

## NAR Chief Economist Expects Stimulus Package Will Spur Up to 900,000 Home Sales in 2009

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Prefacing his comments with the caveat that forecasting in the current economic environment is extremely difficult, Lawrence Yun, chief economist of the National Association of REALTORS®, told King County brokers he believes components of President Barack Obama's stimulus package will prompt hundreds of thousands of home sales.

Home prices have fallen to levels that are "fundamentally justifiable," Yun stated. In fact, he remarked, any further drops could be an overcorrection. He forecasts price stabilization by the end of the year and a 10 percent to 20 percent increase in sales of existing homes nationwide as the impact of the housing stimulus package kicks in.

The shaky job market and buyer hesitancy are restraining activity, Yun suggested. "Incentives are out there," he emphasized, adding, "Momentum is rising. What's missing is consumer confidence." He characterized the economy as being in a "great recession" or possibly a "mild depression" because "consumers have completely given up."



Yun predicts the \$8,000 first-time home buyer tax credit for homes purchased before Dec. 1 will generate up to 300,000 additional buyers. Higher jumbo loan limits could prompt an additional 600,000 sales.

Yun, who also serves as NAR's senior vice president of research, was the featured speaker at a Feb. 27 Broker Summit presented by the Seattle-King County Association of REALTORS®.

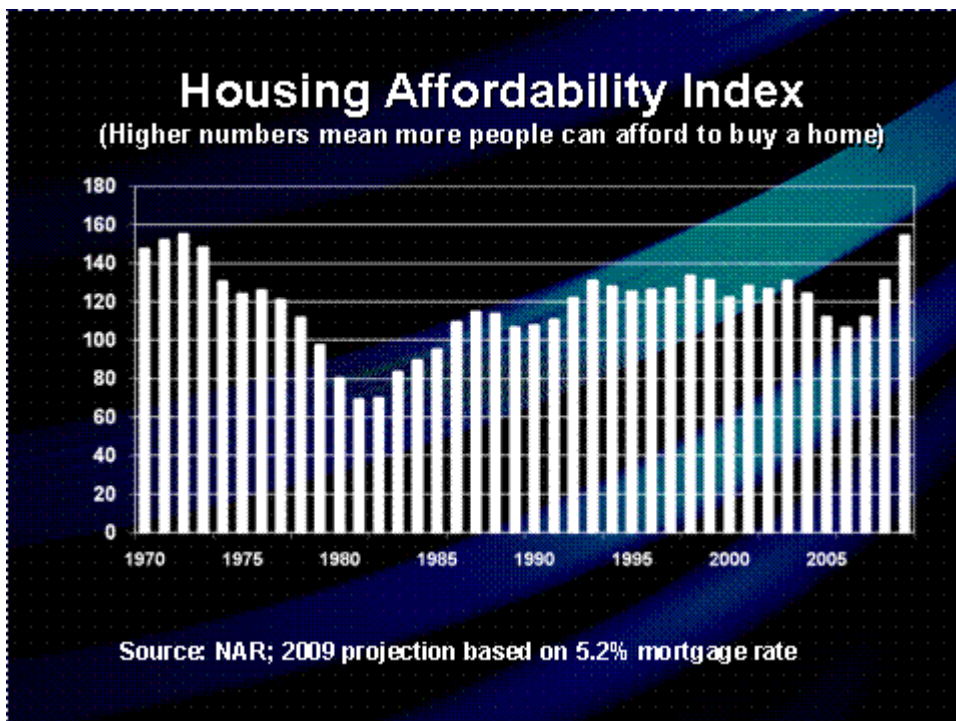
Noting he is grateful for some housing market component in the stimulus plan but "wished it had more," the economist acknowledged not every element of NAR's housing agenda was included at desired levels. The American Recovery and Reinvestment Act of 2009, signed by President Obama on Feb. 17, includes ten housing-related provisions in the \$780 billion package.

In response to a question, Yun denounced a proposal in the Obama budget that would reduce the mortgage interest deduction (MID) for thousands of families, resulting in unintended fallout. Yun said NAR's analysis shows a change could depress home prices and values for the nation's 75 million homeowners, not just the 2 percent with incomes of \$250,000-plus who are targeted. Among the negative consequences, cutting the MID will hamper the economic recovery, raise foreclosures and hurt the ability banks to lend, according to NAR.

