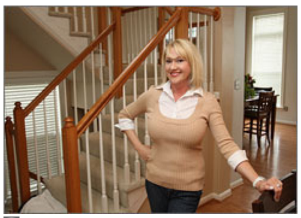
Experts, consumers share home market views



Enlarge By H. Darr Beiser, USA TODAY

Cher Murphy, one of our roundtable members, runs a public relations business from a home she rents in Vienna, Va. She's trying to sell her home in Miami.

The spring home-buying season is kicking off in the midst of the most painful real estate recession in decades, with prices tumbling and many Americans losing their homes to foreclosure because they can't pay their mortgages. As buyers and sellers begin what's typically an energetic time for real estate activity, USA TODAY convened a virtual roundtable of housing experts and everyday Americans for an online conversation.

The participants shared their perspectives with USA TODAY's **Stephanie Armour**. Questions and answers have been edited for clarity and space.

USA TODAY: Recently, the National Association of Realtors reported the first signs that sales might, at last, be perking up in some areas. Yet, home prices are still falling, and federal officials are taking steps to try to ease the crisis. What should buyers and sellers expect as the spring selling season gets underway?

Mark Zandi: It will be another tough spring season for sellers. Home sales are stabilizing only because sellers are aggressively cutting prices. Moreover, there is substantial competition for home sellers from the mounting number of foreclosures.

Lawrence Yun: Consumers need to find out what is going on at the local level and not necessarily take national headline numbers as a point of reference. Sellers tend to be more stubborn in facing the reality of the market, so people who really need to sell need to come down on prices, given the high inventory and seller competition.

FIND MORE STORIES IN: America | Dallas | Kansas City | Omaha | National Association of Realtors | Stephanie Armour

Joel Naroff: Prices will likely continue falling in many areas, but I don't expect sellers to be willing to cut as much as needed. Thus, there is likely to be only a small improvement in sales as we move through summer.

Cher Murphy: I think sellers will need to lower their prices in order to sell, and in some cases drastically. I lowered my home by $70,000 in hopes of a quick sale … still waiting. I do think it is a perfect time for buyers to buy a house at a steal. With the summer upon us, things will pick up a bit, as this is a great time for moves with the kids out of school.

Boosting the market

USA TODAY: What needs to happen to stimulate the housing market?

Naroff: Since so many people need the equity in their homes to buy new homes, the gridlock we now have will not be eased until confidence in the market returns. I am not sure how that happens. Single-family starts are off almost 65% from the peak and have rarely been this low over the past 50 years. The issue is not that there are a lot of homes being built; it's the inability to sell the homes, be they new or existing, that are already on the market. I agree it is a pricing issue.

Dean Baker: Prices have to fall. We had a bubble that got prices hugely out of whack with the fundamentals. We need a real price decline of between 30% and 40% from the 2006 peaks. We're about halfway there.

Leslie Sellers: One way we can help restore public confidence is to focus attention on the independence and competency of professional appraisers who provide an impartial valuation. We

THE REST OF OUR ROUNDTABLE

Other members of our panel:

Mark Zandi

Chief economist of Moody's Economy.com

Jim Youngblood

CEO, Texas Real Estate Developments

Melissa Bruno

25-year-old prospective first-time buyer in the Boston area

Jeremy Brandt

Founder and CEO of 1-800-CashOffer

Leslie Sellers

Vice president, the Appraisal Institute

Joel Naroff

President, Naroff Economic Advisors, and chief economist, Commerce Bank

Lawrence Yun

Chief economist, National Association of Realtors

Dean Baker

Co-director of the Center for Economic and Policy Research in Washington, D.C.

need to look more at fixing the system that caused this mess, as much as or more than the short-term fix.

Murphy: More aid by the government. It is really a tough time for homeowners who are walking away from their homes which, in turn, are being auctioned off for pennies.

Zandi: Home builders need to cut construction further, home sellers need to cut prices further and the federal government needs to come forth with more targeted efforts to help hard-pressed homeowners facing foreclosure stay in their homes.

