

# Economic and Market Watch Report

## 4th Quarter, 2007



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# Consolidated Multiple Listing Service, Inc.

## Economic and Market Watch Report

The Consolidated Multiple Listing Service, Inc. provides MLS service to over 5,000 real estate professionals in southwestern (Greater Fairfield County) Connecticut. We are committed to providing property information-based tools, resources and support services to enhance our member's success.

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##### Fairfield County

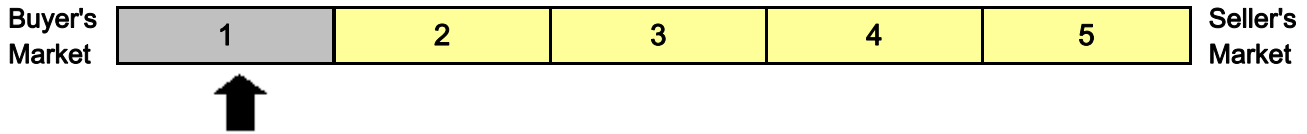
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Fairfield County, CT



**Labor Market :**

Employment declined by 1,168 jobs in October and November. The job losses brought about an increase in the average monthly unemployment rate from 4% in the third quarter to 4.1% for the first two months of the fourth quarter. Despite the job losses, the job situation still remains strong in Fairfield County. Combined with historically low mortgage rates, employment will help to build up demand for housing.

**Housing Market :**

	Q3' 07	Q4' 07	Q1' 08 (Forecast)
Average Price	\$797,900	\$753,000	↑
# Homes on the Market *	15,640	14,107	↓
# Homes Sold **	2,004	1,256	↑
# New Homes Built ***	270	216	↑
Avg # of Days on Market	93	100	↓

\* Available as of Dec. 31, 2007.

\*\* May not add to total of zip codes.

\*\*\* During the first two months of 4th quarter.

**Bethel**

**Data by Zip Codes**

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06801	\$434,100	10.66%	21	-38.24%	93	95.4%

**Bridgeport**

**Data by Zip Codes**

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06604	\$269,000	2.36%	6	-62.50%	83	94.4%

**Fairfield County, CT**

**Bridgeport**

**Data by Zip Codes**

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06605	\$187,900	-45.11%	5	-70.59%	61	94.8%
06606	\$238,300	-11.90%	75	-11.76%	89	95.5%
06607	\$176,800	14.29%	3	-62.50%	90	96.1%
06608	\$168,800	-3.54%	4	0.00%	60	97.6%
06610	\$205,000	4.54%	24	-38.46%	113	95.0%

**Brookfield**

**Data by Zip Codes**

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06804	\$536,000	5.57%	32	-40.74%	105	93.7%

**Danbury**

**Data by Zip Codes**

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06810	\$310,800	-12.70%	36	-30.77%	81	95.2%
06811	\$420,500	-6.26%	39	-37.10%	80	95.7%

**Darien**

**Data by Zip Codes**

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06820	\$1,963,300	46.60%	38	8.57%	106	94.8%

**Easton**

**Data by Zip Codes**

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06612	\$813,100	10.06%	16	23.08%	169	96.5%

**Fairfield County, CT**

***Fairfield***

**Data by Zip Codes**

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06824	\$992,800	16.54%	67	-28.72%	81	94.1%
06825	\$523,400	-1.08%	32	-15.79%	109	96.3%

***Greenwich***

**Data by Zip Codes**

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06830	\$3,269,000	31.52%	5	-54.55%	153	90.3%
06831	\$1,262,600	26.36%	7	133.33%	131	95.7%

***Monroe***

**Data by Zip Codes**

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06468	\$455,700	-9.53%	40	8.11%	88	95.9%

***New Canaan***

**Data by Zip Codes**

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06840	\$2,039,600	-13.73%	34	0.00%	144	94.6%

***New Fairfield***

**Data by Zip Codes**

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06812	\$548,100	21.48%	34	-35.85%	106	95.7%

## Fairfield County, CT

### *Newtown*

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06470	\$556,400	-5.29%	44	4.76%	104	94.0%

### *Norwalk*

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06850	\$575,800	11.70%	27	-42.55%	106	96.1%
06851	\$525,900	-7.07%	40	-47.37%	88	96.1%
06853	\$1,430,600	11.37%	14	-39.13%	125	95.3%
06854	\$590,200	3.45%	22	-15.38%	103	96.6%
06855	\$564,000	-24.86%	6	-50.00%	84	95.4%

