

Home Prices to Continue Modest Decline in '06

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Home prices are expected to continue on a modest decline for the remainder of the year as the sellers market transitions to a buyers market, the NATIONAL ASSOCIATION OF REALTORS testified today at a Senate committee hearing.

Yet, contrary to some news reports, there is no housing bubble, and the slowdown is actually a good thing for many local economies, NAR president Thomas M. Stevens said at the hearing, titled The Housing Bubble and Its Implications for the Economy.

After five years of outstanding growth, the housing market is undergoing a period of adjustment and becoming more and more of a balanced market between buyers and sellers, he said.

Many Local Markets Still Going Strong

Even with falling demand and increased supply, home prices are still appreciating although at no where near the double-digit rates of the past few years. While recent developments raise concern, it is important to remember that the housing market varies significantly across the country, Stevens said.

One-third of the country (by population) is still seeing rising home prices, including Alaska, New Mexico, Vermont, and many states in the South, excluding Florida. States that experienced the greatest increases in home prices in recent years are experiencing significantly lower sales. These states include Arizona, California, Florida, Nevada, and Virginia.

Also contributing to the cooling housing market is a nearly one-point increase in mortgage rates, speculative investors pulling back, and first-time buyers being priced out of the market.

Pressure is being felt in the housing market due to rising mortgage rates, Stevens said. Home buyers have become exhausted financially, which explains why sales have tumbled in higher-priced regions of the country.

Sales to Fall 8% This Year

NAR forecasts a drop in home sales of around 8 percent in 2006, followed by another 2 percent decline in 2007. The forecast takes into account stabilizing mortgage rates and a modest economic expansion. However, a significant shift in interest rates or a change in the economy would alter the forecast.

Slow home-price growth of less than 3 percent in 2006 and 2007 also is predicted.