

# Home prices set for first drop in 40 years

## Real estate group sees 0.7% decline in 2007, first annual drop since it began keeping track.

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NEW YORK (CNNMoney.com) -- **The National Association of Realtors said Wednesday it expects its measure of home prices to fall this year for the first time since the group began keeping track nearly 40 years ago.**

In its latest monthly forecast, the real estate group said it expects a **0.7 percent decline** in the median price of an existing home sold in 2007. A month ago it had been projecting a 1.2 percent increase. Half of all homes sell for more than the median and half for less.

The subprime mortgage mess led the group to cut its sales forecast as well, by 100,000 to 6.34 million homes, a pace that would be about 2 percent below the 6.48 million existing homes sold in 2006. The group cited problems some buyers may have getting financing.

The subprime mortgage sector, which handles loans to people with less than top credit, has seen a number of top lenders stop making loans, while others have gone bankrupt in recent months as delinquencies and mortgage default rates rise. That has led remaining lenders to tighten underwriting standards and raise rates for those borrowers.

The Realtors said the problems in subprime could actually lead to a stronger housing market over time if tighter lending helps prevent buyers from getting in too deep with low "teaser-rate" mortgage loans before being hit with much higher payments a year or two later.

"Simply stated, a loan with the lowest monthly payment probably isn't in your best interests - borrowers need to understand worst-case scenarios," David Lereah, the Realtors' chief economist, said in a statement.

He also tried to put the best picture on the housing price decline, saying much of it was caused by a sharper slowdown in sales in higher-priced markets along the East and West Coasts.

The group estimates that about three-quarters of the markets nationwide could still see a narrow increase in median sales prices during 2007 but that those gains will be outweighed by the declines in the markets that saw big gains in sales and prices during the record sales years of 2004 and 2005.

"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.

Slower sales have already produced year-over-year [decline in prices](#) in eight of the past nine months through February, according to the group's numbers. The median price in February was 1.3 percent below year-earlier levels and was 7.6 percent below the record high price set last July.

The group's forecast sees an even bigger slowdown in the new home market, as it is forecasting new home sales will come in at 904,000 this year, down 13 percent from the 1.05 million sold last year. It sees new home sales picking up slightly in 2008, to 935,000.

Housing starts are forecast to fall 18 percent to 1.47 million in 2007 before rebounding slightly in 2008, which would still be well below the 1.8 million starts seen in 2006.

The group sees median new home prices edging up 0.4 percent this year to \$246,200. But while the Realtors didn't mention it, that increase could be a false gain, as about three-quarters of builders have reported having to offer incentives such as paying closing costs or offering buyers extra features for free to maintain sales.

Weakness in sales has also cut into the revenue and earnings of the nation's leading builders.

On Tuesday No. 2 home builder [D.R. Horton](#) ([Charts](#)) reported a 37 percent drop in the number of new homes it sold in the latest quarter, citing continued weakness in prices and saying the typical start to the spring home [buying season](#) hasn't begun.

While Horton is expected to still report a profit for the period when it reports results, No. 3 builder [Pulte Homes](#) ([Charts](#)) reported a loss in its most recent period, as did No. 4 [Centex](#) ([Charts](#)) and New Jersey-based [Hovnanian Enterprises](#) ([Charts](#)).

No. 1 home builder [Lennar](#) ([Charts](#)) and No. 5 [KB Home](#) ([Charts](#)) both reported losses in their quarters ending in November, although both returned to an operating profit in their most recent period. The CEO of KB Home said Tuesday that he expects the housing slump to [get worse](#).

[Home prices: Don't expect a quick rebound](#)

**Courtesy of JB Goodwin**