

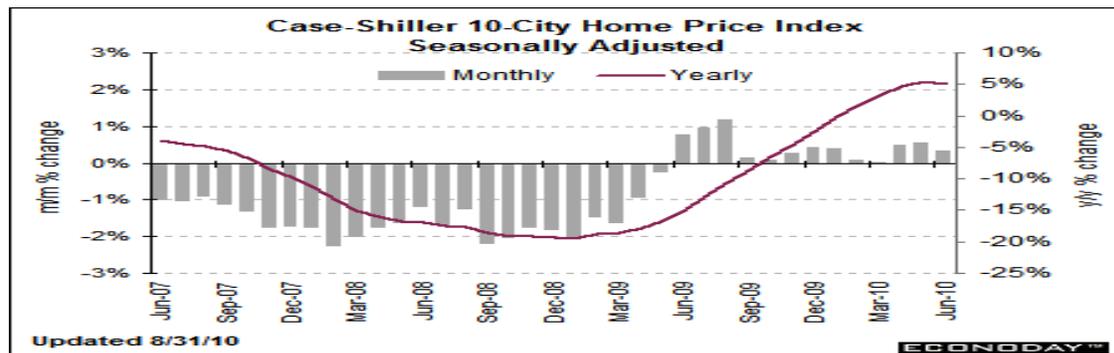


The Mortgage Corner A Dream House Still Possible

Professor Karl E. Case, co-author of the S&P Case-Shiller Home Price Index, wrote a most interesting New York Times op-ed piece recently that said a dream house is still possible. In spite of all the bad economic news, if one focuses on the fundamentals, then this should be the best time ever to buy a home. And the latest Pending and Existing-home sales show some recovery from a sharp sales drop after the homebuyer tax break expiration.

Dr. Case said in essence that with record low interest rates and a 30 percent average drop in home prices, now is the time to invest in a home. His example, a \$300,000 home purchase with 20 percent down, showed that in 2 years the monthly mortgage payment almost halved—from \$1533 to \$833—and with prices down 30 percent, the down payment was \$17,400 less.

The Case-Shiller Index for June showed price improvement in 17 of 20 cities, with San Francisco highest, and Las Vegas still at the bottom. So why is the market stagnating at present, he asks? As of last November, sales hit an annual rate of 6.5 million, with even new construction beginning to revive.



Expiration of the homebuyer tax credit is just one factor. Dr. Case suspects that the predicted new household formation of 1 to 1.5 million per year hasn't yet happened—mainly because of the severity of this recession. With unemployment still high, young adults may be staying longer at home, while immigration is being restricted.

Also, the Pending Home Sales Index, a forward-looking indicator, rose 5.2 percent to 79.4 based on contracts signed in July, but remains 19.1 percent below July 2009 when it was 98.1. The data reflects contracts and not closings, which normally occur with a lag time of one or two months.

NAR chief economist Lawrence Yun supported Dr. Case's argument. He said, "Affordability could reach a generational high in the second half of this year because of rock-bottom mortgage interest rates, helped partly by the Fed's very accommodative monetary policy. The loan underwriting standards are tighter, but home buyers can improve their chances of getting a loan by staying well within their budget."

4141 State St., #E13 Santa Barbara, CA 93110

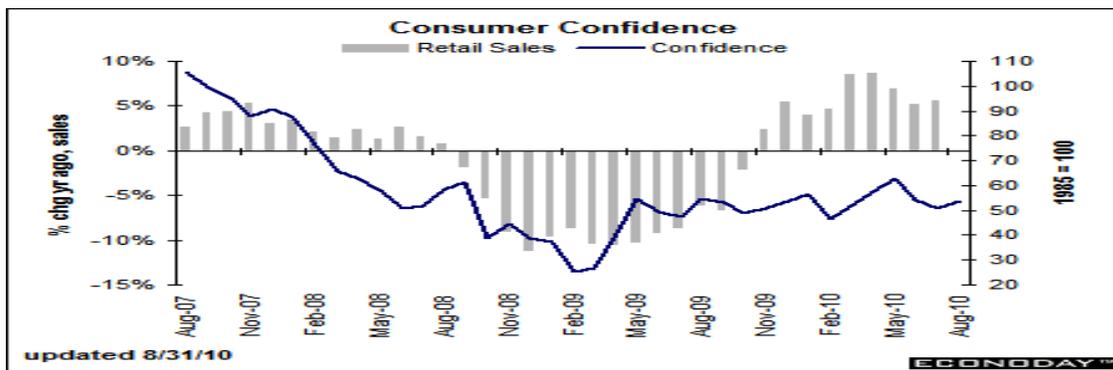
Editor@populareconomics.com

<http://nonulareconomicsweekly.blogspot.com>



The other unknown is the depth of consumer discontent, which drives so much of consumer buying. “The steady drip of bad news about the economy has sapped the confidence of buyers,” said Dr. Case. “And there is no understating the importance of expectations and confidence in this industry.”

The Conference Board's August consumer confidence index did rise 2-1/2 points from July, but August's 53.5 level is still down almost 10 points from May (July revised six tenths higher to 51.0). More say jobs are hard to get, at 45.7 percent of the sample's initial 3,000 respondents vs. July's 45.1 percent for the worst reading since February. Again, direction is a special concern as pessimism has increased over the past two months.



But Case-Shiller has their own sentiment survey, which polls San Francisco, Los Angeles, Milwaukee, and Boston homeowners, “asking them what they think is likely to happen to the value of their houses over the next year,” says Dr. Case. Values were expected to remain basically flat in the 08 and 09 surveys, but homebuyers anticipate a gain of 5.2 percent in the next year.

So a fragile optimism is returning, but dependent on very many factors. “The American Dream is not dead,” said Dr. Case. “It’s just taking a well-deserved rest.”

Harlan Green © 2010

4141 State St., #E13 Santa Barbara, CA 93110

Editor@populareconomics.com

<http://nonulareconomicsweekly.blogspot.com>