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Housing Gloom Deepens

Home Sales Rise, but Economists Don't See Prices Bottoming Till Late '11 or '12

By NICK TIMIRAOS

Home sales picked up in September, but the long-term picture for housing is growing grimmer, say analysts and economists who are pushing back forecasts for a housing recovery.

Earlier this year, the housing market appeared poised for a turnaround, three years after it peaked. Federal tax credits for buyers spurred a flurry of activity, and the economy was adding jobs. That led some economists to forecast housing would hit bottom and begin to recover this year.

Now, some economists don't see a recovery until late next year or early 2012. "In most markets, the tide seems to be going back out," said Stan Humphries, chief economist at Zillow.com, a real-estate site. "The momentum is easing."

Adding to the mounting worries is the foreclosure crisis. Some banks suspended sales of foreclosed homes late last month to address questions about the integrity of the foreclosure process. If a substantial part of the market freezes for some weeks, that could further crimp sales.

On Monday, the National Association of Realtors said sales of previously owned homes ran at a seasonally adjusted annual rate of 4.53 million in **September. While that was up 10% from August,** the overall level of sales remains weak, and economists believe sales going forward could fall again. Indeed, half of the 109 economists and housing analysts polled this month by MacroMarkets LLC, a housing-futures firm, expect home prices to bottom next year, but half don't expect a rebound until 2012.

The growing pessimism is attributed partly to rising inventory in many markets, a trend that doesn't bode well for prices. The Wall Street Journal's latest quarterly survey of housing-market conditions in 28 major metropolitan areas found inventories of unsold homes were up in 19 markets at the end of the third quarter, compared with a year ago, with especially large increases in San Diego, Los Angeles and Sacramento.

"We'll see some additional price declines," said David Berson, chief economist at PMI Group Inc., a mortgage-insurance company in Walnut Creek, Calif. "The gains we've seen can't be sustained given the current supply situation."

The housing market typically plays a big role as the economy exits from recession, with a rebound in new home building sparking demand for construction workers and building supplies. "We're clearly not getting that this time," said MF Global economist James O'Sullivan. It's a major reason, he said, that the recovery that began last year has been so lackluster.

To be sure, the housing market is faring better in several metro areas, particularly those with decent job growth such as parts of Texas and Washington, D.C. And the National Association of Realtors said it believes a housing recovery is already taking place, though chief economist Lawrence Yun said it would be "choppy at times."

But other economists say any talk of a recovery is premature until prices stabilize. In the Realtors' report, the median home price fell 2.4% to $171,700 in September from a year earlier.

Although existing home sales rose more than expected in September, the prospects for an overall housing recovery remain elusive. Justin Lahart and David Weidner discuss. Also, Siobhan Hughes discusses U.S. government approval on Monday of the world's largest solar plant.

