sales Index,* a forward-looking indicator based on contracts signed in February, slipped 1.9 percent to 84.6 from an upwardly revised reading of 86.2 in January, and was 21.4 percent lower than the February 2007 index of 107.6. “The slip in pending home sales implies we’re not out of the woods yet, though an era of successive deep sales declines appears to be over,” Yun said.

The PHSI in the Northeast rose 3.2 percent in February to 71.8 but remains 25.4 percent below a year ago. In the Midwest, the index declined 3.7 percent to 82.7 and is 17.4 percent lower than February 2007. The index in the South fell 5.5 percent in February to 85.0 and is 30.3 percent below a year ago. In the West, the index rose 2.1 percent in February to 95.8 but is 6.1 percent below February 2007.

Existing-home sales are likely to rise from an annual pace of 4.9 million in the first quarter to 5.9 million in the fourth quarter. With relatively weak activity in the first part of the year, existing-home sales for all of 2008 are forecast at 5.39 million, increasing 6.6 percent to 5.74 million in 2009.

“Exceptionally weak home sales related to jumbo loans problems will depress home prices in the first half of the year, but steady liquidity improvements in the conforming jumbo-loan market will help prices recover in the second half of the year,” Yun said. The aggregate existing-home price will probably ease by 1.4 percent to a median of \$215,800 for all of 2008 before rising 3.7 percent to \$223,800 next year.

Yun noted that there will continue to be wide variations in regional housing market conditions. “Some parts of the country that can expect improvement include the Northeastern region and the oil-patch states of Texas, Oklahoma, Louisiana and Arkansas,” he said. With lower interest rates and flat home prices in many areas, NAR’s housing affordability index is forecast to rise 14 percentage points to 127.0 in 2008.

New-home sales are projected to fall 25.7 percent to 576,000 in 2008 before rising 4.6 percent to 602,000 next year. Housing starts, including multifamily units, are estimated to drop 26.3 percent to 999,000 this year, and slip another 0.5 percent to 994,000 in 2009. The median new-home price will probably fall 3.6 percent to \$238,400 in 2008, and then rise 4.0 percent next year to \$247,800.

The 30-year fixed-rate mortgage, which has fluctuated recently, should average 5.8 percent in the second and third quarters, but trend up to an average of 6.3 percent in 2009.

“The economy will not grow in first half of the year,” Yun said. “However, the combination of recent fiscal stimulus enactment and the lagged impact of monetary policy will help jump start the economy in the second half.” Growth in the U.S.

gross domestic product (GDP) is expected to be 1.4 percent in 2008 and 2.4 percent next year. The unemployment rate is forecast to average 5.4 percent this year and 5.6 percent in 2009.

Inflation, as measured by the Consumer Price Index, is projected at 3.4 percent in 2008 and 2.2 percent next year. Inflation-adjusted disposable personal income is likely to grow 1.2 percent this year and 3.0 percent in 2009.

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(1) 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 March will be released April 22; the next Forecast / Pending Home Sales Index will be released May 7.