

## Existing-home sales in 2007 expected to recover from cyclical low

WASHINGTON – Dec. 12, 2006 – Existing-home sales are expected to rise gradually in 2007 from current levels, with annual totals comparable to 2006, while new-home sales will continue to slide, according to the latest forecast by the National Association of Realtors® (NAR).

David Lereah, NAR's chief economist, says there are mixed conditions around the United States. "Roughly three-quarters of the country will experience a sluggish expansion in 2007, while other areas should continue to contract for at least part of the year," he says. "Most of the correction in home prices is behind us, but general gains in value next year will be modest by historical standards."

"Buyers, especially first-time buyers, with the combined benefits of seller flexibility and an unexpected drop in mortgage interest rates, have a window of opportunity. These conditions will persist in many areas until early spring when inventory supplies are likely to become more balanced," Lereah says.

Existing-home sales, finishing the third-best year on record, are projected for 2006 at 6.47 million, a decline of 8.6 percent. In 2007, they're expected to rise steadily from the current cyclical low and reach an annual total of 6.40 million, which would be 1.0 percent lower than this year's total.

"By the fourth quarter of 2007, existing-home sales will be 4.6 percent higher than the current quarter," Lereah says.

New-home sales in 2006 are expected to fall 17.7 percent to 1.06 million, the fourth highest total on record, before sliding an additional 9.4 percent in 2007 to 957,000. Much of the contraction in the new housing market results from cuts in builder construction to support pricing for current inventories. In addition, high construction costs in many areas are minimizing potential profits.

Total housing starts for 2006 are likely to drop 12.3 percent to 1.82 million units, with another 15.1 percent decline in 2007 to 1.54 million.

The 30-year fixed-rate mortgage is forecast to gradually increase to 6.7 percent by the fourth quarter of 2007. Last week, Freddie Mac reported the 30-year fixed rate dropped to 6.11 percent.

The national median existing-home price for all of 2006 is projected to rise 1.4 percent to \$222,600, with another 1.0 percent gain next year to \$224,700. The median new-home price should ease by 0.5 percent to \$239,700 this year, then rise by 0.8 percent in 2007 to \$241,700.

"Keep in mind that overall home prices were still appreciating at double digit rates in the first quarter of this year – prices in this buyer's market are temporarily a little below a year ago when we were in a strong seller's market," Lereah says. "This correction is one of the factors drawing buyers into the current market, but most sellers are still seeing very healthy long-term gains."

The unemployment rate is expected to be 4.8 percent in 2007, after averaging an estimated 4.6 percent this year. Inflation, as measured by the Consumer Price Index, is forecast to be 3.4 percent for 2006 and 2.3 percent in 2007, while growth in the U.S. gross domestic product is likely to be 3.3 percent for all of this year and 2.3 percent in 2007. Inflation-adjusted disposable personal income is projected to grow 2.6 percent for 2006 and 3.5 percent next year.