

Are We Nearing a Housing Market Bottom?

The below article was written by Mike Caggese, Associate Editor of Money Morning.

It's been a long, downslide for homeowners or anyone trying to buy a house. But a Moody's Economy.com report, "Housing in Crisis: When Will Metro Markets Recover?" says we could be nearing the end. Specifically, the study estimates that:

- House prices will stabilize by the end of this year.
- The national Case-Shiller house price index will decline by another 11% from the fourth quarter of last year for a total peak-to-trough decline of 36%.
- Before the downturn ends, house prices will have declined by double-digits in nearly 62% of the nation's 381 metro areas. House price declines will exceed 30% in about 10% of U.S. metro areas.

"The housing bubble was inflated by numerous forces," the report said. "The most important were the flawed process of mortgage securitization, a lack of regulatory oversight, and old-fashioned hubris. The bubble is now deflating with a vengeance."

Overall house prices have fallen 25%, from their highs the report says, bringing average prices to where they were at the beginning of 2004.

"More than three years since the market began correcting, inventories are flattening, prices are coming back down to earth, and sales are approaching stability," the report said.

The report factors more aggressive action from U.S. lawmakers, and says that the housing market won't fully recover until the end of the year even with more government help. Housing starts, the number of new homes on which construction has started, will remain very depressed until 2011, the report said.

Echoes of a Housing Market Bottom

Moody's isn't the first to call the bottom. And its prediction is even conservative by some standards.

- Arjuna Mahendran, Singapore-based head of investment strategy in Asia for HSBC Private Bank, expects the housing market to bottom in May or June.
- *Kiplinger's* calls for a second-half bottom, but also a good amount of pain before getting there.
- Karl Case, economics professor at Wellesley College and co-creator of the S&P Case/Shiller home price indexes, said the housing market should begin stabilizing in the next year.

Housing starts clocked in at 550,000 houses in December, the lowest in the 50 years the government has been measuring them. That pushes down inventories, Case said. And with home prices falling, demand should rebound as banks stabilize their capital and begin lending at low rates.

“It’s not going to be a terrible year for the housing market, believe it or not,” Case said on a *Bloomberg Radio* interview. “I think these stabilizing forces are there, and over the next year you’ll see the housing market come back into equilibrium.”

Of course, there are dissenters.

Housing analyst Ivy Zelman said the market will continue reeling well into 2010 and won’t bounce back until 2012. “There’s still a tsunami of expected foreclosures, and that has to abate before there’s a recovery,” she told *CNNMoney.com*.

But the majority of heavy hitters are forecasting a bottom or turnaround in the next year.

What Makes a Turnaround

Standard & Poor’s also believes that the market may reach the bottom in the next nine to 12 months. According to Kenneth Leon, CPA for S&P Equity Research, there are five forces that will eventually drive a market rebound:

- Buyers’ confidence in their jobs and income levels
- Ease of housing price declines to market stability
- Affordable housing in relation to household income
- Access to mortgage financing with low interest rates
- Ability to sell one’s own home in order to move into a new one

“We would first watch the existing housing market, which has high inventories and many potential sellers on the sidelines,” Leon wrote, adding that seven out of every eight home sales are tied to existing residences. “In market downturns, homebuilders are typically the first to lower prices, as unsold home inventories tie up companies’ working capital and reduce their return on investment.”

And that explains the recent encouraging news: The index for pending home resales climbed 6.3% from November to December, signaling that demand could be on the rise, according to the National Association of Realtors.

Record foreclosures pulled down home values, making them more affordable to those able to get financing. And financing is the asterisk that makes each housing-bottom prediction slightly or enormously different.

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