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The signs align

PREDICTIONS ARE ALWAYS RISKY, BUT I'M going out on a limb to say existing-home sales will improve markedly by the fourth quarter. Here's why:

■ **Pent-up demand.** The country has added nearly 4 million jobs since home sales started cooling in mid-2005, and the typical worker's wages have risen 7 percent, leading to a \$1.35 trillion rise in aggregate national income. At the same time, wealth has grown significantly, with the Dow Jones Industrial Average hovering at record highs. Indeed, accumulated household wealth as of the first quarter was at a record \$56.2 trillion. So, if you're wondering if people have the means to purchase, they do.

■ **Delayed household formation.** The number of households typically grows by up to 1.5 million a year, but in the first quarter, the year-over-year figure was only half a million. That weak perfor-

mance suggests people are holding back because of uncertainty over the future, a trend that fuels pent-up demand.

■ **Rising rents.** With renters hesitating to buy, landlords are raising rents. Average rents rose 8 percent in the past two years. As renters start feeling squeezed, ownership will look increasingly good.

■ **Condos make modest gains.** The condo market has outperformed the single-family market in sales and price changes since early this year. Single-family homes could follow suit.

■ **Better mortgage quality.** Mortgage applications for home purchases have been rising nearly 10 percent on a year-over-year basis since May. This data, from the Mortgage Bankers Association, focuses mainly on applicants for prime and FHA loans, so the rise indicates a flight to quality.

■ **Dollar weakness.** The falling dollar has

dangled a big "For Sale" sign in front of property attractive to foreign buyers. Europeans can now buy a vacation home at essentially a 15 percent discount. That's good for sales. And despite the weak dollar, which usually leads to higher interest rates, mortgage rates remain attractive at around 6.7 percent.

■ **2008 rate cut.** Inflation looks to slide as the year proceeds. If it does, the Federal Reserve could lower interest rates, possibly as soon as early 2008.

So keep your eyes on the horizon. There are forces at play that will turn the market around, and buyers who make the commitment now could be smiling next year. **RM**



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18%

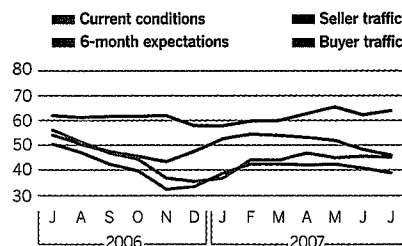
Foreign buyers are a big part of the U.S. housing market, with almost one in five real estate practitioners in early 2007 selling to buyers from outside the country.

	PERCENTAGE OF NAR MEMBERSHIP
243,000 Number of practitioners with at least one sale to an international client	18%
13,000 Number of practitioners whose client base is more than 50 percent international clients	1%

Source: NAR Research

Business Confidence

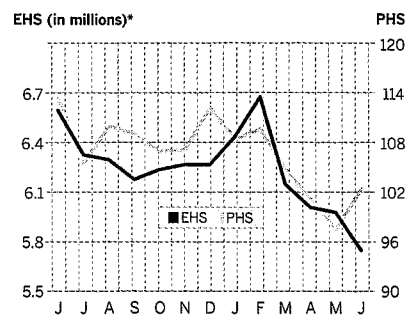
Listings outlook up Practitioners anticipate continuing flat buyer traffic in the months ahead, but plenty of sellers are expected to jump into the market. Practitioner confidence was surveyed in July and looks ahead six months.



Results are based on 302 responses to 3,000 surveys sent to large and small real estate offices. The survey asks practitioners to indicate whether conditions are strong (100 points), moderate (50), or weak (0). Responses are averaged to derive results.

Home Sales

Brightening prospects Sales of existing homes were down slightly in June, reflecting continuing consumer concerns, but NAR's forward-looking pending home sales index indicates improved markets in the months ahead. Total existing-home sales—including single-family houses, townhomes, condominiums, and co-ops—dipped 3.8 percent to an annual rate of 5.75 million units from a downwardly revised level of 5.98 million units[†] in May. NAR's pending home sales index for June rose to 102.4, up 5 percent from 97.5[†] in May.



*Seasonally adjusted annual rate, which is the actual rate of sales for the month, multiplied by 12 and adjusted for seasonal sales differences.
†Adjusted from the figure published in the August 2007 issue.

Source: NAR Research