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Real Money: Home sales finally may be on rebound

By Rob Rikoon | For The New Mexican

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The long and dark protracted downturn may soon be over for homeowners. Given the relative calm in the stock and bond markets these past few months, the real estate world looks better and better all the time to investors. Prices have turned a corner in some of the hardest hit cities such as Las Vegas, Nev., and Phoenix. The Land of Enchantment's statistics, while not as dramatic as our neighbors, are similar.

We may have seen a bottom in valuations and investors are entering the market for both new and existing homes regardless of whether or not banks are extending financing. With mortgage interest rates at record lows, people with sufficient cash are taking advantage of the 25 percent of home sales that are being sold through some kind of foreclosure process. Americans signed more contracts to purchase existing homes in July in the second half of the second quarter than in the previous two years. Pending home sales climbed 3.4 percent as home buying comes within reach of Americans who have been renting. Part of the reason for this is that existing homeowners are finally lowering their selling prices.

The Case–Schiller index of home prices in the 20 largest cities climbed in June, the first gain in almost two years. Nationwide, home prices increased in the second quarter of 2012 by the most in six years.

This is welcome news for people in the construction and related industries. Home prices are still down almost 35 percent from their peak of 2006, but the slow economic recovery in the U.S. is encouraging potential buyers, especially young adults setting up house for the first time, to take the plunge. This is especially true in the moderate range of the market. A house priced at $200,000, with a mortgage rate of 3.55 percent, will cost a homebuyer approximately $704 per month with some of that being tax deductible. This has caused many renters to consider buying homes.

The government should be pleased with the results of its monetary policy easing, insofar as its effect on potential home buyers. As we look forward to the fall, the question is how the Fed, the U.S. central bank, will continue to support an ultra-low interest rate environment without going bankrupt. The pending "fiscal cliff," i.e., the automatic imposition of higher taxes and reduced spending due to take effect in January 2013, could bring about an abrupt halt to the increased pace of home sales. Another major question facing real estate markets is how effective any further acts on the part of the government and central bank will be.

There is evidence that there will only be a slight beneficial effect of continued central bank buying of securities in the open market. So far, it seems to me that the Feds' efforts to promote higher levels of bank lending to individuals and small businesses have fallen short of their intended goals.

The Federal Reserve cannot remain the main source of support for the real estate market indefinitely. Only sustained consumer demand, which relies on an optimistic outlook for jobs, can produce a long-term upturn in housing prices. Local retail establishments and the construction industry will flourish if we can figure out how to create decent employment opportunities for the many talented and motivated young people and displaced workers out there looking for something productive to do. After years clearing the huge backlog of inventory left over from the 2005-to-’07 boom, maybe whoever makes their way into the White House this fall can ride this momentum and help channel the nation’s creative energy in a productive direction? Hope springs eternal!

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