### *Redding*

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06896	\$776,800	-5.63%	23	53.33%	152	92.6%

### *Ridgefield*

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06877	\$1,033,900	3.86%	45	-27.42%	98	94.7%

### *Shelton*

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06484	\$423,900	-2.71%	83	-20.95%	92	96.8%

## Fairfield County, CT

### Sherman

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06784	\$732,800	-16.04%	10	100.00%	99	95.4%

### Stamford

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06902	\$1,098,600	20.39%	31	-29.55%	136	92.9%
06903	\$880,800	-16.54%	28	-20.00%	100	93.9%
06905	\$615,100	0.49%	36	-18.18%	97	96.2%
06906	\$589,600	10.16%	9	-30.77%	55	96.8%
06907	\$544,700	-4.24%	9	-50.00%	49	96.2%

### Stratford

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06614	\$312,200	-7.47%	62	-39.81%	82	96.0%
06615	\$284,000	-2.84%	44	-13.73%	102	95.8%

### Trumbull

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06611	\$508,500	-0.20%	78	-17.02%	93	95.6%

### Weston

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06883	\$1,310,300	38.99%	18	-14.29%	85	91.8%



### Fairfield County, CT

#### Westport

##### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06880	\$1,811,100	32.82%	76	5.56%	118	95.6%

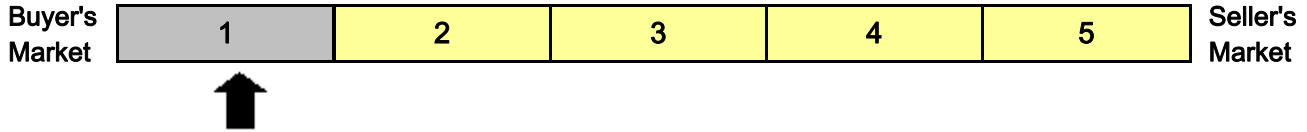
#### Wilton

##### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06897	\$1,057,300	0.21%	33	-13.16%	119	95.2%



Litchfield County, CT



**Labor Market :**

A decline in employment of 168 jobs was offset by a decrease in the number of persons looking for work during the first two months of the fourth quarter. The net effect was no change in the 4.1% average monthly unemployment rate from the third quarter. Despite the job losses, mortgage rates remain at historically low levels. Low mortgage rates and solid employment will help to rebuild the demand base.

**Housing Market :**

	Q3' 07	Q4' 07	Q1' 08 (Forecast)
Average Price	\$599,900	\$588,600	↑
# Homes on the Market *	1,545	1,418	↓
# Homes Sold **	118	78	↑
# New Homes Built ***	83	39	↑
Avg # of Days on Market	128	155	↓

\* Available as of Dec. 31, 2007.

\*\* May not add to total of zip codes.

\*\*\* During the first two months of 4th quarter.

**Bridgewater**

**Data by Zip Codes**

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06752	\$631,100	-37.71%	7	75.00%	127	92.0%

**Kent**

**Data by Zip Codes**

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06757	\$558,200	20.82%	4	-20.00%	137	88.8%



## Litchfield County, CT

### New Milford

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06776	\$453,200	10.00%	46	-36.11%	130	95.3%

### Roxbury

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06783	\$1,065,400	16.96%	11	57.14%	245	89.0%

### Sharon

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06069	\$782,500	-43.25%	2	-60.00%	210	99.1%

### Warren

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06754	\$255,000	-78.11%	2	-60.00%	124	83.1%
06777	\$350,000	-55.97%	1	0.00%	49	88.6%

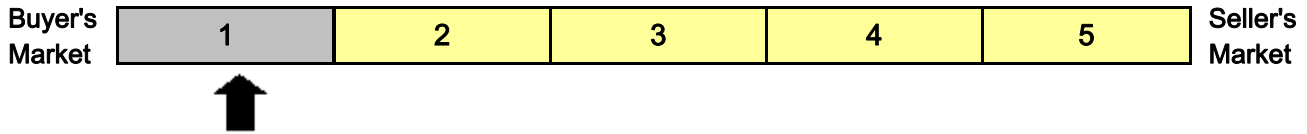
### Washington

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06777	\$817,500	-33.61%	2	-66.67%	274	79.0%
06793	\$1,167,500	62.15%	2	-50.00%	218	88.6%
06794	\$297,000	-77.89%	1	-66.67%	278	97.7%



## New Haven County, CT



### Labor Market :

In the first two months of the fourth quarter, 2,382 jobs were added to the payrolls of New Haven County. As a result of these new jobs, the average monthly unemployment rate fell from 5.1% during the third quarter to 5% for October and November. The strong employment climate may help to create demand for home purchases. Favorable mortgage rates should augment this trend.

