

**Montgomery County Bi-monthly Report
August Market 2009 Forecast**

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“The Great Turnaround Has Begun”

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Maryland Real Estate Sales Overview

There was some good news this summer regarding Maryland real estate sales. Data for August indicate that sales were up for the month, but prices were still down from a year before. For August, 4,838 units were sold statewide – up 13.6% from a year ago. But, on the price side, they still have not stabilized. August average and median prices came in at \$313,737 and \$265,862 -- showing annual declines of 13.6% and 10%, respectively. Continuing the trends of this spring, the rate of August price declines worsened. In spring 2008, both measures were down only 6%.

The best news concerned the supply side. Active listing inventory totaled 44,148 units statewide, down about 14 percent from a year before. This will help price stability in the future. However, it still looks like we have a way to go before we see both increasing sales and stable or rising prices. The problem of foreclosures will continue and maintain pressure on market prices.

Montgomery County Single-Family Homes

Single-family market sales performance in the County was up strongly from a year ago. Settlements in August (760) were 24.8% above the levels of a year ago; and, year-to-date closings (5,313) were 18% above comparable figures in 2008. The news was as good for sales contracts. August contracts (905) were about 19% higher than in 2008; and, cumulatively (6,597) were about 27% above a year ago. On the listings front, new August listings (942) were about 11% below a year ago with the total active inventory (2,267) 47% under last year's first eight months. At the August contracts pace, there was a 2.5 months listing supply -- well under the 6-month level. The number of listings and months supply has been gradually declining through the spring and summer.

Although sales were up, the average price for the first 8-months (\$484,683) dropped 12% from the average for 2008. Similarly, the median of \$390,000 slipped 10%. These declines are slower than earlier in the year, so we are seeing some price stabilization. The impact of the homebuyer tax credit programs and the comparative economic well being of the County have helped reach a sales bottom in the market. The market is working, but there is still time to go before we reach a period of positive price appreciation perhaps by early next year.

Nevertheless, the price trend line is still downward and it will continue to be difficult to sell high-end properties. From the sales side, we have hit the bottom. So, with lowered inventory levels, by the end of the year hopefully we will start to see prices in recovery.

Montgomery County Condo/Coops

Condominium and cooperative sales have also been improving massively from earlier in the year. August contracts (259) were up 42% from a year earlier and year-to-date contracts (1,547) rose 21%. August year-to-date settlements (192) dramatically leaped 50% from the same period a year ago, with year to date totals (1,208) edging up by 8%. In the spring, settlements were down by a couple of percent.

Condo/coop inventory has also adjusted to help stabilize the market. August new listings (300) were just 1% below August 2008; and, the 905 total actives were 26% below the same period a year ago. However, the best news is that there was only a 3.5-month supply of listings at the August contracts rate. This figure is a full month lower than the rate in spring, and continues under the 6-month benchmark.

Nevertheless, annualized price appreciation still continues to be negative compared to 2008. The average through August was \$256,401 – down 18% from the figure for all of 2008. Similarly, the August median of \$215,000 was down 17%. These numbers show about the same differences as the spring figures, although they are slightly lower. Again, there is some hope prices will stabilize by year-end and we can see some positive appreciation in 2010. However, the homebuyer tax credit expires in November and unless Congress extends it into next year, we may have borrowed home sales this year from next year. Of course, this is always a problem with short-term government programs, but the support was badly needed.

Recent Economic Trends

Nationally, the “Great Recession” seems to be easing up, but the economic numbers will still bounce around for quite a while. The Conference Board recently announced that the Consumer Confidence Index dropped to 53.1 in September, from 54.5 in August. So, retailers certainly have to be worried about the upcoming holiday sales season. The financial sector is not in great shape yet, regardless of some bank paybacks of TARP money and recent quarterly profit figures. There have been so many bank failures that the Federal Deposit Insurance Fund is “in the red” and the FDIC has asked Congress to raise bank deposit fees and to let them collect it up-front. This will be a battle and ultimately FDIC could need a government cash infusion. Bad commercial real estate loans are taking a lot of smaller local banks down across the country.

In terms of the growth of the real Gross Domestic Product, most economists are actually expecting a slight positive increase for the second half of the year – on the order of 4% for the third quarter and 1.5% for the fourth quarter, for a 1% positive rate in the last half of the year. The fourth quarter 2008 came in at -5.4%; and, the first two quarters of this year grew at -6.4% and -0.7%, respectively. In about three weeks we’ll have a number for the third quarter. It will be positive, and will show that we have turned the corner on the recession from the point of view of economic growth. But, the jobs market is another thing and will take much more time to turn around – possibly another year.

Moreover, contrarians still are considering the possibility of a double-dip in GDP growth, especially if we continue to have a consumer pull back.

In July, the County unemployment rate was 5.5%. This is up substantially from the high-4s earlier in the year; but it continues to compare favorably with the 7.2% rate for all of Maryland and the 10.6% rate in the District. Furthermore, the national rate in July was 9.4% and is expected to exceed 10% well into 2010. The County's economy is doing much better than both the state and the rest of the country.

Consumer Prices and Energy Costs

The August national Consumer Price Index (all urban consumers) was up 0.4% from July; but, on an annual basis, the rate of inflation was -1.5% (from August 2008). The monthly increase was taken as good news, and declines in the cost of energy and transportation affected the annualized decline. When we look at the change in the index excluding food and energy, prices were up only 1.1% from last August. Among the various components since August 2008: food prices increased 0.4%; housing shelter rose 0.9%; apparel prices rose 0.6%; energy dropped 23%; transportation services rose 1.4%; and, medical care services rose 3.2% with medical care commodities up 3.7%. Similar to this spring, we have had some mild deflation on average, but there is significant inflation in medical care. Much of the price increases were offset by the declines in energy costs.

The Fed and Mortgage Rates

The Fed is keeping short-term interest rates near zero, but is starting to wind down the term asset-backed purchase facility (TAF/TALF) programs. It recently announced it will extend into 2010 its purchases of Fannie/Freddie mortgage securities. This may cause some small rise in mortgage rates over the next year, as the purchases in 2009 helped keep mortgage rates down. However, they are not likely to push up general interest rates until well into 2010.

Recently, FHA has announced that it will continue to push its program to refinance/restate mortgages. Essentially, FHA is the only program out there working with moderate-income borrowers. And, default rates are still high for renegotiated mortgages and now prime mortgages are having problems. With higher unemployment rates expected to be the trend, FHA will have a big market to work with. At this point, only a few big banks, FHA, and Fannie/Freddie are the housing finance market. The private secondary market isn't playing at all. It will be a while before we see a strong upward move in housing sales, starts, or prices.

On the mortgage rate front, the late-September Freddie Mac surveys showed rates on traditional types of loans above the 5% mark, but lower than in the early summer. National average 30-year contract rates averaged 5.04%, and 1-year adjustable rate mortgages (ARMs) came in at 4.52%. Fifteen year loans averaged 4.46%, with 5/1-yr.

ARMs at 4.51%. With the likelihood of near-term inflation minimal, rates should remain in these ranges through the fall.

However, the stock market is expected to slip more this fall, with a just recovering and still weak economy. I expected it to decline earlier in the summer, along with a number of other market watchers. However, its resilience has dumbfounded the experts. Many still expect it to decline through the fall, but the Dow has stubbornly remained in the mid- to high-9,000s. However, it is reasonable that we won't see another strong move up for a while.

The Bottom Line

The County's sales have pretty much bottomed and sales are coming back. But, prices are still down compared to performance last year. With the homebuyer tax credit soon to expire, we will have to see what happens next year. All in all, the County's real estate markets and general metro area should be on the mend by the end of the year, as the recession is pretty much over for this area.

Nevertheless, with the consumer saving rate ramping-up we will probably see a slower comeback of retail and the consumer economy. We have come off an almost two-decade long spending and consuming spree and it will take a while to get back to stable or rising real estate markets. The housing markets are improving -- inventory is declining and sales have increased -- but they are fragile. Appreciation is still negative, but prices are still below levels of a year ago and not likely to move up very much. Nevertheless, progress is being made and next spring should be better than last.