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Finance Investment Banking

Economic Update - Housing Reports See Short-Term Funk, Long-Term Hope

Jun 23, 2009

By: Dees Stribling, Contributing Editor

The residential refinancing boom that budded so promisingly in the spring has wilted, according to the latest predictions by the Mortgage Bankers Association. Back in March, the organization predicted refi activity to the tune of about \$2.75 trillion nationwide by the end of 2009, spurred by historically low interest rates. Now that those low rates have evaporated, MBA says that total originations for the year will probably come in just above \$2 trillion.

Of that total, MBA expects \$737 billion to represent purchase originations, with the remaining \$1.3 trillion or so for refinance originations. In terms of housing sales, the mortgage bankers are predicting 4.8 million existing houses to trade hands this year, down 1.2 percent from 2008, while new home sales will see a much steeper decline--352,000 units will be sold in 2009, down 27 from last year.

MBA was hardly alone in predicting continuing troubles for residential real estate. Harvard University's Joint Center for Housing Studies released its annual *State of the Nation's Housing* report on Monday, and it didn't offer a lot of good news either. "While new and existing home sales and single-family starts have shown some signs of stabilizing, ongoing job losses, house-price deflation and tighter mortgage credit are placing any recovery at risk," the report said.

Recovery in the short term, that is. In the longer run, the report is more optimistic about the demand for housing. For one thing, the offspring of the population bulge of the 1950s and early '60s--sometimes known as echo-boomers--are now coming of age as householders. Demand from immigrants, provided they keep coming to these shores, will also be a major driver in the future of the housing market, once it gets over its current severe correction, according to Harvard.

On the commercial side of the industry, Moody's reported on Monday that commercial property prices dropped 8.6 percent in April, a record for the company's REAL Commercial Property Indices. The indices now are now 29.5 percent lower than the bubble-peak of October 2007. Sales volumes is significantly down as well, but those sellers who are in the market seem to be accepting reduced valuations as inevitable. Demand for space of all kinds is down, choking off some cash flow that investors crave.

Where do such conditions leave commercial developers? Up the creek not only missing that paddle, but the entire canoe as well?

Not in every case. In certain markets and under certain conditions, projects are still going forward despite overall malaise in commercial properties. For example, in the southwestern Chicago suburb of McCook, Ill.--an inner suburb with a heavy concentration of industrial properties--Clarius Partners L.L.C. broke ground last week on the first phase of a new 365,800-square-foot industrial park.

It's entirely spec at this point, but the developers believe it's going to work. "The level of interest has been high," Kevin D. Matzke, managing principal of Chicago-based Clarius, told CPN. "That isn't because many companies are expanding. It's because they want to get out of functionally obsolete space, which will result in cost savings for them over the long run."

Wall Street had another down day on Monday, with the Dow Jones Industrial Average plummeting just over 200 points, or 2.35 percent. The S&P 500 lost even more--3.06 percent--while the Nasdaq topped them all in having a bad day by losing 3.35 percent. It was a little like the old days of last fall, when the equity indices moved downward on the least bit of bad news. Monday's report by the World Bank, which is forecasting a 2.9 percent contraction in the world's economy in 2009, seems to have made investors feel bearish.

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