



# REALTORS<sup>®</sup> Confidence Index

NATIONAL ASSOCIATION OF REALTORS<sup>®</sup>  
Research Division, October 2007





## **REALTORS® Confidence Index Highlights- September 2007**

The REALTORS® Confidence Index is a measurement of housing market strength based on responses obtained from a panel of REALTORS®. Each month respondents indicate whether market conditions currently are and expected to be “strong” (100 points), “moderate” (50 points), or “weak” (0 points). The results represent the average score for each question. A score of 50 is the midpoint between “strong” and “weak” conditions.

The results below reflect respondents' beliefs about September 2007, compared with both the previous month and the same month one year earlier. Perceptions of current residential real estate market conditions are also compared with expectations for business over the next six months.

For this month's report, **670\*** usable responses were received from the panel.

### **This Month's Reading**

The REALTORS® Confidence Index for single-family home sales in **October** slid lower to 31.2, compared with 34.7 in September and 44.4 a year earlier. The indices for town-houses (20.8) and condos (18.2) remained relatively lower from the previous month, and are significantly lower than the same month last year. Practitioner expectations for single-family homes and townhouses remained almost unchanged from last month, but expectations for the condo market were slightly lower. Practitioners see about the same traffic from prospective home buyers compared with a month ago, but slightly lower than a year ago. Traffic from prospective home sellers remained flat from last month and a year ago. Expectations for buyer traffic (30.1) are lower than the previous month (32.8) and last year (39.7). Expectations for seller traffic (60.0) are down from last month (63.6) and last year (61.7)

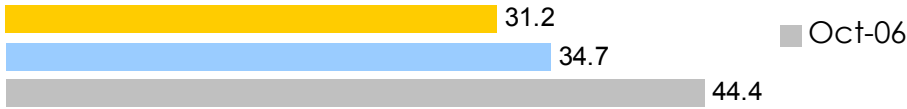
*For further insights into current market conditions, see this month's Forecast by Dr. Lawrence Yun, NAR's Chief Economist of research, on pages six and seven.*

*\*Additional 294 responses were added from supplementary survey*

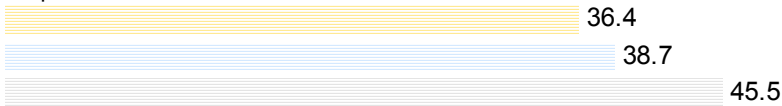


### Single-family

Current

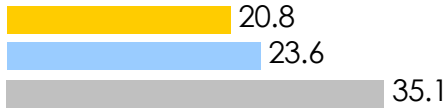


Expectations



### Townhouses/Duplexs

Current

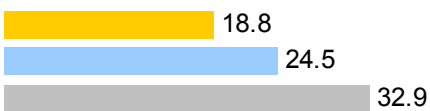


Expectations

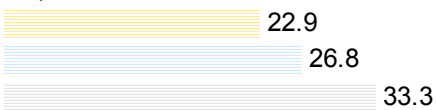


### Condos

Current



Expectations





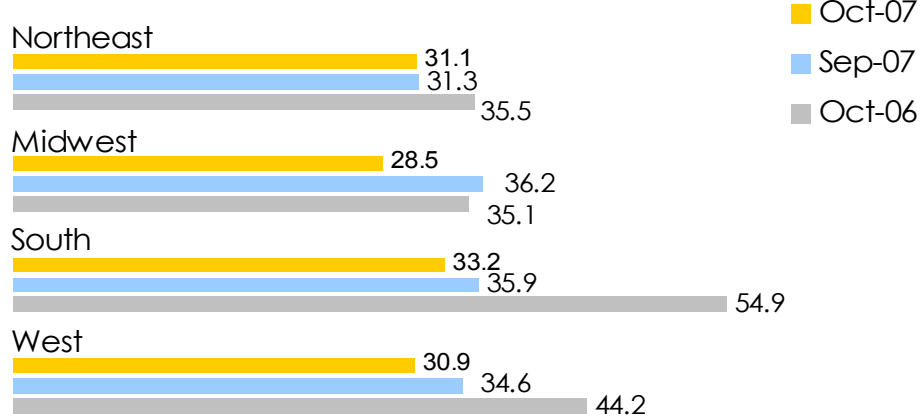
### Traffic of prospective buyers



### Traffic of prospective sellers



### REALTORS® CONFIDENCE INDEX BY REGION





<u>2007.10</u>	<u>2007.09</u>	<u>2006.10</u>	
31.2	34.7	44.4	Current residential real estate conditions (SFH)
36.4	38.7	45.5	Expectations of business over the next six months (SFH)
20.8	23.6	35.1	Current residential real estate conditions (Townhouses)
25.2	26.6	36.0	Expectations of business over the next six months (Townhouses)
18.8	24.5	32.9	Current residential real estate conditions (Condos)
22.9	26.8	33.3	Expectations of business over the next six months (Condos)
30.1	32.8	39.7	Traffic of prospective buyers
60.0	63.6	61.7	Traffic of prospective sellers
			Regional current residential real estate conditions (SFH)
31.1	31.3	35.5	Northeast
28.5	36.2	35.1	Midwest
33.2	35.9	54.9	South
30.9	34.6	44.2	West

### **Question of the Month**

Which best describe your most recent client who listed the home for sale?  
than the value of their home?