### Housing Market :

	Q3' 07	Q4' 07	Q1' 08 (Forecast)
Average Price	\$390,900	\$385,700	↑
# Homes on the Market *	2,026	1,838	↓
# Homes Sold **	270	185	↔
# New Homes Built ***	156	117	↔
Avg # of Days on Market	88	108	↑

\* Available as of Dec. 31, 2007.

\*\* May not add to total of zip codes.

\*\*\* During the first two months of 4th quarter.

### Ansonia

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06401	\$238,100	-8.95%	21	0.00%	79	94.2%

### Beacon Falls

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06403	\$280,700	-5.33%	3	-57.14%	151	91.7%

## New Haven County, CT

### Derby

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06418	\$279,800	16.49%	8	-38.46%	102	98.3%

### Milford

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06460	\$416,500	-1.63%	79	-8.14%	110	95.4%

### Oxford

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06478	\$413,900	-5.91%	26	-18.75%	109	96.2%

### Seymour

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06483	\$306,100	-11.43%	27	-25.00%	102	95.1%

### Southbury

#### Data by Zip Codes

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06488	\$540,600	-2.03%	21	-22.22%	135	96.6%

**Others**

**OTHER**

**Data by Zip Codes**

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06021	\$280,000	-	1	-	2	93.6%
06031	\$801,000	-	2	-	271	90.3%
06032	\$343,000	-	1	-	44	96.6%
06039	\$1,865,000	64.46%	5	66.67%	159	94.2%
06068	\$1,055,000	-	2	-	173	92.1%
06249	\$389,000	-	1	-	4	100.0%
06331	\$293,500	-	1	-	20	98.2%
06405	\$1,162,500	-42.59%	2	0.00%	41	91.9%
06413	\$255,000	-	1	-	69	96.2%
06422	\$580,000	-	1	-	139	93.6%
06437	\$2,637,500	358.86%	2	0.00%	58	98.6%
06443	\$448,000	-	2	-	312	95.9%
06451	\$195,500	-	1	-	63	97.8%
06455	\$515,000	-	1	-	103	90.5%
06461	\$491,900	-	4	-	96	97.5%
06473	\$306,200	-33.25%	3	0.00%	74	95.8%
06477	\$453,000	10.79%	15	-28.57%	97	95.9%
06482	\$522,700	24.63%	27	28.57%	117	96.5%
06492	\$375,000	-	1	-	78	94.9%
06511	\$184,700	8.97%	2	0.00%	56	88.8%
06512	\$140,000	-37.78%	1	0.00%	38	93.4%
06514	\$239,000	-9.02%	1	-83.33%	36	96.0%
06515	\$152,300	-52.17%	3	-40.00%	36	97.3%
06516	\$249,600	-0.12%	25	-16.67%	90	93.4%
06517	\$265,000	82.76%	2	100.00%	151	98.2%
06518	\$210,000	-51.22%	1	-75.00%	120	95.5%
06519	\$113,000	-	1	-	130	95.0%
06524	\$520,700	62.31%	5	-16.67%	98	97.6%
06525	\$442,800	5.60%	6	-14.29%	67	92.6%
06704	\$160,700	49.63%	6	50.00%	74	97.0%
06705	\$154,000	-17.12%	6	20.00%	76	94.5%
06708	\$169,000	-22.65%	6	-57.14%	76	97.6%
06712	\$329,900	-12.03%	1	-50.00%	20	91.7%
06716	\$380,000	-	2	-	69	99.0%

