

# With Buyers Sidelined, Home Prices Slide

Tighter Credit, Anticipation of Further Declines Add  
To Worst Glut Since Late '80s; the Foreclosure 'Fear Factor'

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So many houses. So few buyers.

Home builders are slashing prices, often by more than 10%. Some people who list their homes on Craigslist.org admit they are "desperate" to sell. Inventories of unsold homes are at the highest level in nearly two decades, providing plenty of choices.

## WHERE HOUSING IS HEADED

A look at **fundamental indicators** in 28 major real-estate markets.

Yet a severe tightening of credit by mortgage lenders is keeping many buyers out of the market, while the huge supplies of homes for sale have persuaded others that they can wait for further price cuts.

The National Association of Realtors reported yesterday that sales of previously occupied homes in September dropped 19% from the same month a year ago to a seasonally adjusted annual rate of 5.04 million units. The trade group blamed disruptions in the mortgage market.

Meanwhile, The Wall Street Journal's quarterly survey of housing-market conditions in 28 major U.S. metropolitan areas shows that inventories of unsold homes are still rising in most of them, prices are generally falling and overdue loan payments are piling up.

Some forecasters now warn that home prices are unlikely to start rising in most of the country before 2009 or 2010. A year ago, many home builders and lenders still thought that the housing boom -- which more than doubled prices in some areas during the first half of this decade -- would end with a gentle landing. Now those hopes are dead.

"Everybody's kind of at a stalemate now, waiting to see what happens next," says Donna Butera, who has a business in Phoenix "staging" homes for sale, adding furniture and other decorative touches to make them more appealing. Ms. Butera and her husband, Mark, are trying to sell six homes in Phoenix and Scottsdale. They bought the properties as investments over the past few years, but now find that the rents they collect don't cover mortgage payments that are resetting to higher levels after initial low-cost periods of a year or two.

Home lenders have been growing more cautious for more than a year. But they suddenly tightened the screws much more in August, when investors grew so alarmed about rising defaults that most wouldn't buy loans other than those guaranteed by Fannie Mae or Freddie Mac or insured by the Federal Housing Administration. That led to a brutal drop in both lending and home sales.

In one of the most extreme examples, home sales in the Orlando, Fla., area declined 55% in September from a year earlier to 924 units, the Orlando Regional Realtor Association reported. Sales in six Southern California counties -- Los Angeles, Riverside, San Diego,

### Where Housing Is Headed

A look at fundamental indicators in 28 major real-estate markets.

Metro area	Change in housing inventory <sup>1</sup>	Price change <sup>2</sup>	Employment outlook <sup>3</sup>	Loan payments overdue <sup>4</sup>
Atlanta	+15%	+1.2%	Average	4.55%
Boston	-15	-3.4	Weak	3.31
Charlotte, N.C.	NA	+6	Strong	3.60
Chicago	+5.4	-0.9	Weak	2.99
Dallas	+4.6	+0.8	Strong	4.26
Denver	-3.5	-0.7	Average	3.56
Detroit	+9.8	-9.7	Very Weak	4.71
Houston	+14	NA	Strong	4.10
Jacksonville, Fla.	+14	NA	Average	3.78
Las Vegas	+17	-6.1	Strong	4.90
Los Angeles	+21	-4.8	Weak	3.05
Miami-Ft. Lauderdale	+30	-6.4	Average	5.63
Minneapolis-St. Paul	+10	-3.4	Average	3.01
Nashville	+30	NA	Average	3.67
New York	+15	-3.8	Weak	3.29
Orange County, Calif.	+16	NA	Weak	2.46
Orlando	+29	NA	Strong	4.71
Philadelphia	+4.2	NA	Weak	2.94
Phoenix	+20	-7.3	Average	3.26
Portland, Ore.	+40	+3.8	Strong	1.93
Raleigh-Durham, N.C.	+22	NA	NA	2.43
Sacramento, Calif.	+7.4	NA	Average	4.01
St. Louis	+15	NA	Weak	3.35
San Diego	+3	-7.8	Average	3.45
San Francisco	+17	-4.1	Average	2.29
Seattle	+45	+6.9	Average	1.65
Tampa, Fla.	+19	-8.8	Average	4.60
Washington, D.C.	+2.7	-7.2	Average	3.14

NA = not available

<sup>1</sup>Change from a year ago in the number of single-family homes, condos, townhouses and co-ops offered in multiple-listing services at the end of September 2007. New York includes Manhattan, Brooklyn, Queens, northern New Jersey, Long Island and Fairfield County, Conn. San Francisco includes the city plus eight surrounding counties. Washington includes the city plus Maryland and Virginia suburbs. Dallas includes Fort Worth and other North Texas towns.

<sup>2</sup>Average price level in July compared with a year earlier based on S&P/Case-Shiller index. Price movements may vary considerably within a metro area.

<sup>3</sup>Job growth projections by Moody's Economy.com for the two years ending Sept. 30, 2009. Characterization is in relation to the growth consistent with a stable national unemployment rate.

<sup>4</sup>Percentage of mortgage loans 30 days or more delinquent in latest quarter, based on data from Equifax and Moody's Economy.com. U.S. average is 3.41%.

Sources for inventory: Otteau Valuation Group, ZipRealty, Smart Numbers, Prudential California Realty, MLS Property Information Network, MLS of Northern Illinois, Real Estate One, Esslinger-Wooten-Maxwell, Corcoran Group, Consolidated MLS, Prudential Fox & Roach, Arizona Regional MLS, Trendgraphix, Northwest MLS and local Realtor associations

Ventura, San Bernardino and Orange - in September totaled 12,455, down 49% from a year ago and the lowest for at least 20 years, according to DataQuick Information Systems, a real-estate data firm in La Jolla, Calif.

