REAL ESTATE

Report: Housing Market Recovery Has Officially Begun

A new analysis suggests that home prices will begin to rise later this year.

By CHRISTOPHER MATTHEWS | @crobmatthews | May 15, 2012 | 5

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It's been a rough five and a half years for the American homeowner. Since the housing bubble reached its peak in early 2007, Americans have watched helplessly as $7 trillion in housing wealth evaporated. At many points during this ugly plunge, pundits have erroneously called the "bottom" of the housing market – saying things could finally get no worse. And then they got worse.

The American public can therefore be forgiven for eyeing the latest round of predictions that the market has turned a corner with skepticism. Of course, the housing market will heal at some point, so perhaps the boy is crying about an actual wolf this time.

The best reason to shed your hard-won dubiousness is a report issued today by the The Demand Institute, a think tank jointly operated by the well-respected and non-partisan research organizations The Conference Board and Nielsen. The fifty-page study is definitively labeling 2012 the year of the housing bottom. It says:

> "The double-digit increases in U.S. housing prices over the first half of the past decade proved unsustainable. But the freefall is over. The point has been reached where housing prices will start to climb, albeit at single-digit rates in most markets over the next five years."

The report argues that the recovery will come in two stages. The first will be driven by rental demand. Over the past several years plummeting home prices have been coupled with rising rents, and this dynamic has made landlording very profitable. This is evidenced by the recent rebound of the apartment-building business. According to the report, "The only segment of the home building sector now showing clear signs of recovery is multifamily housing," noting that housing starts for multi-family units have increased 54 percent in 2011 over the previous year.

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The Demand Institute also believes the dynamics buoying the multifamily market — rising rents, low interest rates, and cheap real estate — are starting to boost the single-family housing sector as well: "Investors attracted by high yields are buying up single-family properties that can generate rental income."

So who are these investors? Lousie Keely, Chief Research Officer at The Demand Institute, says that there are range of different companies and individuals who are poised to take advantage of the situation. "In some regions of the country, rental management companies are moving into single-family homes," she says. Though managing single-family homes isn't as efficient as managing an apartment building, current prices are making the strategy attractive. Buyers will also include individuals looking for higher yields on their savings as well as investment vehicles like real estate investment trusts.

The second stage of the recovery will occur after this investor intervention causes prices to stabilize. Price stabilization is crucial for banks to loosen their stingy lending standards. When home prices are falling, it's bad business to issue mortgages to all but the most credit-worthy borrowers. But in an environment of even slowly appreciating real estate, banks can afford to offer more generous terms.

Perhaps most crucial to The Demand Institute's vision for a recovering housing market is evidence that Americans are still strongly attracted to the idea of homeownership. "The American Dream has not gone away," says Keely, adding:

> "The majority of Americans think that owning a home is a good investment; the majority of people who plan to move in the next six years plan to buy a house even if they're not currently homeowners. There are several pieces of evidence that lead us to believe that we'll see a rise back to home ownership levels that we saw in the mid '90s and early 2000s."

Though American consumers have too much debt and probably won't see their incomes rise in real terms in the next few years, Keely argues that homeownership is still an achievable goal if lending standards loosen and if consumers stay disciplined about paying down debt and saving.

There are of course caveats attached to these predictions. The report relies on Conference Board forecasts which call for slow but steady growth and a similarly gradual decline in the unemployment rate. If the situation in Europe were to worsen significantly, or some other unforeseen event were to shock the American economy, then these forecasts will turn out to have been too optimistic. But even with such stipulations, The Demand Institute's report is one of the most comprehensive and substantive arguments we've seen yet that the housing market is nearing the light at the end of the tunnel.

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