**Others**

**OTHER**

**Data by Zip Codes**

Zip Code	Average Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% Change in # Homes Sold (1 Year)	Average Days on Market	% of Asking Price (Sold/List Price)
06750	\$435,000	-	1	-	89	94.8%
06751	\$332,500	-15.29%	5	150.00%	113	92.8%
06755	\$331,000	2.54%	2	-50.00%	72	97.4%
06756	\$400,500	-50.32%	5	0.00%	173	98.5%
06759	\$515,600	33.02%	8	300.00%	149	93.0%
06762	\$528,500	-9.35%	6	-40.00%	183	94.3%
06763	\$562,500	58.76%	1	-50.00%	111	94.5%
06770	\$254,500	-1.93%	39	-35.00%	110	98.2%
06785	\$277,500	-67.78%	1	-75.00%	237	94.1%
06790	\$352,000	87.73%	2	0.00%	92	97.8%
06791	\$860,000	-	1	-	241	96.1%
06795	\$285,000	-47.65%	1	-50.00%	49	96.6%
06798	\$466,400	-33.04%	10	-37.50%	165	96.4%
06807	\$1,975,000	130.46%	3	0.00%	154	94.3%
06870	\$1,725,000	86.43%	3	0.00%	86	95.2%
06878	\$1,230,000	-9.31%	1	-75.00%	59	95.0%
06890	\$1,197,800	-8.56%	22	340.00%	81	96.3%
OTHER	\$386,400	36.59%	1	-80.00%	339	92.0%

## Jekyll and Hyde...A Market with Two Faces

By Ken Fears  
Manager, Regional Economics

Buyers have been bombarded with horror stories lately. Sales have fallen sharply, foreclosures have risen, inventories are near record levels, and homes are sitting on the market longer. Finally, out right price declines are being reported at the national level and in many local markets. But isn't this a good thing for buyers? Yes, and they are beginning to take note.

For months now the media has been portraying the downside of the transition of this housing market from a sellers' to a buyers market. But for every loser there is a winner and now it is buyers' time to reap the benefits. The recent shake up in the mortgage market has conferred on buyers the last of the important prerequisites for it to truly be a buyers market. Despite what many pundits have argued for a year or more, it has not been a buyers' market. Home sales slowed and days on market rose, but buyers were not buying...and they shouldn't have. Prices were flat or rising in the face of mortgage rates that were climbing. From June of 2005 to July of 2007 the average 30-year fixed, conforming mortgage climbed from 5.6% to 6.7%. This combination pushed affordability down as monthly payments rose beyond what was realistic for most buyers. Consequently, many would-be buyers chose to forgo buying rather than get stuck with risky loans.

But the recent sub-prime fallout pushed already extended sellers to do things that they were hoping not to; to accept appraisals, to fix issues with their property prior to sale, and to make price or financing concessions. The last straw snapped with the virtual elimination of the sub-prime market. During the hay-day of the housing market, buyers could scarcely use FHA loans, which carry average rates of 6.5% versus 9.5% for sub-prime, because FHA mortgages require appraisals, more paper work and took significantly more time. Sellers simply would not entertain bids from bidders with these mortgages in the face of so many other buyers who were willing to find other means of financing that were more appealing for sellers. Now, sellers don't have that luxury and buyers have the upper hand on this and many other parts of the negotiation process.

The winds are blowing with buyers who've been disgruntled and move to the side lines. But soon they will face rising rents and they will be forced to ask them selves whether to continue to rent or to buy. When they re-evaluate this decision, they will find a much more pleasant landscape.

But this opportunity has not been extended to all segments of the buying market. The recent mortgage market melt-down extended the spread between loans that fall under the conforming loan limit of \$417,000 and those that do not. The \$417,000 limit is crucial to investors in mortgage backed securities because it is the maximum value of a mortgage that the GSEs will back. This implicit insurance against default risk is the only thing that has kept funding in the mortgage market at all. Buyers that are using mortgages above this limit, called jumbo loans, face much higher mortgage rates, while conforming rates have slipped. On average, the spread between conforming and jumbo rates rose to 96 basis points (e.g. the difference between 6.0% and 6.96% for example) versus just 23 basis points back in early July of 2007.

Here in the area covered by Consolidated MLS roughly 55.3% of the market falls into the jumbo category, while the rest are conforming. In the fourth quarter of 2007, sales of homes in the jumbo price range fell by 29.9% compared to the same period in 2006. Sales of homes in the conforming category fell by 25.9%. This analysis suggests that, by comparison, the sharp increase in jumbo rates is having a strong effect on properties priced over the conforming limit.

