

2007 Housing Forecast



Interest rates drop to combat slowing housing market.

By Jacob Yadegar

An integral part of our economy and household wealth is the housing market. Since the single largest asset of most U.S. households is their primary residence, it's no wonder why so much media attention is focused on the state of the housing market.

While most are reporting doom and gloom in the housing market, simple fundamentals are being overlooked in determining where we are headed.

Many homebuilders are reporting massive cancellation rates for new home sales. Existing home sales are lagging behind and have declined considerably in recent months over the blistering pace of the last several years. So with all the negative data, when will the Housing Market Bottom?

Several important factors are overlooked when viewing the housing market. While many people think the most important indicator of the housing market is interest rates, the unemployment rate is actually a much better indicator.

Historical data shows that the housing market has always done well when unemployment rates are low. In fact, with current unemployment below 5%, the housing market is much stronger than the media would suggest.

The data that everyone talks about is the lower number of sales over the past year and longer marketing times to sell homes over last year. In discussing this set of data, no one bothers to mention that values have actually increased during this same period in many areas. Overall, nationwide home prices are only down by 3.1% for the year.

When you consider that over the last several years new home sales, existing home sales, home values and new construction have broken records, it's not uncommon for things to cool off after a historic pace.

With the impressive gains in prices, many people were buying homes for investment purposes. This additional increase in demand elevated prices further and forced builders to become more aggressive in their planning. This pushed the number of new homes built to record levels as well.

The homes that are purchased for investment are more likely to be a problem. With most of the investment homes not generating any income, the owners are hard pressed to sell because most can't afford to maintain the mortgage and expenses associated with holding on to the home.

Clearly the real estate "boom" is slowing down. Interest rates should continue to fall further and help combat the slowing real estate market to soften the blow. Meanwhile, low unemployment and strong consumer spending will continue to drive the economy and should make the current housing slump a short lived one.

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