

## Economists: Improved housing market but timing uncertain

WASHINGTON – May 17, 2010 – Two top housing economists forecast some encouraging but tempered predictions for the housing market over the next few years during an economic session at the National Association of Realtors® Midyear Legislative Meetings & Expo today.

Lawrence Yun, NAR chief economist, and Mark Zandi, chief economist and co-founder of Moody's Economy.com, agreed that job creation is key to an economic and housing recovery, with job creation expected as the year progresses. But they differed somewhat on the impact that foreclosures will have on home price stabilization. Both project that mortgage interest rates will remain historically low, the availability of jumbo loans will improve, and home sales will rise over the next few years.

On the effect of the homebuyer tax credit, Yun said that the broader view would assert that the credit added 1 million buyers, reduced housing inventory by 1 million, and in turn, reduced the supply of housing by two to two-and-a-half months.

"This corresponded with a positive home price impact of 5 to 8 percent percentage points," Yun said. "Stabilizing home prices will limit future foreclosures. But those with a dimmer view would say that billions of dollars were wasted on people who would have bought anyway."

Yun expects a slightly stronger demand for housing and a fairly even level of foreclosures entering the inventory pipeline before easing in 2011. "We expect distressed home sales to account for 30 to 40 percent of transactions for the remainder of this year," he said.

Zandi also forecasts improving demand for housing, but with foreclosures rising later in 2010 before easing in 2011. He said home prices may weaken this year. "The housing crash is over – nearly. We are now near the bottom," he said. "There will be no real price growth in 2010 or 2011. Whether home prices weaken is unclear, but it will take two more years to work off excess housing inventory at the current sales pace. Of course, if demand picks up, it would take less time for prices to rise."

With improved market fundamentals and rising consumer confidence, Yun thinks home prices could rise 2 to 3 percent this year; but within the next two to three years, he suggests there could be stronger upward pressure on prices from a potential housing shortage because housing construction has fallen significantly below long-term demand.

Zandi said that the Fed won't raise interest rates until the unemployment rate is heading south, but that deficit spending is the greatest threat to the U.S. economy. "The debt-to-GDP (gross domestic product) ratio is extremely high and troubling, meaning we could have measurably higher interest rates in 2011 and 2012."