- 27.0% was a resident and wanted to trade-up
- 48.6% was a resident and needed to sale because of job relocation, marriage, divorce, etc.
- 10.4% was a resident but can no longer afford the re-setting higher mortgage payment
- 6.1% was an investor (rented out the home prior to listing)
- 7.8% was an investor (home was vacant)

### **Home Price Expectations**

In your area, what are your expectations for home prices over the next year?

- 42.9% Home prices will rise 0-5%
- 3.0% Home prices will rise 5-10%
- 0.9% Home prices will rise 10-20%
- 0.0% Home prices will rise greater than 20%
- 53.2% Home prices will fall over that time period



## The Forecast

### Waiting Room

by Lawrence Yun, Chief Economist, NAR Research

Several positive developments in the credit market will pave the way for improving housing market conditions going into 2008. The worst of the credit crunch concerns we saw in August are clearly over. A bold move by the Federal Reserve in cutting the federal funds rate by 50 basis points helped liquidity. Even more importantly, the Fed's action bolstered the confidence of financial investors that the Fed will not permit a freezing of credit in the marketplace. Consequently, markets have settled down and mortgage rates are now more favorable compared to those in August.

But it's interesting to note that credit in the conforming loan market (those loans under \$417,000 and those that meet the guidelines of Government Sponsored Enterprises like Freddie Mac and Fannie Mae) has been widely available throughout the recent crisis. It was the jumbo loan market that was particularly hard hit, with the spread over conforming loans rising to over 150 basis points, rather than the historic average of 20 to 30 basis points. The spread as of early October (as this is being written) was down to 70 basis points – still not back to normal, but at least it is moving in the right direction. Many home buyers in the high-cost regions who have been frozen out of jumbo loans will now be able to return to the market.

And the subprime market? Well, we certainly don't expect the level of subprime lending to return to where it had been a year ago. That is a good thing. While some subprime loans make sense, the vast majority of subprime borrowers likely did not know what they were getting into. Low-and-moderate income families will (and should) now look to safer FHA loans. These loans carry much more favorable interest rates and they have the infrastructure already setup for counseling and loss mitigation.

### Taking Inventory

Though the credit problems appear to be over, there is an overhang that looms large that could hamper the recovery of the housing market. Inventory is high – very high. There were a record 4.58 million homes on the market at the end of August. That's a 10 month supply. But the number of total listings appear to be topping out. A significant portion of the existing supply of homes is old inventory that has been sitting for several months due to lower sales activity. If one looks only at the fresh listings, a total of 596,000 existing homes came on to the market in August. That is the lowest number of fresh listings for the month of August in



eight years. The typical number of new listings reaching market over each of those eight years had been 720,000. Also keep in mind that many people still live in the homes that are listed for sale. These people are home sellers as well as home buyers – except for those probably few who want to move into renting. From a supply and demand point of view, it is a wash.

The bigger concern over inventory is with newly constructed homes because they are vacant. For builders, carrying a vacant home is an expensive proposition and, hence, they will be forced to provide more incentives and price cutting to attract buyers. Interestingly, the inventory of newly constructed homes has been falling for the past five months thanks to major cut backs in construction by homebuilders. Inventory looks to be further shaved based on trends from single-family housing starts (down 43% in August from two years ago) and single-family housing permits (down 46%).

If in fact the inventory has maxed-out, then the downward pressure on home prices may not be as severe. After all, while we currently have high inventory, home price declines have actually been in the modest single-digits for the country as a whole. And some areas report price increases. In the latest NAR survey of metropolitan area home prices (through the second quarter of this year), more than half of the metro areas in the nation posted price gains - despite the high inventory.

### **Brigher Days Ahead**

One principal reason underlying those price gains or minimal price losses is our fundamentally sound economy. The unemployment rate is low at under 5%. Job gains continue with 110,000 additions in September on top of 89,000 job gain in August. (The initial read of August job creation showed a net loss before being revised to that 89,000 positive figure.) Over four million net new jobs have been created in the past 24 months -- the time period since home sales began to decline. Recall, the last cycle when inventory rose to comparably similar heights was back in the early 1980s and early 1990s, both corresponding to years of job cuts. The current high-inventory condition is unique in that respect and untested in history.

Based on record stock market valuation and strongly rising exports, and the fact that most of the negatives of housing have already occurred, the economy will grow a bit faster next year. More active economic activity will not necessarily mean a higher inflation. In fact, inflation is projected to decelerate – from 2.8% this year to 2.4% in 2008. That is good news because inflation will be the key in holding down rates on 30-year mortgages. The Fed interest rate cut helped with



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adjustable rates, home equity loans, and in lessening the burden on re-setting rates. But the Fed does not have direct control over 30-year rates. Rather it is the expectations for inflation that truly impact those rates. With inflation coming under better control, mortgage rates will remain low.

Housing figures for September and October look to be weak (we'll see those numbers well into late November), and they will reflect the lingering impact of the August credit crunch. However, the recovery is underway. 2008 will be better than 2007.