

Saturday, May 16, 2009

A throng gathered this week in Washington for an economic conference sponsored by the National Association of Realtors. Elizabeth Razzi covered it live on L Washington Post's real estate blog. Here's an

9:18 a.m.: We're in the Marriott Wardman Park and through the day we'll hear from former labor secretary *Robert Reich*, Harvard's *Eric Belsky* and Mar Wharton School's *Susan Wachter*, former Fed Chairman *Alan Greenspan*, Carnegie Mellon's *Meltzer* and others, roughly in that order.

The day started with a policy brawl between *Harold Ford Jr.*, the former Democratic representative from Tennessee, and conservative commentator *Pat Buchanan*. They sparred over which party is most responsible for deficit spending -- and heard from attending real estate agents that banks are still looking for excuses not to lend.

The schedule is packed tighter than a Japanese subway, so speakers got cut off just when the questions got interesting.

9:39 a.m.: Reich, the labor secretary during the Clinton administration, said we are very close to economic recovery, and "very, very close" to a bottom. The question is how long and how strong that recovery will be. Unemployment will hit double digits by the end of the year, he said, and even once jobs come back, it will take a long time for the newly employed to feel confident enough to spend money again. "Plan for economic uncertainty," he said.

Home prices are not going to return to 2006 levels for a long time, and the economy is not going to return to the levels seen between 2002 and 2007, he said. "That economy was built on a huge volume of unsustainable debt."

"Median incomes are not rising, even when we get jobs back," Reich said.

Controlling health-care costs can help put money in consumers' pockets for other purchases -- like homes.

10 a.m.: Look to the percentage of vacant houses and condos to see where prices are going, panelists are saying. *Barry Bluestone*, professor of political economy at Northeastern University, says it works this way:

- Vacancy rates 1.75 percent to 2 percent equal stable prices.
- Vacancy rates above 2 percent equal weakening prices.
- Vacancy rates above 2.5 percent equal plummeting prices.

"That's where we are now," he said,

Belsky, head of Harvard's Joint Center on Housing studies, says the age of homes is linked directly to foreclosure rates. Among homes built before 2000, vacancy rates are about 2 percent. For those built in the current decade, vacancies are running about 10 percent.

"So much of the problem is newer subdivisions," he said. "When the jobs come back, will they come back in these areas?"

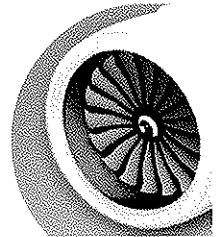
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10:23 a.m.: *Shaun Donovan*, secretary of the Department of Housing and Urban Development, said the department is seeking a way to make the \$8,000 first-time-buyer tax credit available to borrowers to use on down payment and closing costs, instead of waiting for their tax refunds. HUD wants permission for approved lenders and nonprofit groups to issue bridge loans to make the \$8,000 available to borrowers at closing.

"I expect details within just a few days," he said.

1 p.m.: More news snippets from this morning's sessions:

-- *What stabilizing market?* Harvard economist Feldstein sees no such thing. "We need to stop the downward spiral" of home prices, foreclosures and bad assets dragging down banks' balance sheets, he said, repeatedly. His answer? More government spending to get bad assets off banks' books.

-- *Condos and FHA:* HUD will be looking at how Federal Housing Administration borrowers are getting stymied when trying to buy a condo if the condo association has a right-of-first-refusal clause in its bylaws. The FHA won't allow loans in such instances. Donovan promised "clear guidance on that, definitely before the end of the year."

-- *Uncooperative lenders:* A real estate agent from Fort Myers, Fla., complained to Donovan that banks in her area are turning down home buyers using FHA loans in favor of lower all-cash deals from investors that unfold faster.

Jim Park, president and chief executive of the Asian Real Estate Association of America, criticized investor "bottom feeders" crowding out first-time buyers. "Servicers and [bank real estate departments that sell off foreclosures] have traditionally been biased against homeowners because of delays," he said.

The real estate industry's preferred answer to that seems to be making federal incentives available for all comers, according to big brokers such as *Robert Sibcy*, president of Sibcy Cline Realtors in Cincinnati.

2:49 p.m.: From former Fed chairman Greenspan: His big concern now is the potential for rising defaults among conventional, conforming mortgages -- that is, those fairly conservative loans that qualify for purchase by Fannie Mae and Freddie Mac. Typically, buyers made down payments of 20 to 22 percent, but prices have declined enough to wipe out even their equity.

The economy could withstand about another 5 percent decline in home prices and the resulting increase in defaults and foreclosures, he said. "But I think we run into trouble if it's very significantly more than that," he said. "With further price declines, you're digging into the real segment of where the remaining home equity is."

About the inventory of unsold homes, he said, "We are at the edge of a major liquidation of that excessive inventory." He said he hopes that the signs of a market bottom that we are beginning to see mean prices will stabilize before there is an even greater effect on the economy.

3:00 p.m.: Greenspan on the conflicting info we're getting from major home-price indexes: A real estate agent from Boulder, Colo., complained to him about the media's use of the S&P Case-Shiller home price index, which continues to show steep declines, instead of the government's Federal Housing Finance Agency's index, which shows a flattening of prices.

"There's a big dispute within the economics profession about this," he said. "The media is simply reflecting that."

FHFA has eliminated all evidence of foreclosure sales from its price index, he noted. "Case-Shiller has a big chunk of foreclosed properties."

"Economists generally believe the right answer is probably in between," he said. But the question won't be addressed until sometime after the crisis has passed.

No new homes: *Jerry Howard*, president and chief executive of the National Association of Home Builders, said there are only 300,000 new houses on the market now, nationwide. "And none are being built."

5:13 p.m.: And the housing market predictions went on, and on. One afternoon panel included 15 speakers.

With all the panels all day packed so tightly with big names, there was little opportunity to get in-depth answers to the good questions from the market pros in the audience.

When the speeches finally ended, the Realtors went to put on their evening wear for a night of receptions, and probably a lot more talk about the market.

The Local Address blog appears weekdays at <http://washingtonpost.com/localaddress>. Contact Elizabeth Razzi at razzie@washpost.com.

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