Yun told Seattle-King County brokers he expects to see some recovery in the housing

sector the latter part of the year, but whether it will be sustainable going into 2010 is uncertain due to the huge deficit and expectation of another 1.5 million job cuts over the next six months. The unprecedented nationwide housing downfall and the economy's multiple moving parts make short-term forecasting even more challenging, Yun noted.

On a positive note, Yun said the Housing Affordability Index is at its highest-ever level, thanks in part to declining home values and historic low interest rates. Stricter underwriting standards, "frozen" jumbo loans (a big factor in the high-cost markets such as the Puget Sound area), and shaky consumer confidence are impeding sales activity, Yun believes.



To illustrate that "things were out of whack," and needing correction Yun showed charts that depicted wide gaps between home prices from 1998-2006 at the height of the boom, when compared to income, the cost of construction and rent.

# Things Out of Whack at the Height of the Boom (National Data)

- Home Price 1998 to 2006
  - Case-Shiller Index up 108%
  - OFHEO Index up 75%
  - NAR median up 64%
- Income 1998 to 2006
  - Household up 24%
  - Per Capita up 31%
  - Hourly Wage up 29%
- Cost of Construction up 46%
- Renter's Rent up 31%

The period covers from 1998 Q3 to 2006 Q3. If quarterly data is available, other wise annual data.

Yun also spoke of the correlation (or lack of correlation) between jobs, the recession, interest rates and home sales. In the 2000 recession, "we lost jobs yet had rising home sales because of falling interest rates." Interest rates make the difference, he said.

In another example, Yun compared the monthly payment for a median income household buying a median priced home in 2008 with a decade earlier. In 1998, 30-year fixed mortgage rates were around 7 percent with a 1 percent fee. In 2008, rates had dropped to around 6 percent with a 0.5 percent fee. Considering only rates (and not fees), the monthly mortgage payment as a percentage of income was about the same (19 percent) in both 2008 and 1998.

Using California as a barometer, Yun said momentum is rising "much faster than I ever anticipated." In Orange County, where prices are considerably higher than Seattle, activity had been stalled, but began turning around over the past six months. He attributes the shift to a combination of pent-up demand and psychological factors. Some who have been sitting on the fence don't want to be the last ones left sitting," he observed.

Yun also cited a return of multiple offers in some California markets. That suggests prices may be bottoming or have bottomed out," he stated.

Whether what's happening in California will be replicated here is uncertain, Yun said, but noted when California recovers it typically benefits neighboring states. California is experiencing out-migration whereas Washington has a positive inflow of relocating families, many from California. Homeowners who move here from California tend to find Puget Sound area prices attractive and much more affordable.

In other comments during his presentation to more than 150 brokers, Yun asked rhetorically if there would be a refueling of the bubble. He was emphatic in saying no because of recently imposed checks and balances.

One area of concern, according to Yun, is the sharp drop in single family housing starts in the Seattle area. Noting they're even lower than 1984 (the previous low mark), he said it could lead to shortages in the future, depending on the pace of the turnaround

and builders' ability to ramp up production.

Among other remarks, Yun encouraged brokers to contact past clients, including those who are under water, to make sure they are aware of new and emerging foreclosure mitigation plans. He also hopes the Feds won't hint at future rate cuts since that causes activity to stall among "wait and see" consumers.

Yun suggested reporters need to correct how they report new home sales. Reports of declining sales should be accompanied by an explanation that it's because builders are scaling back production, a needed correction in the current high inventory situation.

Even though unemployment rates are approaching 10 percent in some markets, Yun reminded his audience that means more than 90 percent of the work force has jobs. Even if 20 percent have job anxiety, that still leaves 70 percent with stable jobs – "and they respond to incentives." He favors higher limits on jumbo loans. "Why punish successful people," he wondered.

In a final forecast, he was upbeat about Seattle. "Ten years from now it will be one of the best performing areas nationally because there are so many smart people in the area."

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