The difference for a buyer on the margin between a conforming loan and a jumbo loan is immense. It is the difference between a door wide open and a door firmly shut. This market can seem dire for those in higher priced markets, but the door is not shut to all. The opportunities for those who can find homes under the conforming loan limit are boundless and buyers' agents should be steering their clients with this in mind. Likewise, seller's agents should take note, that moving their clients to market to this category, via reduced price, forgoing improvements, help with financing or closing costs or any other means to help the buyer afford the down payment that might put them into a conforming loan, is critical. FHA reform has reduced many of the once onerous requirements on these loans, making them more appealing to sellers. Finally, NAR has worked tirelessly to get the conforming loan limit raised by Congress. If this legislation is passed, it will help to restore confidence in a substantial portion of the jumbo market and re-energize the higher-end market.

## Spinning the Wheels

Lawrence Yun, NAR Chief Economist

Though unlikely given abundant pent-up demand, we are faced with the possibility that the housing market could spur a vicious cycle. The market is fragile due to excessive pessimism among potential home buyers. A lack of buyers pushes up inventory. High inventory depresses home prices. Falling home prices raise foreclosures. Higher foreclosures lead to further pessimism among potential buyers. The cycle starts again.

This situation, driven by a lack of buyer confidence, not only impacts homeowners and the housing industry but could easily spread to the broader economy. Any further weakening in the housing market and its related housing wealth impact will likely throw GDP growth into negative territory — by a full two percentage points. That could push the economy into a virtually “no-growth zone” and very close to an economic recession.

Why are buyers hesitant? Obviously each household makes its own decision as to whether or not it’s time to purchase a home. But there are several major factors that may be holding buyers back.

**Anticipated lower home prices** are holding back many people from buying a home now. Foreclosures will continue to rise in 2008. Rising foreclosures also push prices downward. In addition, the psychological effect of rising foreclosures affect people’s outlook on housing.

**Anticipated lower interest rates** are also restraining potential buyers. It is widely believed that the Federal Reserve will be cutting interest rates in the next two meetings of the Federal Open Market Committee. While there is no direct relationship between a Fed rate cut and mortgage rate changes, many consumers perceive that mortgage rates will fall with the later cuts. I should note here that NAR advocates a one-time large rate cut rather than a series of small rate cuts in order to end the delay in home buying.

**Subprime lending has virtually disappeared** since August, 2007. It had comprised about 20% of mortgage originations. While some subprime lending will return, it will do so with improved underwriting standards, a stricter and sounder regulatory environment, and with proper pricing of risk. But the timing of its return remains very uncertain. A recent pick-up in FHA loan endorsement is very encouraging in bringing some would be subprime borrowers into loans with much safer interest rates and in helping some homeowners refinance out of the riskier subprime loans.

**The jumbo mortgage market is not functioning.** Current conforming mortgages average about 6%. Based on historical trends, rates on jumbo loans would be about 6.2% or 6.3%. Rather, the rates are closer to 7% due to the investor fear of anything U.S. mortgage that does not have a (perceived) backing of the U.S. government. Any rational home buyer will balk at such a higher interest rate.

How to stop this vicious cycle? Any boost to buyer confidence will have a significant impact in reviving the housing market and in lifting the economy. As I mentioned briefly last month in this column, one policy measure that can lift buyer confidence is raising the GSE (Fannie Mae, Freddie Mac) loan limits. A simple lifting of the loan limit from its current \$417,000 to \$625,000 would enable more households to enter the housing market using a conventional mortgage. The direct higher sales would likely induce other hesitant buyers into the marketplace. More home sales will lower inventory and thus strengthen home prices. Any strengthening in home prices could possibly have the biggest impact in lowering foreclosures.

What does that mean in “real life?” We estimate raising the GSE loan limit to \$625,000 will result in:

- 348,000 additional home sales
- \$44 billion in increased economic activity
- \$274 to \$411 per month savings in interest payments for consumers who get new “GSE jumbo” loans versus current private jumbo loans
- potentially 500,000 refinancings of jumbo loans at lower interest rates
- a reduction in the national months’ supply of homes on the market by one month
- strengthen home prices by two to three percentage points
- a reduction in the number of foreclosures by 140,000 to 210,000

All this will help improve our economy. Each home sale contributes to GDP. In 2001, a typical first-time home buyer spent \$3,500 on furniture, carpet, painting, faucets, and other items after purchasing a home. Trade-up buyers spent \$5,000. Obviously those amounts would be greater today – conservatively, I’d say the average would be \$4,500.

