

2006 HOUSING MARKET OUTLOOK

Historically strong home sales expected in 2006

WASHINGTON -- Dec. 13, 2005 -- The housing market for 2005 is headed for a fifth consecutive annual record and sales activity in 2006 is expected to be the second best year in history, according to the National Association of Realtors® (NAR).

David Lereah, NAR's chief economist, says that market conditions are still favorable for housing. "The slowdown amounts to a tapping of the brakes on a hot market," says Lereah. "Home sales are coming down from the mountain peak, but they will level-out at a high plateau -- a plateau that is higher than previous peaks in the housing cycle. This transition to a more normal and balanced market is a good thing."

The 30-year fixed-rate mortgage should trend up modestly and reach 6.6 percent during the second half of 2006.

Existing-home sales, expected to rise 4.7 percent to 7.10 million this year, are likely to decline 3.7 percent in 2006 to 6.84 million. New-home sales, projected to increase 7.0 percent to 1.29 million this year, are forecast to drop 4.8 percent to 1.23 million in 2006 -- also the second best on record. Total housing starts for 2005 should grow 5.8 percent to 2.06 million units, the highest since 1972, and then decline 4.8 percent to 1.92 million next year.

NAR President Thomas M. Stevens says that housing has always been the soundest investment for most families. "As the old saying goes, homeownership beats the heck out of a drawer full of rent receipts," says Stevens. According to the Federal Reserve Survey of Consumer Finances, the median net wealth of a homeowner household is 36 times higher than a renter household.

Stevens notes that the national median home price has never declined since good recordkeeping began in 1968. "Although there can always be a temporary decline in a given area if jobs are weak and there is an oversupply of homes on the market, people who stay in their homes for a normal period of homeownership generally see healthy returns over time. There are no guarantees, but there are very good odds."

The national median existing-home price for all housing types, which is experiencing a surge estimated at 12.7 percent to \$208,800 for 2005, is expected to rise another 6.1 percent in 2006 to \$221,400. The median new-home price is likely to rise 5.5 percent to \$233,100 in 2005, and then grow by 7.3 percent next year to \$250,100 as higher construction costs impact the market.

The U.S. gross domestic product should grow 3.7 percent for 2005 and 4.1 percent next year. The unemployment rate is expected to decline to 4.9 percent by second quarter of 2006, and then stabilize.

The Consumer Price Index is projected to rise 3.4 percent for 2005, and 2.9 percent next year. Inflation-adjusted disposable personal income is forecast to increase 1.4 percent in 2005 and 4.5 percent in 2006.