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The Economy in the New Year: What to Expect From the Housing Market in 2010

Building/Remodeling Industry Trends
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By all accounts, it's been a rough ride for the housing market. Compared to just a few years ago, home prices are down, home values are down and home sales are down. Unfortunately for builders, that means homebuilding is down, too.

If "down" was "Word of the Year" in 2009, however, there are signs that "up" could be a buzzword in 2010. One sign, the U.S. Department of Commerce announced in October, is gross domestic product (GDP), which grew at a 3.5 percent pace in the third quarter of 2009—the most growth in two years. Another sign, according to the Commerce Department: Although new home sales are down more than 70 percent from the height of the real estate boom in 2005, they're up 22 percent from the bottom of the real estate bust in January.

Whether 2009 indicators will turn into 2010 results depends a lot on where you live, but the national numbers paint an optimistic picture, according to Boston-based real estate analyst Walter Hall, founder and CEO of HouseSavvy USA, a real estate consulting and market research firm.

"In August 2008, there was an 11.1-month supply of new homes unsold nationally," he says. "In August 2009 there was a 7.3-month supply. The trend has been improving for the last year and we're predicting that it will continue, absent any catastrophic economic or military crisis. That's the bottom line."

Whether 2010 will be the end of the downturn or the beginning of the upswing depends largely on factors like home prices, interest rates and government programs, according to Hall, who along with Greg Rand, managing partner of Better Homes & Gardens Rand Realty in White Plains, N.Y., offers the following predictions for home sales—and homebuilding—in 2010:

1. Home prices
The number one reason people stop buying houses, according to Rand: they're too expensive. "What happened in 2007 and 2008—after this uphill climb in the housing market that started in 1998—is buyers started saying, 'This is enough; we're not going to let prices get any higher,'" he says. "When prices get too high, buyers stop buying. When sellers capitulate, prices begin to come down. And when they come down far enough, buyers start buying again. That's what's happening now. My expectation is that prices will keep coming down through the middle to latter part of next year, then they'll level off for five years."

Except in markets like Phoenix and Las Vegas, which are in especially dire straits, Hall believes home prices and values have already bottomed out in 80 percent of the country.

Whether home prices hit rock bottom this year or next, however, the eventual result is the same, both experts agree: When prices are low, buyers start buying, which slowly but surely will translate into the kind of supply shortage that typically ushers in a sellers' market—and usually creates opportunities for homebuilders.

2. Interest rates
If there's an upside to the housing downturn, it's been historically low interest rates, according to Hall, who says home affordability is the "best it's been in ages."

While Hall expects interest rates to remain low in 2010, Rand predicts they'll start rising. "The rates are ridiculously low and they're not going to stay that way for long," he says. "I think they're going to find a natural home somewhere in the sixes next year; and when interest rates climb over 6 percent, that's going to create a sense of urgency for a lot of homebuyers."

That urgency may or may not translate into a lot of new business for builders, according to Rand, but it likely will be a boom for remodelers. "People who missed out on 5.25 percent and 5.75 percent interest rates will feel pressured to tap into their home equity for home improvement projects—before 6.25 percent becomes 6.75 percent," he says. "It's a no-brainer."

3. Government intervention
According to the U.S. Department of Commerce, the country has government spending—on programs like last summer's "Cash for Clunkers"—to thank for its growing GDP.

Of course, the government hasn't only spent money on cars. It's spent money on housing, too, and will likely continue doing so in 2010, according to Rand, who says the government's $8,000 First-Time Homebuyers Tax Credit has stimulated palpable activity in the real estate market this year. For that reason, Congress already has extended the credit—which was set to expire in November—through April 30, 2010.

"It's not enough money to help you buy a home if you can't afford one, but it's enough to get you to pull the trigger if you can," Rand says.

While activity has been good for builders of low-priced homes, what would also be helpful for them, according to Hall, is continued government intervention on home foreclosures.

“Foreclosures have an adverse impact on builders of new homes because you’ve got all these homes competing with builders for buyers, and they’re competing at prices builders can’t duplicate,” Hall says. “So far, foreclosures have been resulting mostly from the lousy lending practices of the last few years. I think there’s another wave coming, though, resulting from unemployment, and I think the government’s going to try to cushion the impact of that.

“The government’s going to do everything it can to support the housing market. It’s in the cards.”