Jeremy Brandt: Consumers need to have the confidence that their local market is not going to continue to fall — and the credit markets must become more fluid. We see many buyers who are ready to buy and should qualify but can't get a loan. A government bailout of housing is *not* the answer.

Melissa Bruno: The prices need to correct, and there needs to be more responsibility when it comes to lending. We're just starting this whole process, and it shocks me when I see my peers buying out of their means.

Yun: Overshooting downward can lead to unnecessary loss in economic activity. Prices do need to come down in some markets. But a measurable overshooting downward introduces a host of new problems, including additional pressure on foreclosures. We need to genuinely think of bringing legitimate buyers back into the market. These are buyers with financial capacity. I believe a home-buyer tax credit for any home purchase will go a long way in raising sales, lowering inventory and lessening foreclosures.

Falling home prices

USA TODAY: Does the national median home price need to fall a lot more before the housing market can get moving again?

Yun: Prices need to adjust as the market dictates. Another 10% fall in some markets could occur. However, I doubt prices will or need to fall in the vast middle America. Indianapolis, Dallas, Kansas City, Omaha are, if anything, underpriced markets.

Murphy: I think it does need to drop, so that we can move out all the current inventory. Unfortunately, this applies to me and my home in Florida.

Naroff: No, only in those areas where prices got way out of hand. We could have increases in prices in other areas that would limit the national decline, but that would be OK. If we don't get prices down to reasonable levels in certain metro areas, those markets will remain in an extended downturn.

Baker: Home prices had just tracked inflation from 1895 to 1995. They outpaced inflation by more than 70% since 1995. That is my basis for saying that we need price reductions of 30% to 40% from 2006 levels.

Zandi: House prices will fall another 10% on top of the close to 15% they have already fallen from their peak in the 2006 spring selling season. This assumes more cuts in construction, a modest recession and more federal government help.

Investing in real estate

USA TODAY: Is now a good time to buy homes for investment purposes?

Murphy: Now is the perfect time to buy homes for investment purposes. Rates are low, so more house for the money and great deals. What happened in the Miami area is it got oversaturated by those building more condos than there was demand for. We all felt it was untouchable, and with the amount of people moving into Dade County alone, it would sustain. Clearly, not the case.

Brandt: Now is a great time to buy investment property — in some markets.

Zandi: Not unless you have a very long horizon (10 or more years). Investors will have a much better opportunity in the 2009 spring selling season.

Jim Youngblood: I believe Texas is a great place to get back into real estate investing. We haven't seen the nationwide depreciation here like in other states.

Yun: Price declines have been steep in Detroit, Sacramento and Fort Myers, Fla., and these regions are seeing much greater foot traffic. Further price declines will depend on whether traffic gets realized into sales and lower inventory. Wait and watch is a rational decision for people who believe that prices will fall substantially further. But wait and see also brings a self-fulfilling prophecy if most people act in the same manner. It is this downward overshooting that I am afraid of. The economy suffers as a result.

Bruno: We're in a state of wait and watch right now, since we're looking in and around the Boston area. By waiting, we're also enabling ourselves to further build our already good credit and also amass a larger nest egg for a down payment.

Buying foreclosed property

USA TODAY: Assuming they do proper research, should people — especially first-time buyers seeking an affordable home — consider buying a property in foreclosure?

Baker: In some areas, most of the properties for sale will be foreclosures. I absolutely think people should consider this, after doing careful homework.

Brandt: That is a great point. Buying a home in foreclosure is no easy task for the novice, and they should not attempt it without professional help — an investor, agent, etc., who can guide them. It's difficult, especially at public auction, which is the most risky stage to purchase.

Youngblood: I believe they should. The prices now are at a long-time low, and the mortgage rates continue to fall.

Zandi: Sure, but it's difficult to get it right, and it takes a fair amount of energy, time and a good real estate agent to help navigate the process.

Bruno: As a first-time buyer, I wouldn't feel comfortable buying a foreclosure.

Facing foreclosure

USA TODAY: What if you can't pay your mortgage, yet can't sell your home for enough to pay off your mortgage? Should you mail in your keys and walk away?

