Real Estate Market Steady, But Slow

It will continue to be quite a ride for the U.S. housing market, with the home sales that recently trended up in the past year expected to slowly decline next year.

Some say the consequences of the recent financial crisis are hindering a broader recovery.

“While uneven, home sales have trended up from their cyclical lows last summer and foreclosures appear to be peaking,” says Walter Molony, senior public affairs specialist at the National Association of Realtors (NAR). “They will be slowly declining next year as the toxic loan resets work their way through the market and relatively stable prices keep additional households from going under water.”

According to the NAR, home sales are being held back by the twin problems of tight credit and low appraisals and the biggest impact is from unnecessarily restrictive loan underwriting standards. Lenders and bank regulators need to be mindful of the historically low default rates among mortgage borrowers of the past two years.

“We simply have to get back to sound, common-sense lending standards to provide mortgages to creditworthy borrowers who are buying homes well within their means,” Molony says. “A robust economic and housing market recovery cannot occur as long as banks continue to hold on to huge cash reserves.”

Molony estimates that if the lending community returned to the sound business standards that were in place a decade ago, home sales would increase 15% to 20% over current projections and there would be a quicker return to normal price-appreciation patterns.

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A sustainable real estate recovery is also being hampered by a nearly 10% unemployment rate in the United States and an uncertain economic outlook which have kept potential home buyers from jumping in.

Although there were boosts in home sales and prices brought about by the 2010 home buyer tax credit, the real estate market still has a hard road ahead.

“Much of the optimism that came with last year’s tax credit for home buyers was not supported by additional things to support people to buy homes – like lack of employment growth,” says Robert Curtis, program director of Business Administration at South University — Savannah. “Also, banks have tightened up on credit partially because of the abuses they created, so they have demanded a much higher rate of down payment.”

Bank regulators have proposed a controversial mortgage plan that would make a 20% down payment mandatory on some new home loans. The plan is creating quite a stir among consumer advocates, civil rights groups, and real estate industry groups who say it would deter many families from buying homes.

Molony says tight lending standards, not low down payments, are constraining a recovery.

“Some of the proposals being considered in Washington, D.C., amount to throwing the baby out with the bath water,” he says. “Our consumer survey data shows only one out of five first-time buyers could afford a 20% down payment, which would kill the entry-level market.

“Without first-time buyers, the trade-up market would stall, home sales would crash, values would fall, and there would be very detrimental effects on the overall economy,” Molony explains.
The housing market is a strong indicator of and contributor to the overall health of the economy. For starters, a home is dependent on having people pay the mortgages and to the extent they can pay mortgages and not only have jobs that allow them to, but be confident enough in the future of their employment to take on financial obligations.

“That is the beginning,” Curtis says. “Then there is the fact that a house is an ongoing expression with people buying what they need to live, furnish, and maintain it and also paying taxes and other fees into their communities.”

The real estate industry is recovering, albeit slowly, despite the difficult lending standards and other shaky economic factors. It is clear that people still believe home ownership is part of the American Dream and are pursuing it. There are many good benefits that can come with owning a home, including the mortgage interest, property tax deductions, and home price appreciation. But, Curtis says lifestyle needs should be the biggest deciding factor, rather than speculation on property values.

“The decision on whether to buy a house or not should not be predicated on profit,” he says. “It is long term and based on family needs and what is most important for you and your lifestyle. The ability to make or not make money should not be the major determinant.”