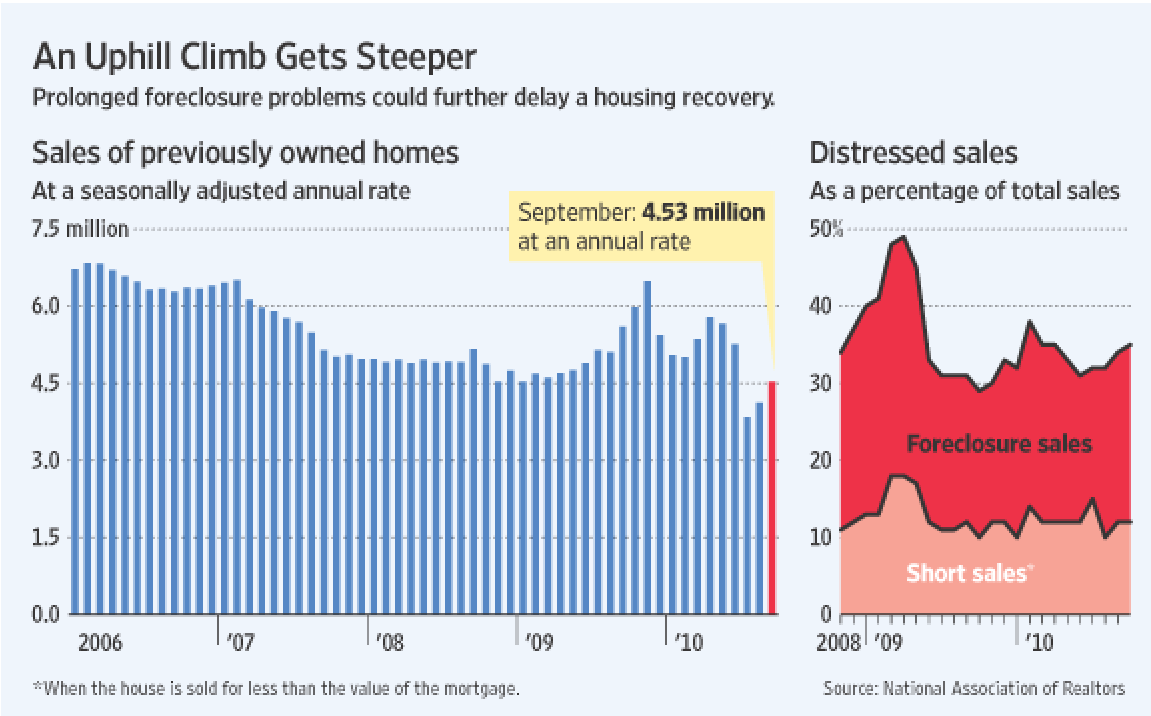
The latest data don't reflect the suspensions of some foreclosure sales. Monday's home-sales report noted that foreclosures and other distressed sales accounted for more than one-third of transactions in September.

"This mess threatens to dampen activity in the one area where we see the market strengthening," said Michael Feder, chief executive of real-estate data firm Radar Logic Inc., referring to foreclosure sales. "There's no way this helps. This is bad for the housing market, full stop."

Earlier this month, Nina Kachakova was days from closing on a two-bedroom home in Sunrise, Fla. But Fannie Mae pulled the listing after Bank of America Corp., which had serviced the loan on the property, announced it was suspending foreclosures. In a letter, Fannie asked to extend the closing until next Tuesday, but added the "extension does not guarantee resolution of title defect within this time frame." At the mortgage bankers' annual convention in Atlanta Monday, Fannie Mae Chief Executive Michael Williams emphasized the need to fix problems quickly "so it doesn't create an overhang of [bank-owned] property."

The recovery could be interrupted most severely in Florida, New Jersey and other "judicial" states where banks must complete foreclosures through court. Listings of bank-owned homes in Florida's Miami-Dade, Broward and Palm Beach counties last week were down by 19% from two weeks earlier, according to Condo Vultures, a real-estate research firm.

"Long after other parts of the country have burned off their excess foreclosure inventory, we will still be digesting ours, that's for sure," said Jeffrey Otteau, president of Otteau Valuation Group, an East Brunswick, N.J., appraisal firm.



At the current sales pace, it would take nearly 10.7 months to sell the nation's inventory of 4.04 million homes, according to the Monday report by the NAR. Six to eight months of inventory is considered healthy.

The housing market isn't likely to improve until job and income growth picks up. Other intractable problems include high rates of homeowners who owe more than their homes are worth, and the "shadow" inventory of loans, estimated at around four million, that are in some stage of foreclosure, or that have missed three or more mortgage payments.

"Joe Consumer doesn't know the term 'shadow inventory,' but they're hearing more and more that the banks are going to be dumping more homes for sale next year, so they're thinking, 'Why should I buy this year?" said John Burns, an Irvine, Calif., housing consultant.

On Tuesday, the S&P/Case-Shiller index will report home prices for the three-month period ended in August, offering the first indication of how sellers have responded to the drop-off in sales earlier this summer. Economists at Goldman Sachs Group Inc. forecast that prices in August and September declined by an estimated 0.4% and 0.5%, respectively. Their estimates are based on reported declines in sellers' asking prices over that time period.

Housing markets could be in far worse shape without mortgage rates that are at their lowest rates in nearly 60 years. The average 30-year fixed-rate mortgage stood at 4.21% last week with 0.8% in fees, according to a survey by Freddie Mac.

Courtesy of JB Goodwin