

Are We Moving Towards a Housing Recovery?



RealityCheck

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“We have enough cumulative signs now that we’ve come through the worst and not only are things less bad, we’re starting to see pockets of improvement.” Those are the promising words of Charles Schwab Chief Economic Strategist Liz Ann Sanders during her July 28, 2009 interview with Diane Sawyer on ABC’s *Good Morning America*.

Sanders was responding to Standard & Poor’s/Case-Schiller’s latest Home Price Index which revealed that though housing prices were down nationally 17.9% since June 2008, the rate of home price deterioration has in fact slowed and the Standard & Poor’s/Case-Schiller home price index saw its first monthly gain in the three month period ended in May, from the same period ending in April.

Sanders went on to note, “You have to go through less bad on your way to good.” This viewpoint certainly concurs with what we’re seeing locally as well. While there are many more “bargains” now than at any time in the past few years, the latest numbers show that prices may be stabilizing—but we don’t anticipate that we’ll suddenly see giant leaps in home prices anytime soon.

What we do know is that the housing market was the first to enter the down market and probably will be the first to emerge from it. But it all takes time.

To emphasize that point, Sanders noted, “We’re not going to go into positive gain territory anytime soon but we were looking at declines down in the 18 to 19% so they’re getting a little less bad and that’s just a sign that the turn has come in so I do think prices are bottoming here. It’s not universal but broadly, nationally you can say that. There is still going to be some pockets of weakness but also some pockets of significant strength.”



Locally in pockets throughout there has been a surge in home sales over the last several months. In fact, in its July 29, 2009 Standard & Poor’s: Denver home prices up a 3rd month, the *Denver Business Journal* reported that, Home prices in Denver rose in May for the third consecutive month, and the city scored the second-lowest year-over-year price decline of the 20 cities included in Standard & Poor’s closely watched S&P/Case-Shiller Home Prices Index.”

The report continued, “Home prices in Denver rose 1.3 percent in May from the previous month, according to the index report. That follows a 1.5 percent rise in April and a 0.1 percent gain in March. Denver prices fell by 1.7 percent in February and 2.7 percent in January. Among the 20 cities in the S&P/Case-Shiller index, Cleveland saw by far the greatest month-to-month home price rise in May, 4.1 percent, followed by Dallas (1.9 percent) and Boston (1.6 percent). Denver was tied for the fifth-highest month-to-month price increase in May.”

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So what does all of this mean for today's buyers?

The latest news shows that prices may be stabilizing but they're likely to remain at these levels for some time. *The Wall Street Journal* Reporter Nick Timiraos wrote in his July 29, 2009 blog posting *What the Case-Shiller Numbers Mean for Home Buyers*, "A purchase could make sense for borrowers who plan to live in their home for a long time now that prices are more in sync with incomes."

What should we watch for?

During the *Good Morning America* interview, Sanders, and Mike Santoli, an associate editor of *Barron's*, both provided their key vital signs to watch for in calling for a recovery. Among them:

Liz Ann Sanders' Three Improving Economic Vital Signs to Watch For:

- Index of Leading Economic Indicators, which has enjoyed three months of increases
- New unemployment claims are down 93,000; "We've never still been in a recession when we've seen that kind of drop," said Sanders.
- The spread between short term (set by the Fed) and long term interest rates (driven by the market) is widening; these numbers are telling us that the economy is recovering

Mike Santoli's Three Improving Economic Vital Signs to Watch For:

- Dow above 8,000; if it stays above 8,000, Santoli noted, this would be a good indicator that we're on the road to recovery. As an aside, the week ended July 31, 2009, we danced over the 9,000 mark, closing Friday, July 31 at 9,171, making it the best July for the Dow in over 20 years, according to CNNMoney.com's July 31, 2009 article *Dow ends best July in 20 years*.
- Santoli concurred with Sanders' new unemployment claim indicator
- Back to school retail sales; Santoli stated that this is a check on consumer psychology; Santoli noted that we should watch sales reports from companies like Target and Wal-Mart to report to determine if consumer psychology is improving.

In the end, what all of this information is telling us is that though we are starting to show signs of improvement, we



probably won't see huge surges in home prices any time soon. Home prices seem to be realigning more closely with incomes in most markets. With mortgage rates remaining attractive, the \$8,000 first time home buyer tax credit that is on the table until November 30 and foreclosures on the decline, the key signs are finally pointing in the right direction.

If you are ready to make an informed decision about real estate, please contact me today:

