Housing Market Stability a 2012 Wish

By Graig F. Zappia

Homeowners had it rough in 2011. The nation's unemployment rate stubbornly hovered around 9 percent for most of the year and the debt crises in Washington and Europe agitated Wall Street more than any Occupy protesters. For most of the year, there was little hope the housing market or the economy would recover.

Locally, not even a steady stream of positive economic news whetted the appetite of antsy homebuyers. The U.S. Census Bureau told us that the region's four main cities made population gains between 2000 and 2010 after decades of losses; Gov. Andrew Cuomo announced a $4.4 billion deal with a consortium of high-tech companies that promises to bring over 800 jobs to the Albany Nanotech Complex; and the loss of hundreds of state union jobs regionwide was narrowly averted through the ratification of CSEA and PEF contracts.

Good economic news, unfortunately, does not necessarily translate into immediate home sales. Throughout the first 10 months of 2011, residential home sales in the greater Capital Region declined by 4 percent to 6,309, according to the Greater Capital Region Association of Realtors. The median sale price was down 1 percent at $185,900, compared to the same period a year earlier.

Now that the U.S. economic forecast is looking marginally rosier, many Capital Region homeowners are wondering what to expect of the local housing market in 2012, especially when last year's positive news had such a muted effect. Chances are homeowners will get something they have not had in years. No, not a booming market, but one that is more stable.

Stability will likely be a recurring theme for the region's housing market this year. Does that mean the days of lower home sales and prices are over? Probably not. It does mean, however, that drops in sales and prices will likely fluctuate less violently. Even local year-to-year statistics may look more stable now that the 2012 data will not be skewed by comparisons to the sales surge caused by the federal first-time homebuyer tax credit and the fallout from its April 2010 expiration.

The regional market's sales performance should start to more closely resemble the stock market on a "normal" day of trading, with small gains and small losses as time passes. Of course, aberrations are to be expected.

Area homeowners should not count on the reported growth in population or tech jobs to significantly spur demand for single-family homes in 2012. Remember, newcomers to an area are more likely to rent than buy at first. Consequently, the region's construction industry may receive a boost from apartment complex development.

Not surprisingly, Freddie Mac last month predicted U.S. home-loan originations in 2012 will decline for single-family homes but increase for multi-family projects. As workers new to the region become more comfortable in their positions, many will turn into homebuyers.

As usual, the Capital Region's housing market will experience a bumpy start to the new year. Local foreclosure activity tends to spike during the first quarter, according to RealtyTrac statistics. The Chicago-based TransUnion predicts the ratio of home loan borrowers at least 60 days past due nationwide will increase by up to 6 percent during the first three months of 2012. By year's end, however, mortgage delinquencies should decline by 5 percent.

So it is likely foreclosures will continue to haunt the market, particularly in regard to pricing.

Freddie Mac is calling for its U.S. house price index "to move lower before bottoming out in 2012, with modest appreciation forestalled until 2013." Additionally, the mortgage giant cautions that a "strong headwind [from low-cost existing homes] is holding back new home sales."

Stability is also expected on the mortgage rate front, thanks in large part to the Federal Reserve's vow in August 2011 to keep interest rates "exceptionally low" through mid-2013. Rates for a 30-year Federal Housing Administration mortgage should remain in the low to mid-4 percent range and mid-3 percent for a 15-year home loan. The promise of low rates, however, may be a mixed blessing. While the Fed wants to keep rates low, buyers may not feel compelled to take advantage of them until they believe such rates will be taken away. We saw this trend with the expiration of the federal first-time homebuyer credit.

Sellers may be emboldened by the waves of positive economic news and give buyers a little pushback when it comes to negotiating terms and price. In November, people surveyed by Fannie Mae said they expect the average U.S. home price to increase by 0.2 percent over the next 12 months. That was the first time since May that survey respondents did not expect prices to decline over 12 months. Many sellers may direct their attorneys to include stricter timelines in purchase agreements or tweak demands in buyers' formal offers. Sellers may even try to hold the line on price, but as trends have shown, homes priced over $200,000 will continue to have difficulty moving off the market.

Sellers will still have to work for a sale as 2012 unfolds. The market, after all, will still remain a buyer's market. This extra work might include kitchen renovations, installing a new roof or other landscaping upgrades to boost curb appeal. With the economy improving, sellers may also be less hesitant about making costly "green" renovations, such as installing solar panels or solar water heaters or energy efficient windows.

Solar installations nationwide gained momentum in 2011. Through the first three quarters of last year, the solar industry installed 1,000 megawatts of solar capacity, surpassing the record installation total for all of 2010, according to a report by GTM Research and the Solar Energy Industries Association.

As the economic and housing forecasts further improve, buyers should be cautious about getting too demanding with sellers. Some sellers might not be able to afford certain renovations in today's economy. Consequently, sellers may not be able to fetch significantly higher sale prices and may have to temper their expectations in achieving their dream sale scenario. Buyers willing to conduct home improvements after purchasing a property may realize a significant return-on-investment in the years to come.

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