



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

NATIONAL ASSOCIATION OF REALTORS<sup>®</sup>  
Research Division, September 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, **369** usable responses were received from the panel.

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

The REALTORS® Confidence Index for single-family home sales in September slid lower to 34.7, compared with 39.0 in August and 46.9 a year earlier. The indices for town-houses (23.6) and condos (24.5) remained relatively flat from the previous month, but they 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 also see more traffic from prospective home sellers than from prospective buyers compared with a month ago, as well as a year ago. Expectations for seller traffic (63.6) are higher than the previous month (62.9) and last year (61.6). Expectations for buyer traffic (32.8) are down from last month (34.7) and last year (42.4)

Conditions are weak in all four regions -- with indices all under the 50 percent midpoint.

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



### Single-family

Current



Expectations



### Townhouses/Duplexs

Current



Expectations



### Condos

Current



Expectations

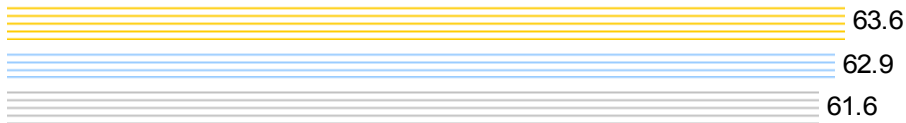




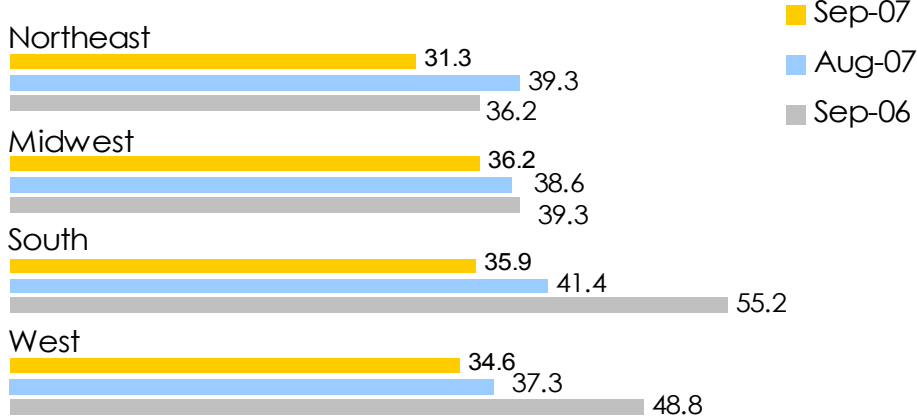
**Traffic of prospective buyers**



**Traffic of prospective sellers**



**REALTORS® CONFIDENCE INDEX BY REGION**



**Home Price Expectations**

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

- 52.0% Home prices will rise 0-5%
- 2.8% Home prices will rise 5-10%
- 0.9% Home prices will rise 10-20%
- 0.0% Home prices will rise greater than 20%
- 44.3% Home prices will fall over that time period



**Questions of the Month**

How many of your clients are selling their property because their loan value is now greater than the than the value of their home?

- 69.3% 0-10%
- 14.1% 11-20%
- 8.3% 21-30%
- 3.7% 31-40%
- 4.6% Over 50%

In your market, what percentage of committed loans in August did not come through at the last last moment due to mortgage disruptions?

- 67.5% 0-10%
- 18.8% 11-20%
- 7.2% 21-30%
- 2.4% 31-40%
- 4.2% Over 50%

<b><u>2007.09</u></b>	<b><u>2007.08</u></b>	<b><u>2006.09</u></b>	
34.7	39.0	46.9	Current residential real estate conditions (SFH)
38.7	40.5	47.4	Expectations of business over the next six months (SFH)
23.6	26.6	37.5	Current residential real estate conditions (Townhouses)
26.6	29.6	37.6	Expectations of business over the next six months (Townhouses)
24.5	25.9	34.9	Current residential real estate conditions (Condos)
26.8	30.1	34.6	Expectations of business over the next six months (Condos)
32.8	34.7	42.4	Traffic of prospective buyers
63.6	62.9	61.6	Traffic of prospective sellers
			Regional current residential real estate conditions (SFH)
31.3	39.3	36.2	Northeast
36.2	38.6	39.3	Midwest
35.9	41.4	55.2	South
34.6	37.3	48.8	West



## The Forecast

### Getting Back on Track

*by Lawrence Yun, Vice President, NAR Research*

The summer has been tough – historically high temperatures in many parts of the country, Midwest floods, and almost everywhere major airline flight delays. Housing didn't have such a great summer either, with home sales and price appreciation still waiting to recover. The subprime mortgage mess didn't help either. So everyone wants to know: now that the summer is over, when can we expect the housing sector to get back to normal? There's actually a sequence of events we should look for that need to happen before housing is back on track, and as each of these occurs, the closer the housing recovery will be. Let's take a look at them.

