



## THE RECOVERY IN HOUSING: WHAT IS TAKING SO LONG?

by Mark Schniepp

### The current state of housing

Housing affordability is near record highs, interest rates are still relatively low, and inventory of new and existing homes is very low. Market conditions have improved, but the demand for housing still remains challenging because new household formation has yet to increase.

Recent reports on the housing sector—in the nation and in Southern California—are not bad but not great either. The recovery in housing is occurring, but in fits and starts. Consequently, few people are convinced a more vibrant housing sector is right around the corner.

## Housing market stays unremarkable in March

The month's muted sales figures could portend a lackluster year for the industry.

ALEJANDRO LAZO

Southern California's housing market lacked vitality in March, a sign the year could be lackluster for the

and previously owned homes and condos. That tally represented a 35.1% increase from February, though sales typically jump from February to March.

Sales so far this year are 20% below average. March sales of newly built Southern homes totaled 1,144, the lowest for a month in Data-Quick's statistics, which go back to 1988.

"As an indicator of up-

ary and 38.3% in March 2010. Short sales, in which banks allow properties to be sold for less than the balance on their mortgages, made up an estimated 18.5% of the resale market, down from 19.6% in February but up from 18% in March 2010.

"The foreclosure issue is going to be with us for a good while," Walsh said. "But mortgage availability, or rather the lack thereof, is

*Los Angeles Times, April 14, 2011, page B2*

## Slump in housing persists

The state's home buying market is marked by mixed prices and weak sales.

ALEJANDRO LAZO

California's housing market extended its slump in February with mixed prices and weak sales.

consisted of distressed sales — foreclosures and short sales, in which a bank allows a troubled borrower to sell a home for less than the outstanding mortgage debt.

Foreclosures made up 40.1% of the market, down from 40.4% in January and 44.3% in February 2010. Short sales made up 18.9% of the market last month, up from 18.7% in January and 17.6% a year earlier.

In Southern California,

## Mortgage rates continue falling

Disasters in Japan and unrest in the Middle East send 30-year fixed loans to 4.76%.

E. SCOTT RECKARD

The travails of Japan and turmoil in the Middle East pushed mortgage rates

down to 4.5%," Laguna Niguel mortgage broker Jeff Lazerson said.

The 15-year fixed mortgage, popular with refinancers, dropped to 3.97% from 4.15%, the Freddie Mac survey showed — its lowest level since December.

Borrowers would have paid lenders an average of 0.7% of the loan amount to obtain the fixed rates, with the option to pay more to

*Los Angeles Times, March 18, 2011, page B2*

Mortgage rates are falling again and are now under 5.0 percent for a conventional 30 year fixed rate loan. Because rates are likely to move higher as the economic recovery builds momentum, the opportunities to avoid interest rate risk by refinancing or purchasing housing are present today, yet would-be home buyers have yet to be convinced.

*Los Angeles Times, March 18, 2011, page B2*

## A lagging housing sector makes us doubt the general economic recovery

Housing still represents a large portion of the economy. So when housing is not contributing, many people in many sectors are affected: home builders, real estate brokers, mortgage lenders, architects, engineering companies, home improvement stores, furniture stores, and appliance stores. No wonder so many people still feel miserable. Until housing gets going, much of the economy still feels weak.

### Distress still a problem but now diminishing

Distressed housing remains the largest impediment to a sustained recovery in real estate. Progress is slowly being made, but distressed properties continue to account for a substantial portion of the market, limiting price appreciation in the near term. Distress however is gradually declining; notices of default are at their lowest levels since 2007. Foreclosure rates are also on their way down.

As more people are hired this year and the unemployment rate falls, housing demand will increase, producing more sales and slightly higher prices which should bail out many potentially distressed homeowners. This condition could dominate the housing sector soon because household sizes are at an all time high in California and the kids want out of the house or the parents want the kids out.

## Mortgage delinquency rate falls



**DOLDRUMS:** Southern California had the fewest home sales for a January in three years, DataQuick Information Systems said. Above, a home in Alhambra.

But the number of homes in foreclosure last quarter remained at record levels.

ALEJANDRO LAZO

Significantly fewer people fell behind on their mortgage payments during the final three months of 2010, a positive piece of news for the nation's housing market, according to an industry group. But the number of homes in foreclosure remained at record levels, meaning that a large number of bank-owned properties still threaten to saturate the market, potentially threatening any recovery.

turned the corner." Unless the U.S. experiences a "significant economic reversal," the numbers should continue to improve through 2011, Brinkman said. The delinquency rate does not include loans that are stuck in the foreclosure process. Financial institutions began foreclosure actions on 1.7% of all U.S. loans during the fourth quarter, a decrease from 1.9% in the prior quarter and up from 1.2% a year earlier. A total of 4.63% of all U.S. loans were stuck in some stage of the foreclosure process at the end of the fourth quarter. That was an increase from 4.58% the prior quarter and 4.58% during the year-earlier period.

Los Angeles Times, February 18, 2011, page B2

### The forecast for housing this year and next

There is no indication that the current downward trend in defaults and foreclosures will reverse because as the general economic outlook improves, distress will continue to diminish, and at an increasing rate.

The outlook for 2011 depends on two principal conditions: (1) the general economic recovery including a clear labor market recovery, and (2) bank willingness to accept short sales, mortgage modifications, or other work-outs to reduce the inventory of distressed housing.

Home sales should rebound in the 3rd or 4th quarter of 2011 as labor markets improve. Mortgage rates will remain low to accommodate the increased demand for mortgage money.

Though mortgage rates are expected to rise later in 2011 and into 2012, their ascent will be gradual rather than sudden. The forecast is for 30 year fixed mortgage rates to increase from their average of 4.97 percent today to an average 5.62 percent in the fourth quarter of 2011.

A principal assumption of the forecast is that the climate associated with tighter credit conditions will continue to ease, a trend that is already being observed. Furthermore, big banks are especially well capitalized after their stress tests and capital raising of the past two years and are seemingly prepared to write down bad loans.

## Fewer homes going into foreclosure

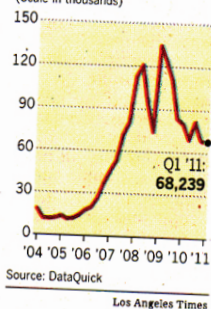
A drop in filings of default notices is a sign that the worst of the crisis could be over, analysts say.

ALEJANDRO LAZO

California's foreclosure crisis eased significantly during the first three months of the year, with lenders pushing the lowest number of homeowners into the formal repossession process since just before the start of the credit crunch. Banks filed 68,239 notices

### Still in distress

Notices of default in California, quarterly data (Scale in thousands)



Source: DataQuick

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