Real Life

ECONOMY

Are Today's Homes Undervalued?



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PRESS PASS

See NAR's monthly existing-home sales news conferences, as well as our exclusive interviews with Lawrence Yun. At **REALTOR.org/realtortv**, click News & Analysis.

After dropping for three years, home prices appear to be stabilizing. The median national home price today is about $169,000, down almost 14 percent from a year ago and an estimated 30 percent from its peak. It's safe to say we've reached the point where prices are justified by the fundamentals of the economy and may even represent an undervaluation.

Foreclosures and short sales comprise about 50 percent of transactions today, creating market distortions in otherwise stable neighborhoods. In determining valuations, we're capturing only transaction prices, and prices of those properties might be 20 percent below values of other homes.

For that reason, it's possible that widely cited projections that a third or more of home owners are underwater might be off the mark. The consequences of these missed projections are significant. Lenders are shying away from refinancing mortgages of otherwise creditworthy households on the basis that their homes are underwater. By not making these loans, lenders are exacerbating the financial hardship faced by these households.

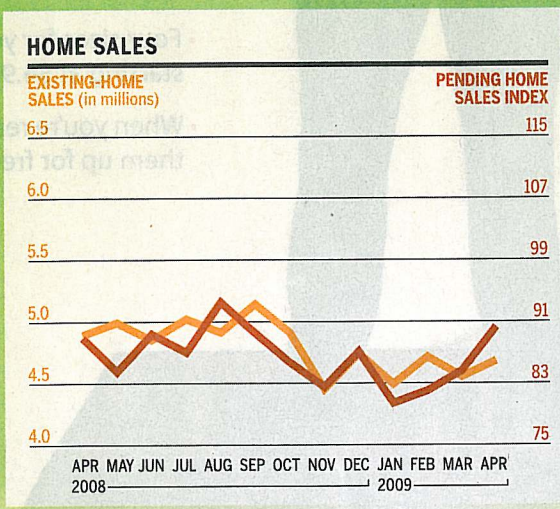
Yet there are encouraging signs on the horizon. The First-Time Home Buyer Tax Credit, which Congress improved two months ago by eliminating the repayment requirement and increasing the benefit to $8,000, is working. That credit, coupled with all-time-high housing affordability and continuing low interest rates, is leading to solid inventory improvements in most markets. Yet when we look only at homes in high-cost areas requiring jumbo loans, the months' supply is in the stratosphere: almost 45.

What's clear is that the challenge today is getting credit moving again for everyone. Until then, markets will continue to be distorted by the disproportionate number of short-sale and foreclosed homes for sale. ■

EXISTING-HOME SALES FOR APRIL
4.68 million
This is a seasonally adjusted annual rate, which is the actual rate of sales for the month, multiplied by 12 and adjusted for seasonal sales differences.

PENDING HOME SALES INDEX FOR APRIL
90.3
This Index measures housing contract activity. An index of 100 is equal to the level of activity during 2001, the benchmark year.

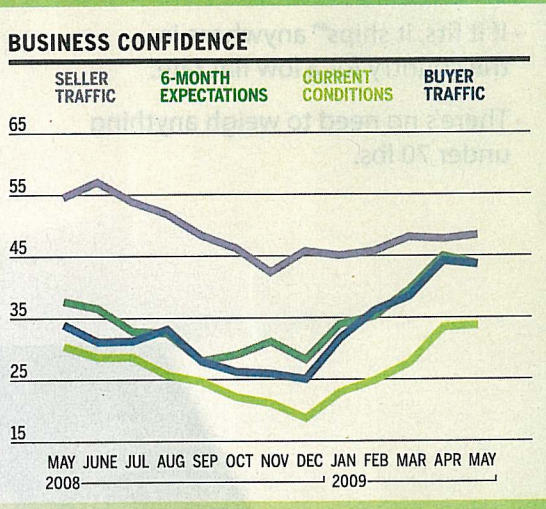
Source: NAR Research



Signs of a Sales Upturn

The pace of existing-home sales showed an encouraging gain of 2.9 percent in April to 4.68 million units, suggesting renewed interest among buyers as interest rates remain low and affordability high. In an even more encouraging sign, NAR's forward-looking Pending Home Sales Index is up for the third month in a row—and the increase is significant. The index rose 6.7 percent to a level of 90.3.

*Numbers are adjusted from figures published in the June 2009 issue.



Confidence Holds Steady

Practitioners' expectations for sales activity is largely holding steady, according to NAR's most recent survey of Realtor® confidence. Practitioners are a bit gloomier about buyer traffic than seller traffic, but overall changes from the prior month are slight.

Results are based on 2,625 responses to 6,000 surveys sent to large and small real estate offices. The survey asks practitioners to indicate whether conditions are strong (100 points), moderate (50), or weak (0). Responses are averaged to derive results.