Brandt: People need to take responsibility. I've been disappointed with homeowners who feel they can just skip out on their obligation. Homeowners should be working with their lender the second they know they are going to fall behind. Most lenders are very eager to help work it out. Many homeowners stick their head in the sand and hope for the problem to go away.

Baker: People should consider the risk to their credit rating vs. how much they can save. In some cases, walking away might be a perfectly rational choice. People may owe $500,000 on a home that is now worth $300,000. You (might be able to buy a much cheaper) home across the street and put $200,000 in your pocket. That might be worth the risk to your credit rating. Furthermore, since this is happening on a very large scale, my guess is that plenty of lenders will still be happy to issue loans in a couple of years to people who walked away.

Zandi: Contact your mortgage servicer and see what they can do. Hope Now (an alliance that helps at-risk homeowners) and the (Federal Housing Administration) may be able to help. Be proactive, however; don't wait for someone to contact you. Walking away is the last thing you want to do.

Murphy: I don't think walking away is the answer. There are folks out there who can guide you. It takes time and a little homework. The risk of ruining your credit is a huge problem.

Brandt: Based on our data, of the homes that end up being foreclosed on, less than 50% have tried to work out or restructure their loan with the lender. That attitude (of walking away) perpetuates the irresponsibility that got us here.

Naroff: If you have no money down or are so greatly under water, it doesn't make sense to continue. That's why we have bankruptcy laws. And a lot of these people were speculators or people who really should never have been homeowners. They will just go back to being renters, which is not a terrible solution.

Baker: The irresponsibility that got us here centers at places like the Federal Reserve, the big investment banks and all the "experts" that could not be bothered to look at the fundamentals in the housing market. I don't expect middle-class and low-income people to pay for that irresponsibility.

The future of home equity

USA TODAY: Are home-equity loans fading as a popular source of cash because of declining home equity and stricter lending standards?

Baker: I'm sure that people will still get home-equity loans. They will continue to carry lower rates than credit cards. However, lenders will rightly be more cautious in the future.

Naroff: Just a cyclical down period. Equity will be rebuilt, and it is still the best source of cheap money, as it is generally tax deductible. And banks are becoming more aggressive again in this area when they see that values have stabilized.

Zandi: Home-equity lending is still very popular among prime homeowners with lots of equity, and there are still plenty of these folks. Indeed, with the recent decline in rates, home-equity lending is re-accelerating. It will never be as popular as in the housing boom, but it remains a very viable way to borrow for many homeowners.

Yun: If home equity is used for investment — including college education — then returns will be worth it. If home-equity loans are used for frivolous spending, then consumers are just eating away their retirement savings and will regret it later.

Housing appreciation

USA TODAY: History shows that over the long run, home-price appreciation barely exceeds inflation and trails the stock market. Given the extraordinary run-up in home prices of the past decade, will price appreciation run below average for the next decade or so?

Baker: My bet is that prices will fall back to trend levels over the next year or so and from that point forward, will again move with inflation.

Brandt: Homeowners should expect to get equity in their home by paying down their loan balance. Part of our problem is that people have been buying much more home than they can afford, betting on appreciation.

Zandi: Prices will decline for another year and go sideways early in the next decade. In the longer run, house price growth will equal the growth in household incomes.

Sellers: Remember that real estate has certain advantages that the stock market does not offer. Tax write-offs for certain costs, depreciation deductions and leverage of the purchase are just a few.

Naroff: If younger buyers only buy what they can afford, then prices are going to fall for a long time, as the baby boomers will not be able to unload their McMansions.

Placing responsibility

USA TODAY: Who's to blame for the housing bubble?

Murphy: Lenders and buyers — both are at fault.

Youngblood: I believe (both) the lenders, for their lax requirements, and the buyers for not being well-informed and educated.

Zandi: Plenty of blame to go around. Homeowners, lenders, Wall Street, regulators, the Federal Reserve. … This is in no particular order.

