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A market in need of a push

Home buyers and sellers must break stalemate for sector to move beyond post-boom doldrums

By Mary Umberger, Tribune staff reporter. Tribune wire services contributed to this report

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The housing market isn't dead, it's stuck.

There's a standoff between home buyers and sellers, and the health of the 2007 housing market may depend on who blinks first.

That's according to Chicago-area consumers, real estate agents and analysts who are scratching their heads about how to move housing out of the post-boom doldrums in 2007.

"This situation is unknown to me, and I've been doing this for 26 years," said Stephen Baird, chief executive of Baird & Warner Real Estate in Chicago. "The market is irrational right now."

He's not talking about the so-called irrational exuberance of the long-running real estate boom, which drove prices up nationally by 24 percent in the past three years and began to wind down in fall 2005.

He and others say it's more of an irrational resoluteness, with buyers and sellers staring each other down: Sellers are clinging adamantly to too-high prices, and buyers are equally adamant about getting a bargain.

As that impasse has formed, home sales have hit the brakes.

October home sales in Illinois were down 9.7 percent a year earlier, and when November data are released Thursday, few expect improvement.

The housing thud seems to transcend the usual holiday-period slowdown, analysts say.

Fitch Ratings, for example, recently said housing is in a fairly severe, multiyear contraction--one that isn't based, as previous slowdowns have been, on rising interest rates and a sharply slowing economy. It's being driven by perceptions, the Fitch analysts said.

"A negative buyer psychology seems to have become pervasive," Fitch reported this month. "The expectation or fear is that home prices have peaked and buying now would be a mistake."

Frustrated condo seller David Waters said he buys that.

"I suppose part of it is people are waiting to see if prices drop even further," said Waters, who, with his wife, Joette, has been trying to sell his Edgewater two-bedroom unit since August, without a single offer despite several price reductions and incentive offers.

"Because experts were predicting [the market slowdown], things tended to snowball," Waters said. "People bought into the fear that it's going to be a tough sell. When people start believing it, it makes it real."

Waters, like many others, is banking on housing getting a second wind after the new year. He's weary after five months of marketing the condo, which he thought would have broad market appeal because it overlooks Lake Michigan.

And he may be right. The National Association of Realtors recently announced that "most of the correction in home prices is behind us," and declared that wary buyers were starting to come off the sidelines and would push home sales to livelier levels in the first quarter of 2007.

Others see that as wishful thinking.

"I'm more of a second-quarter, third-quarter guy," said James M. Merrion, regional director of Re/Max Northern Illinois.

"The NAR is a little too optimistic," Merrion said. "We've had too strong a market. When you've had prices go up in Illinois as much as they have in the past five years, people's salaries haven't increased that fast. I think we need to see some price moderation [brought on as sellers lower their prices] in order to get back to a healthy market."

Some aren't expecting many blue skies at all in 2007.

"I think it could take 18 months for the market to normalize," said Naperville real estate agent Eileen Landau, who said the bloated inventory of homes must clear before the market will regain momentum.

That inventory picture may be improving, at least for now.

A survey by ZipRealty found that the number of homes for sale in many cities declined between October and the end of November. The company reported that inventories in the Chicago area in that period fell about 6 percent.

One year ago, about 28,000 single-family homes were listed for sale in the greater Chicago area, a 3.7-month supply, according to Alvin Wagner, president of the Headrick-Wagner Appraisal Group in Naperville. By the end of September, houses for sale had swollen to about 48,000, a 6.8-month supply, he said.

By mid-November, the number had ebbed to about 43,000, or a 6.5-month supply, Wagner said.

Several Chicago real estate experts said they saw a surprising uptick in activity around Thanksgiving, typically a very quiet time.

"We found the post-Thanksgiving market a little stronger than expected," said Merrion. "It is odd. We think it's people getting used to rates and prices."

Or maybe sellers are just giving up for a while.

"I went to show two homes the other day and found they had taken them off" the market, said Coldwell Banker agent Karrie Lange, who said she suspects frustrated sellers are taking a break during the holidays and will be back early next year.

If so, inventory will swell again, as old sellers replant their for-sale signs alongside the new listings that inevitably show up as the traditionally active "spring" market gets under way in January.

Which would bring the market back to the blinking point. Most of the betting is on sellers budging first by cutting prices.

