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Turning Point?

By Lawrence Yun, Chief Economist, NAR Research



Well, the NAR Midyear meetings have just ended. I had many opportunities to meet and speak with REALTORS® from around the country (and the world, for that matter). As always, I learned a lot from my conversations. But of course almost all of them posed the same question: are we on our way to a recovery? It is difficult to say for sure, but I do want to point out some of the latest developments in our economy and housing.

Let's get the bad news out of the way first. The worst part about the current recession is the job market. The economy has shed nearly six million jobs since the start of the recession in 2008. Unemployment is at its highest level since the 1980s, and is likely to increase into double-digits before the end of this year.

Home sales are still down from year-ago levels. Existing home sales fell in March, as did new home sales. Inventory is still high – in March the number of existing homes available for sale was at a 9.8 months supply. Distressed sales (foreclosures and short sales) are accounting for almost half of all resales. In order for the market to fully recover, that share of distressed sales needs to shrink significantly. Prices are still declining, at least on a year over year basis.

But the data points towards stabilization. It was not a total disappointment to see a fall in existing sales March after they posted a strong gain in February. Inventory is getting trimmed. Pending sales were up in March – due mainly to contracts signed by first-time home buyers taking advantage of historically high affordability (low prices, low mortgage rates) and first-time buyer incentives.

Housing affordability is one of the best headlines I can give you. The first quarter housing affordability index figure of 172 is the highest ever recorded since NAR began tracking the measure. The higher the figure, the more people have the financial capacity to enter the market. A median-income family, earning \$61,100, could afford a home costing \$291,600 in March with a 20 percent downpayment, assuming 25 percent of gross income is devoted to mortgage principal and interest.

And even though inventory is still high, at the end of March it declined 1.7 percent to 3.74 million homes available for sale. Inventory had peaked at 4.6 million (corresponding to an 11-months' supply) in the summer of last year. So the inventory is clearly moving in the right direction. We need to get down to 7 to 8 months supply before home prices can stabilize.

We should also note that the home price decline was less than in prior months. Prices were lower in all four regions. From one year ago, prices were lower by 18.4 percent in the Northeast, 6.1 percent in the Midwest, and 12.2 percent in the South. The West experienced an 11.1 percent price decline, but compare that to the 20 to 30 percent declines in the prior nine months. I am inclined to say that the worst is over in California, Nevada, and Arizona. The situation is far from normal, but the declines are over and the market is turning for the better for both home sales and home prices. There will be a continuous showing of year-over-year price declines for the remainder of the year, but month-to-month prices are shifting up after adjusting for seasonal factors. In other words, someone who bought in March of this year will likely see a

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It is REALTORS® and their clients who will drive a housing recovery and thus get our economy out of recession.

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First-time home buyers are taking advantage of improved affordability, as well as lower prices of existing homes in foreclosure and short sales.

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The new 2009 NAR Member Profile has just been released, and here we present some highlights from that report.

[Existing-Home Sales](/wps/wcm/myconnect/RO-Content/ro/research/reinsights/ehs)
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Existing-home sales declined 3.0% in March to a seasonally adjusted annual rate of 4.57 million units.

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New from NAR Research

Catch Up on Midyear

Did you miss any of the economic update sessions at the NAR Midyear meetings? No problem – Copies of presentations made at those sessions are available on the Research area of realtor.org. [Read](#)

higher home price by March of next year in the three western states cited above.

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Though there is a clear improvement in 3 states and several localities around Northern Virginia, South Florida, and the Minneapolis area, the vast majority of the country still has lower sales and lower prices. Going forward, we need several months of sustained growth to demonstrate a recovery in housing, which is necessary for the overall economy to turn around. Look for existing home sales to improve in the second half of this year. Actually, there's a good chance that resales will be more than 10 percent higher in the second half of 2009 compared to the second half of 2008. New home sales probably won't recover until 2010. And GDP? Yes, we're still in a recession and GDP growth in the second quarter of this year will still be negative, but not as bad as in the last two. By the end of the year we should be in positive territory.

As for prices, here's that "all real estate is local" admonition again. They will be all over the map. We need to wait for the full impact of the traditional spring and summer buying season. Home buying incentives and continuing attractive affordability should help shrink inventory. Though more foreclosures are over the horizon at least through the end of this year, it is critical for buyers to clear off these newly listed distressed properties. And that is evidently happening in today's market with buyers coming in and quickly picking off those distressed properties.

So, are we "on the cusp" of a recovery? Perhaps. My advice – keep watching the signs and encouraging your clients to take advantage of current programs that help home buyers and sellers. It is REALTORS® and their clients who will drive a housing recovery and thus get our economy out of recession.

Want more information about Dr. Yun's views on housing and the economy? Join him "on the web". Sign up for our Research Webinar at 10:00 am (Eastern Daylight Time) on May 28th. Dr. Yun will discuss current market trends and conditions, as well as highlight the many useful products and services created by the Research division to aid NAR members in their daily operations. For more information, visit the [Right Tools, Right Now Research page](#) (<http://www.realtor.org/prodser.nsf/RightTools/ResearchTools?OpenDocument>).

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