There is also income generated by real estate services (moving companies, mortgage lending, inspection, appraisers, etc.), estimated to be about 9% of the home sale price. A \$417,000 home sale generates \$37,500 in direct economic activity. There is also the multiplier effect. The home inspector who earned a fee on that home sale goes out to dinner at a restaurant. The owner of that restaurant buys a plasma screen TV. The TV salesperson takes his/her sales commission and takes a vacation. The vacation resort hires additional workers. Those workers will buy a home ...

It’s another cycle – but not a vicious one.

## The Forecast

By Lawrence Yun, *Senior Vice President, Chief Economist*

The weakness in the U.S. economy in the fourth quarter of 2007 was affirmed by very soft job figures for December. Only 18,000 net new payroll jobs were added during the month compared to 119,000 monthly job gains for the rest of 2007 and 189,000 (monthly) in 2006. The unemployment rate rose to 5.0%, its highest level in two years, after having treaded at around 4.5% in the first half of 2007.

Current housing market conditions remain weak. The national existing home sales have been right at or near 5 million for the past three months, possibly hinting at stabilization and a formation of a bottom. But the current annualized sales pace would only match the 1998 annual figures (10 years ago) and are down 20% from a year ago and down 30% from the peak year of 2005. The current level of activity is far below that of even the pre-boom year of 2001.

New home construction and new home sales have contracted even more. Recent new single-family housing starts have been in the range of 800,000 to 900,000 and new home sales have fallen well below 700,000. Those figures are down by roughly 50% from their respective peak annual figures in 2005. Though the cutbacks are hampering the economy, they have brought down housing inventory. Housing supply is one of those figures that is usually not in the headlines, but new home inventory has been trending down for more than a year. There were 570,000 new homes for sale in the summer of 2007. There were 509,000 at end of November.

The near-term forecast continues to point toward weak conditions. NAR's pending home sales index remains soft, though it has been essentially flat for the past four months. Will housing demand return solidly by spring of 2008 -- even after we account for the normal higher sales activity in the spring months? It is a bit uncertain. On the one hand we have a sizable pent-up demand from 4 million job gains in the past two years. On the other hand, we have buyers waiting it out, hoping for lower home prices and lower interest rates. Because of this push and pull on the consumer psyche the forecast has become more uncertain. Improved financial capacity and improved housing affordability will be enticing for some consumers. Yet, other consumers will continue to wait out to see the bottom in housing before making the move.

As to the Consolidated MLS region, home sales fell 4.2% in 2007 even though the region added 11,500 jobs in the past 24 months. With the stimulative packages of tax cuts and lower interest rates underway, the economy will avoid recession. The higher loan limit on FHA and GSE loans will further permit more people to access low interest rate loans. It is possible there could be a quick turnaround to the housing market. A market timing strategy nearly always brings regrets -- bought too early or bought too late. But people who are purchasing for a non-flipping reason of five or more years can be nearly guaranteed that they will come out ahead. But, no one should over-extend herself to become a homeowner. It is in no one's interest to see rising and then falling homeownership rate. It is SUSTAINABLE homeownership that benefits all.