#### **Mortgage Rates Will Stabilize Favorably**

Despite the headline news coverage of turmoil in the mortgage market, mortgage rates have actually been falling for borrowers who take out prime conforming loans. Because these borrowers account for the majority of home buyers, affordability conditions for most buyers have improved. FHA loans – the traditional financing vehicle for low-and-moderate income households – have also begun to build market interest and momentum. FHA loans offer very attractive rates nearly comparable to those of conforming loan rates and save homeowners a bundle – about \$180,000 in lower interest payments over a 30-year loan cycle compared to high-interest rate subprime loans. A near-certain legislative change that will allow higher FHA loan limits in high cost areas will further free up the mortgage market to offer safer alternative products (i.e., FHA loans) and away from subprime loans. It is important to note, though, that subprime loans may make sense for some home buyers such as young couples with large income potential but little downpayment. But the subprime market share at most should be no more than 5% rather than the 20% market share of recent years.

While mortgage rates look good for conforming and FHA loan clients, the same is not true for jumbo loan borrowers. Without the backing of a guarantee by Fannie Mae and Freddie Mac, bond investors are shying away from jumbo loans. As a result, interest rates on these large loans have increased and will significantly hold back home sales in the high cost housing areas like California. The whiplash will be short-term, however. After sorting through the numbers, bond investors will likely conclude that jumbos are quite safe – even without the government guarantees. A million dollar borrower generally has solid credit and pays bills on time. Any temporary legislative change in raising the loan limit well above the current \$417,000 or in permitting the GSEs to purchase jumbos loans to include in their portfolios will mitigate the crisis. (The median prices will artificially trend lower during the period of jumbo loan crisis just due to fewer higher priced home sale transactions).

#### **Pent-Up Demand Will be Unleashed**

Consider this – four million net job additions in the past two years during the housing market slump. Yet, home sales have fallen. As home sales fell, people doubled and tripled up because apartment rents increased at their highest pace in five years. These people are waiting to buy a home. Then there are the approximately two million marriages that occur each year. Those newlyweds are waiting to buy a home. About four million babies are born each year – forcing some families to consider trading up from a smaller house or condo to a larger one.



### **Homebuilders Take Heed**

The inventory of both new and existing homes is at high levels. Builders have already cut back production and are encouraged to cut back even further. The market needs less inventory additions in a time of transition. Wall Street should and will punish any builders who add to inventory in the current market. Why build only to lose money on the home? With builders cutting back, inventory will fall. Some home owners of vacant homes will also consider the juicier rent growth and take their "empty" home off the market. In addition, many owners are in a no hurry to sell their home that they actually occupy (except perhaps for those in the few areas of the country that are losing jobs), and they may also choose to delay listing their home for sale or de-list it. Unleashing of that pent-up demand for home buying will also eat into inventory.

### **Drawing Down the Inventory**

The law of (lower) supply and (higher) demand will then firm up home prices. The media will be forced to report on the price gains. Many potential buyers, with solid financial wherewithal, will regain confidence. The wheels of housing turn faster and faster. The full unleashing of the pent-up demand could mean about two million additional homeowners. Such absorption into the marketplace will bring down the current existing-home inventory of four million units and the new home inventory of one million units to a total of three million homes (new and existing) available for sale. That level of inventory equates to a 5-6 months' supply – generally considered a balanced market condition.

### **Balanced Gains Ahead**

As the housing market recovers, potential home buyers (both first-timers and repeat purchasers) will gain more confidence in the housing sector. This, in turn, will drive more demand for homeownership, helping to keep inventory at or slightly below market balance and spur additional increases in home price appreciation. In sum, a closing of the subprime market does not directly mean equally lower home sales. FHA/VA and conforming government-backed loans will pick up a large chunk of the former subprime market. The jumbo loan concerns will be mitigated over time with better market knowledge, and will be assisted by changes in legislation permitting higher loan limits. Pent-up demand is strong. Inventory will move in the right direction. Builders are assisting by holding back production. A market recovery in 2008. Back-to-the-historical norm in 2009.