Baker: The Fed has to bear primary responsibility. The housing bubble is about the biggest disaster that could have happened to the economy. (Former Federal Reserve Chairman) Alan Greenspan should have used all the Fed's power to keep the bubble from expanding to the point where its collapse would lead to such enormous damage to the economy and tens of millions of homeowners.

Naroff: Greenspan kept rates down too low, mortgage companies lowered standards too low, rating agencies didn't do any real rating, Wall Street saw new patsies and created new products, the regulators looked the other way and home buyers became speculators, not home buyers. Let's not forget that (Fed Chairman Ben) Bernanke said last spring that he didn't think the housing problems would spread into the general economy. That was over a year after he took over. Don't focus strictly on Greenspan. The current Fed chair bears a ton of responsibility for not recognizing the issues.

Fed rate cuts

USA TODAY: The Fed is in the midst of an interest-rate-cutting drive. Are these cuts setting the stage for yet another economic bubble?

Yun: The Fed should stop the rate cuts. If inflation gets out of the bottle, it will introduce a host of new problems.

Naroff: We already have bubbles in commodities, but the Fed recognizes the problems created last cycle and will likely raise rates quickly and sharply once the economy looks to be on the mend. Also, don't expect a lot more cuts.

Murphy: I think the rate cuts should remain where they are. More rate reductions will open up so many more problems.

Zandi: I doubt (there will be another run-up). The difference between now and early this decade, when the funds rate fell to 1%, is the state of the credit markets. Policymakers are also suggesting they will raise rates more quickly once the economy and financial system find their footing.

Youngblood: I don't think the Fed's reduction of rates will spur new homeownership. I believe the credit crunch from the lenders has deterred many first-time homeowners from purchasing their home. About 70% of people's credit that I run cannot get into a new home because of the tightened guidelines set forth by the lenders.

Looking ahead

USA TODAY: In the past, a severe housing downturn such as the current one often led to a recession in the overall economy, as consumers cut back on spending. Is the general economy still in a danger zone because of the housing recession? Or has the worst phase passed for the overall economy?

Baker: We are absolutely in a recession. We have never seen three consecutive months of job losses (four in the private sector) except in periods associated with a recession. I think we have a long way to go down. Once the economy starts going down, it doesn't turn back right away.

Zandi: The economy is likely in recession due in large part to the housing downturn. Economic conditions, including consumer spending, have yet to stabilize.

Yun: (There will be a) better second half for the economy. Exports are stellar, and business spending is not buckling because of high profits (outside of home builders, financials and autos). Tax-rebate checks will help consumer spending temporarily.

Naroff: It's now mostly a credit crunch/liquidity issue as the losses at financial institutions have made them very cautious in all lending.

Sellers: As far as foreclosures are concerned, we are in for more in the near future. Homeowners and lenders will need to seek competent appraisers to assess their situation with a particular property.

Final thoughts

USA TODAY: If you could use just one or two words to describe the housing situation right now, what would you say?

Brandt: Working itself out.

Youngblood: Correction.

Naroff: Sales are stabilizing, prices still falling.

Murphy: Work in progress.

Yun: 2008 is a year of clean-up. Afterwards, better conditions.

Murphy: Better days ahead.

Zandi: Not over yet.

Bruno: Unstable.

Posted 5h 7m ago

Updated 3h 46m ago

Comments: (3)

Showing: Newest first

Jerry999 wrote: 32m ago

Cher has a very nice pair of round tables.. ;-)

Recommend | Report Abuse

The airwulf wrote: 1h 42m ago

Simple supply and demand---that swooshing sound is the declining value of your homes and it will continue even above 30% until the gut of unsold homes is corrected. That will take a few years at best. So,
all those stupid people who try to live beyond their means have made it a "grand party" for everyone making us all lose money. There is no law against being stupid and trying to keep up with the Jones has backfired for millions and made everyone feel like they have been run over by a fast freight train.

Recommend | Report Abuse

John in NC2 wrote: 2h 2m ago

This is best discussion I have heard on the housing crisis....good job USA Today.

I believe we are far from the end of this thing.

Recommend | Report Abuse