The National Association of Realtors said that the disruption in the mortgage market is temporary and that the availability of jumbo mortgages -- those that exceed the \$417,000 limit for loans that can be sold to Fannie Mae and Freddie Mac -- has improved in recent weeks.

Even so, home sales are likely to remain weak for months because lenders are still very cautious and huge supplies of homes are weighing on prices. On a national basis, the number of previously owned homes listed for sale is enough to last about 10.5 months at the current sales rate, the NAR said. The supply of detached single-family homes, at 10.2 months, is the highest since February 1988. Supplies hovered around four to five months for the first half of this decade. When the figure is longer than six months, it is considered a buyer's market.

Inventory figures reported by Realtors probably understate supply because not all foreclosed homes are sold through real-estate agents, says Doug Duncan, chief economist at the Mortgage Bankers Association.

In Miami-Dade County, the supply of condos is enough to last about 57 months at the current sales rate, while the supply of single-family homes is 38 months, according to Esslinger-Wooten-Maxwell Inc., a large local real-estate brokerage firm.

In Orlando, the supply of single-family homes and condos is enough to last 28 months. That compares with about 24 months in the Detroit metro area; 20 months in Tampa, Fla.; 15 in Sacramento, Calif.; 13 in the Northern Virginia suburbs of Washington, D.C.; and 11 in the Atlanta area, according to Realtors and consultants. Even in some of the nation's strongest markets, such as Seattle and Portland, Ore., supply is rising fast. In the Portland area, for instance, the supply is enough to last 8.6 months, up from 4.5 months a year ago.

The better news for sellers is that the number of homes on the market is no longer rising as fast. Supplies are up only slightly from a year earlier in some markets, such as the metro areas of New York, San Diego and Washington, D.C., including suburbs in Maryland and Virginia. The number of homes listed has declined in the Boston and Denver markets. But inventories have continued to rise rapidly in the Miami-Fort Lauderdale; Nashville; Raleigh-Durham, N.C.; and Orlando areas.

#### TOO MANY HOUSES

Prompted by the recent credit crunch, lenders have been loath to issue new home loans. That has slowed already weak sales in many markets:

- The national supply of detached single-family homes is at 10.2 months, the highest since February 1988.
- Some forecasters warn that home prices are unlikely to start rising in most of the country before 2009 or 2010.
- A rising number of foreclosures is adding supply to the market.

House prices, as measured by the S&P/Case-Shiller national index, are likely to fall about 7% this year and a similar amount in 2008, says Jan Hatzius, chief U.S. economist at Goldman Sachs in New York. He believes a further small decline is likely in 2009. Of course, house-price movements vary greatly around the country and even within metro areas; in some desirable locations with limited supply, prices are likely to keep rising.

Thomas Lawler, a housing economist in Vienna, Va., believes prices generally should stabilize in 2009 at around 15% below their mid-2006 peak. After that, he sees them reverting to their long-term trend of rising slightly faster than inflation. The fast increases of earlier in the decade were an anomaly, fueled largely by lax lending standards, Mr. Lawler says, and the current housing slump is persisting because "multiple years of excess tend to take multiple years to correct."

Rising foreclosures are adding supply to the market. That trend is likely to persist as more people who took out home loans with low teaser rates face "resets" to higher monthly payments on their home loans. Nationally, payments were at least 30 days overdue on 3.4% of all first-lien home-mortgage loans in this year's third quarter, up from 2.4% a year earlier, according to data from Equifax Inc. and Moody's Economy.com.

The rate of delinquencies was much higher in some of the weaker housing markets, including Detroit (4.7%), Las Vegas (4.9%), Miami-Fort Lauderdale (5.6%), Orlando (4.7%) and Tampa (4.6%). Orlando, Tampa and San Diego showed the biggest increases in delinquent loans in the third quarter compared with the second quarter.

Foreclosure headlines create a "fear factor" among buyers and prompt more to think they should wait before taking the plunge, says Jeffrey Otteau, president of Otteau Valuation Group, an East Brunswick, N.J., appraisal firm. He believes the typical home price in New Jersey will fall about 7% this year, after dropping 8% in 2006. He expects a further decline in 2008. But, he says, "when houses are priced right, they're selling very quickly."

More builders, condo developers and lenders stuck with foreclosed property are turning to auctions. On Sunday, Parkside Alexandria LLC is due to auction 30 condos in a 378-unit complex in Alexandria, Va., called Parkside Alexandria. The Parkside buildings, which used to be rental apartments, were converted to condos two years ago. The company says two-bedroom condos similar to ones that recently sold for \$340,000 will be offered for a minimum of \$225,000. Daniel Rubén Odio-Páez, owner of DROdio Real Estate Inc. in Alexandria, says a condo at Parkside similar to those being auctioned sold for \$400,000 in March 2006.

In Philadelphia, some condo developers are trying to attract buyers by offering to cover their monthly fees for the first year, says Virginia Jarden, a regional vice president at Prudential Fox & Roach Realtors. She says developers also sometimes throw in a parking space or cover all or part of the real-estate transfer tax usually paid by the buyer. By trumpeting discounts and other incentives, home builders are "educating the buying public to ask for concessions," Ms. Jarden says.

Kathleen Alexander, a real-estate agent at Century 21 Cityside in downtown Boston, says she believes the market is stabilizing in her area. "Entry-level" condos selling for less than \$500,000 in such Boston neighborhoods as South End and Beacon Hill are finding buyers fairly quickly, she says, but sales tend to be more "sluggish" for "middle-market" condos in the \$600,000 to \$900,000 price range because the supply is plentiful.