

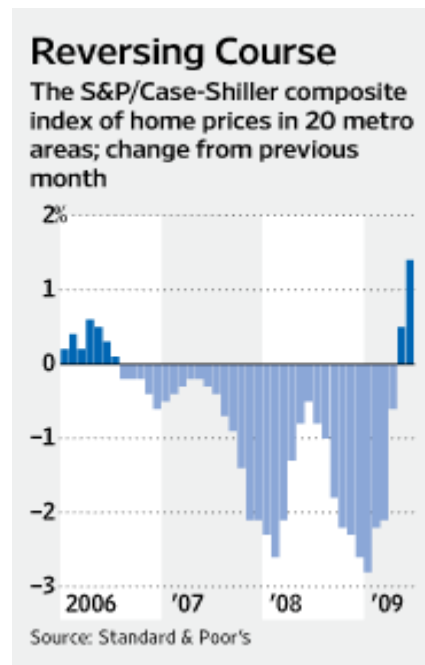
# IS THE REAL ESTATE DOWNTURN OVER?

*Is the Recovery Imminent? Or is it Already Underway?*

**Signs point to a rebound.** As this recession emerged, many economists felt that it would only fade away when the sector, where it all began, healed itself. It was in late 2006 when the U.S. real estate bubble began to pop, setting off a chain reaction of shocks that hurt homeowners, lenders, and the entire U.S. economy.

Three years later, we have new hope in the real estate sector – and the numbers to support it.

**Existing home sales rose 7.2% in July.** This was not only the largest monthly gain ever recorded, but the fourth consecutive monthly gain. As the National Association of Realtors noted, the last time residential resales increased for four straight months was in June 2004. Additionally, the number of existing home sales in July 2009 was greater than a year earlier – and that hasn't happened since November 2005.<sup>1</sup>



**Existing home prices seem to be moving north.** In late August, the S&P/Case-Shiller Home Price Index brought more good news. Prices in 18 of 20 major U.S. housing markets improved in June. On top of that, the Federal Housing Finance Agency's home price index gained 0.5% in June, on the heels of a revised 0.6% May gain.<sup>2</sup>

Wellesley College economics professor Karl E. Case (the Case in Case-Shiller) was delighted. "When I saw these numbers, I danced a jig," he told the *New York Times*. "It appears that the housing market is stabilizing quicker than people thought it would."

**New home sales jumped an amazing 9.6% in July.** Guess what: that was the fourth straight monthly increase. The Commerce Department put the seasonally adjusted annual sales rate at 433,000 – the strongest sales pace since September 2008. New home sales increased by an astonishing

16.2% in the South in July. When you lower prices enough, someone will buy.<sup>3</sup>

Not only that, equilibrium is slowly being restored in terms of supply and demand. At the end of July, the Commerce Department estimated that 271,000 new homes were for sale in the U.S. – the smallest number since March 1993. At the end of June, there was an 8.5-month supply of new homes on the market; in January, there was a 12.4-month supply.<sup>3</sup> So, inventory is being cleared out. That would seem to warrant a revival in home construction.

The statistics on housing starts bear this out. Single-family housing starts increased for the fifth consecutive month in July.<sup>4</sup>

**Mortgage rates are still low.** On August 27, 2009, interest rates on conventional 30-year fixed-rate mortgages were averaging 5.14%, according to Freddie Mac's weekly nationwide survey. Contrast that with 2006-2007, when rates on a 30-year FRM averaged more than 6.3%.<sup>5,6</sup>



**The real leading indicators may be in real estate.** David Berson, chief economist at California mortgage insurer PMI Group, has tracked real estate market recoveries in relation to the seven American recessions since 1960. He has concluded that all of these recoveries were characterized by – or driven by – gains in housing starts and home sales. On average, his findings indicate that residential resales start improving four months prior to the end of a recession. In the average recovery, single-family housing starts improved for seven months in a row, and new

home sales improved for eight straight months.<sup>7</sup>

Here in late August, new and existing home sales have both increased for four straight months, and single-family housing starts have improved for the last five months.

As Zip Realty's Patrick Lashinsky told Voice of America, "Affordability is at an all-time high. You have home prices that have dropped 25-30%. You have interest rates at very low amounts and you have consumers who have been waiting to buy. Combine that with the \$8,000 tax credit you get if you're a first-time buyer, and it's creating a solid demand." Here's hoping that demand brings about a great and prompt economic recovery.<sup>8</sup>

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#### Citations.

<sup>1</sup> [realtor.org/press\\_room/news\\_releases/2009/08/strong\\_uptrend](http://realtor.org/press_room/news_releases/2009/08/strong_uptrend) [8/21/09]

<sup>2</sup> [nytimes.com/2009/08/26/business/economy/26econ.html?em](http://nytimes.com/2009/08/26/business/economy/26econ.html?em) [8/26/09]

<sup>3</sup> [washingtonpost.com/wp-dyn/content/article/2009/08/26/AR2009082601876.html?hpid=topnews](http://washingtonpost.com/wp-dyn/content/article/2009/08/26/AR2009082601876.html?hpid=topnews) [8/26/09]

<sup>4</sup> [bloomberg.com/apps/news?pid=20601087&sid=afRgwPD19Yk4](http://bloomberg.com/apps/news?pid=20601087&sid=afRgwPD19Yk4) [8/18/09]

<sup>5</sup> [freddiemac.com/pmms/](http://freddiemac.com/pmms/) [8/27/09]

<sup>6</sup> [freddiemac.com/pmms/pmms30.htm](http://freddiemac.com/pmms/pmms30.htm) [8/27/09]

<sup>7</sup> [bloomberg.com/apps/news?pid=20601109&sid=asbePeKxZbVs](http://bloomberg.com/apps/news?pid=20601109&sid=asbePeKxZbVs) [8/27/09]

<sup>8</sup> [voanews.com/english/2009-08-24-voa41.cfm](http://voanews.com/english/2009-08-24-voa41.cfm) [8/24/09]