"Sellers are in denial," said Lange, based in La Grange. "I don't think they realize how much inventory is out there. If the buyer doesn't think a house is a value, he will skip it."

But others say it's not necessarily greed causing sellers to stick to their guns; many sellers who bought at or near the top of the market can't afford to bend much.

Area real estate agents said that when sellers do hit the sweet spot on pricing, homes go relatively quickly.

Early in December, Mohammad Mahmood bought a home in southwest suburban Shorewood--after losing out on several other homes because eager buyers had rushed in with higher offers. He had been expecting to bag a bargain, and easily.

"I thought this was a buyer's market, that I would be the one who is deciding the deal," said Mahmood, a Chicago accountant. "It wasn't the case, and trust me, I am a hard bargainer. I don't give in that easily."

Mahmood said he was surprised that the houses that interested him were selling within 1 to 2 points of their asking prices.

But Naperville agent Landau said such numbers, the "list-to-sell ratio," may not paint a true picture of pricing strength in the marketplace.

"Right now, the majority of properties in Naperville, for example, are selling at 96 percent of list price. But that's not accurate because the list-to-sell is based on the latest price," and ferreting out the original asking prices would tell a different story, she said.

And the numbers don't account for the significant amount of houses that aren't selling.

Price predictions for next year vary widely. David Lereah, chief economist for the NAR, predicted that by late 2007, prices will be 1 percent higher than current levels.

That, too, is viewed as optimistic by some. Moody's Economy.com, for example, predicts that the national median price for existing homes will decline 3.6 percent next year, the first full-year decline in U.S. home sales since the Depression.

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Predictions include gradual increase, stabilization

Whether the housing glass is half empty or refilling itself is a matter of broad conjecture. A sampling of recent predictions for U.S. residential real estate in 2007 shows:

-The National Association of Realtors expects existing-home sales to rise gradually in 2007 from current levels to a pace that's on par with this year, according to its mid-December forecast.

David Lereah, its chief economist, said the upturn would play out at different speeds around the U.S. "Roughly three-quarters of the country will experience a sluggish expansion in 2007, while the other areas should continue to contract for at least part of the year.

"General gains in value next year will be modest, by historical standards," he said.

-The association expects 2006 new-home sales to drop 17.7 percent, to about 1 million, before sliding an additional 9.4 percent next year, to 957,000.

-The most intense phase of the housing downturn has passed, but the correction isn't complete, according to a forecast from the Securities Industry and Financial Markets Association.

"With home building and permit volumes below sales levels, the market is beginning to clear, although price weakness may continue based on buyer and home builder caution," the group predicts. "The downturn should end within six to 12 months."

The association predicts total housing sales of 7.2 million next year, down from 7.6 million in 2006 and 8.4 million in 2005. Thirty-year fixed-rate mortgages will rise to 6.5 percent by the end of next year, the group said.

-The market correction is about two-thirds complete, and housing should stabilize by the middle of 2007, according to Frank Nothaft, chief economist for Freddie Mac.

"We expect house prices, like housing starts and sales, to trough in the fourth quarter [of 2006], with prices appreciating 3.4 percent in the first half of 2007," Nothaft said in a December forecast.

He predicted existing-home sales would average 6.74 million units in 2006, down 10 percent from the year before. Existing-home sales in 2007 would average 6.22 million, he said.

"While residential investment will almost certainly decline further in the first half of next year, the magnitude of the drag on overall economic expansion should diminish," according to the Mortgage Bankers Association.

"Some encouraging signs already have begun to appear in the housing picture," Doug Duncan, its chief economist, said in a mid-December commentary. "Total single-family-home sales, for example, have remained roughly unchanged over the past four months, and applications for loans to purchase homes, a useful indicator of future home sales, have picked up in recent weeks.

"Our forecast, while revising down expected growth this quarter and next, still anticipates a return to trend-like growth by the second quarter of next year."

-What happens in housing stays in housing and isn't enough to trigger a national recession, according to Edward Leamer, director of the UCLA Anderson Forecast.

"The decline in the housing sector is contributing to job loss in the construction sector, but there are no significant losses to be found on the manufacturing horizon," Leamer said in a December report. "Without the accompanying decline in manufacturing jobs, the losses in construction will not be enough to cause a recession.

"If you are a builder or a broker, it will feel like a deep depression," Leamer predicted, "but the rest of us will hardly notice."

--Mary Umberger