

Housing slump may be nearing end, industry economist says

NEW ORLEANS – Nov. 13, 2006 – Saying that “the worst may be over,” the housing industry’s chief economist said Friday that home prices must continue to come down in some regions before the real estate slump plays out.

“We need a price decline, we were overbloaded,” particularly on the West Coast, David Lereah, chief economist for the National Association of Realtors, told attendees at his organization’s annual meeting here on Friday.

“In 2007, it will be a flat year, maybe 1 percent (sales) drop, and that’s it,” he said. “After 2007, we’ll be back to expansion again,” Lereah said.

But Steve Murray, a Littleton, Colo., industry consultant who followed Lereah on the podium at the convention, which drew an estimated 30,000 people, said he was less optimistic about the speed of the market’s recovery.

“Lereah said we’re at the bottom (of the slump), but in most markets we are going to slide some more,” Murray said. Citing interviews with executives at more than 100 large real estate firms, he said the pending sales data could be falsely reassuring.

“The fall-through rate (of contracted home sales) has gone from single to double digits,” Murray said the executives reported. “Buyers can’t sell their existing homes.”

“People who think this thing is going to turn around in six months are out of their minds,” Murray said in an interview before his speech.

Lereah forecast that 2006 sales will end up about 9 percent lower than in 2005, a record year. He anticipates sales of 6.47 million units, declining to 6.43 million next year. Prices nationwide will be down by about 2 percent, year over year, and will inch up by 1.5 percent in 2007, he said.

New-home sales will decline this year by 16.8 percent, to 1.07 million units, and will sink 8.7 percent further next year, to 975,000, he said.

Lereah said inventory is stabilizing, citing his trade group’s data on pending sales - homes that have gone under contract.

“It appears that inventory has peaked,” said Lereah, who now estimates a 7.3-month supply of available homes nationwide.

“We were hovering near 4 to 5 months’ (supply of homes fore sale) during the boom, and in some areas, such as Orange County, Calif., we were measuring it in weeks, not months.”

But Lereah said the national picture is positive. “I’m optimistic for 74 percent of the country,” where local markets are, at worst, flat. “The other 26 percent are in for some rough times.”

Struggling the most would be California, Southern Florida, Arizona, Nevada, and metro Washington, D.C., he said, where sellers particularly need to lower their prices.

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