## Economic and Housing Market Outlook: February 2008

	Quarterly									2007	2008	2009	
	2007.2	2007.3	2007.4	2008.1	2008.2	2008.3	2008.4	2009.1	2009.2				2009.3
<b>U.S. Economy</b>													
<i>Annual Growth Rate</i>													
Real GDP	3.8	4.9	0.6	1.2	2.2	2.7	2.9	2.9	2.5	2.8	2.2	2.2	2.7
Nonfarm Payroll Employment	0.9	0.8	0.8	0.0	0.5	1.0	1.2	1.3	1.4	1.5	1.1	0.6	1.4
Consumer Prices	6.0	1.9	4.3	2.4	2.2	1.3	1.5	1.4	1.3	1.3	2.9	2.7	1.4
Real Disposable Income	-0.8	4.5	0.3	1.0	2.0	2.8	3.1	4.7	3.4	3.3	3.1	1.7	3.5
Consumer Confidence	110	107	106	91	87	85	85	86	90	92	103	87	92
<i>Percent</i>													
Unemployment Rate	4.5	4.7	4.8	5.1	5.2	5.4	5.4	5.3	5.2	5.1	4.6	5.3	5.2
<i>Interest Rates, Percent</i>													
Fed Funds Rate	5.3	5.1	4.5	3.2	3.0	3.0	3.0	3.3	3.5	3.8	5.0	3.0	3.6
3-Month T-Bill Rate	4.7	4.3	3.4	2.7	2.7	2.8	2.9	3.2	3.4	3.6	4.4	2.8	3.5
Prime Rate	8.3	8.2	7.5	6.2	6.0	6.0	6.0	6.3	6.5	6.8	8.1	6.0	6.6
Corporate Aaa Bond Yield	5.6	5.8	5.5	5.1	5.2	5.3	5.4	5.5	5.6	5.7	5.6	5.2	5.7
10-Year Government Bond	4.8	4.7	4.3	3.7	3.8	4.0	4.2	4.3	4.4	4.5	4.6	3.9	4.5
30-Year Government Bond	5.0	4.9	4.6	4.0	4.2	4.3	4.5	4.6	4.7	4.8	4.8	4.3	4.8
<i>Mortgage Rates, percent</i>													
30-Year Fixed Rate	6.3	6.6	6.2	5.6	5.6	5.8	5.9	6.1	6.2	6.3	6.3	5.7	6.3
1-Year Adjustable	5.5	5.7	5.6	5.1	4.9	4.8	4.7	4.8	4.9	5.0	5.5	4.9	5.0
<b>National Housing Indicators</b>													
<i>Thousands</i>													
Existing Single-Family Sales	5,917	5,420	4,957	4,912	4,982	5,637	5,884	5,845	5,530	5,411	5,652	5,380	5,595
New Single-Family Sales	855	730	654	641	633	633	643	678	675	703	774	637	685
Housing Starts	1,464	1,300	1,151	1,111	1,085	1,075	1,056	1,056	1,051	1,073	1,354	1,082	1,068
Single-Family Units	1,166	990	830	791	781	773	752	737	726	748	1,046	774	742
Multifamily Units	299	310	321	320	304	302	305	319	325	326	308	307	326
Residential Construction*	491	463	433	406	395	392	389	387	385	388	473	396	388
<i>Percent Change -- Year Ago</i>													
Existing Single-Family Sales	-10.7	-13.8	-20.9	-23.5	-15.8	4.0	18.7	19.0	11.0	-4.0	-12.8	-4.8	4.0
New Single-Family Sales	-21.3	-26.6	-33.7	-24.9	-26.0	-13.3	-1.7	5.8	6.8	11.1	-26.4	-17.7	7.6
Housing Starts	-21.3	-23.7	-26.0	-23.9	-25.9	-17.3	-8.2	-4.9	-3.1	-0.2	-24.8	-20.1	-1.3
Single-Family Units	-23.3	-28.9	-32.6	-32.5	-33.0	-21.9	-9.5	-6.8	-7.0	-3.3	-28.6	-26.0	-4.2
Multifamily Units	-12.4	-0.3	-0.7	10.8	1.7	-2.7	-5.0	-0.1	6.9	8.0	-8.3	-0.2	6.0
Residential Construction	-16.5	-16.5	-18.3	-19.8	-19.4	-15.4	-10.0	-4.8	-2.5	-1.1	-16.9	-16.4	-1.9
<b>National Home Prices</b>													
<i>Thousands of Dollars</i>													
Existing Home Prices	223.9	221.2	208.0	200.9	214.9	228.7	216.1	207.8	223.1	237.2	218.9	216.3	223.2
New Home Prices	241.0	241.0	231.6	235.7	231.1	242.0	236.2	241.1	240.4	253.1	246.9	236.3	248.2
<i>Percent Change -- Year Ago</i>													
Existing Home Prices	-1.3	-1.7	-5.2	-6.1	-4.0	3.4	3.9	3.4	3.8	3.7	-1.4	-1.2	3.2
New Home Prices	-2.1	2.0	-5.5	-7.9	-4.1	0.4	2.0	2.3	4.0	4.6	0.2	-4.3	5.0
<b>Local Region</b>													
Payroll Jobs (in thousands)	424.8	423.2	427.3	417.8	429.5	428.7	432.9	423.7	435.9	435.1	420.6	427.2	432.9
Home Sales	2916	2810	1776	1491	2508	2866	1872	1567	2598	2961	9448	8737	9059
Home Prices (in thousand \$)	744.5	735.3	685.9	695.1	755.7	746.3	701.7	716.0	779.9	771.7	717.1	730.7	758.1
<i>Percent Change -- Year Ago</i>													
Jobs	1.4%	1.6%	1.4%	1.0%	1.1%	1.3%	1.3%	1.4%	1.5%	1.5%	1.0%	1.6%	1.3%
Home Sales	3.4%	-1.9%	-21.7%	-23.4%	-14.0%	2.0%	5.4%	5.1%	3.6%	3.3%	-4.2%	-7.5%	3.7%
Home Prices	11.2%	10.6%	13.3%	2.5%	1.5%	1.5%	2.3%	3.0%	3.2%	3.4%	10.1%	1.9%	3.8%

Quarterly figures are seasonally adjusted annual rates.

\* Billion dollars

Source: Forecast produced using Macroeconomic Advisers quarterly model of the U.S. economy.

Assumptions and simulations by Dr. Lawrence Yun.

This table reflects data available through January 18, 2008.

Monthly Indicator	Recent Statistics	Likely Direction Over the Next Six Months	Forecast
<p><b>Existing Home Sales</b> registered 5.0 million seasonally adjusted annualized units in November – a slight 0.4% increase from October’s pace but 20.0% lower than the pace in November of 2006. The median price of an existing single-family home was \$210,200 – the first monthly price increase since June. The inventory of existing homes available for sale eased to a 10.3 month supply.</p>	Nov 07 5,000 Oct 07 4,980 Nov 06 6,250	↔	Even sales over the near term and then beginning to rise measurably
<p><b>New Home Sales</b> declined 9% in November to a seasonally adjusted annual rate of 647,000. The pace was 34.4% off that of November of 2006 and the lowest level since the mid-1990s. The inventory of new homes available for sale at the end of November was at a 9.3 months supply. The good news is that inventory is likely past its peak, and most of the measurable declines in sales have already occurred.</p>	Nov 07 647 Oct 07 711 Nov 06 987	↓	Most of the big declines already taken place, but there could be few more rounds of modest declines
<p><b>Housing Starts</b> posted a seasonally adjusted annual rate of 1.19 million units – 3.7% off October’s level and 24.2% below that of November 2006. Looking even further back, the latest data represents a 48% decline from the pace in January 2006. Housing permits, generally a reliable future indicator housing starts, fell 1.5% to 1.15 million. Declines are needed due to high inventory. More cutbacks are encouraged to better help stabilize the housing market.</p>	Nov 07 1,187 Oct 07 1,232 Nov 06 1,565	↓	New home inventory has been falling but more is required
<p><b>Housing Affordability</b> dipped ever so slightly in November. NAR’s Housing Affordability Index stood at 119.3 for the month, off from October’s revised reading of 119.4. The lower average 30-year mortgage rate was offset by an increase in the median price of an existing single-family home. Even so, affordability conditions are better compared to a year ago, when the index was 110.7.</p>	Nov 07 119.3 Oct 07 119.4 Nov 06 110.7	↑	Rising wages and low interest rates push up affordability
<p><b>Mortgage Rates</b> The 30-year fixed mortgage rate trended lower in December to an average of 6.10%. That is the lowest rate since the peak of the housing boom in October 2005. Low mortgage rates are being influenced by continuous rate cuts by the Federal Reserve. Still, Wall Street is expecting further rate cuts early this year to curb a growing fear of recession.</p>	Dec 07 6.10% Nov 07 6.21% Dec 06 6.14%	↔	Interest rates will remain at near historic lows through the first half of 2008
<p><b>Employment</b> Job creation was very weak in December, with 18,000 net new jobs added to the economy. About 150,000 new jobs would be considered healthy. The good news: November’s employment figure was revised upward to 115,000 and over the past 12 months 1.3 million jobs have been created. The unemployment rate ticked up to 5%, but is still near historic lows.</p>	Dec 07 18 Nov 07 110 12-month total 1.3 million	↔	Job gains, though modest, will continue — sustained net job cuts are unlikely
<p><b>Economic Growth</b> Real gross domestic product – GDP – grew 4.9% in the third quarter of 2007. This is the third and final “estimate” of GDP growth based on more complete data. Growth in exports, personal consumption expenditures (PCE), private inventory investment, non-residential structures, federal government spending, equipment and software, and state and local government spending helped offset negative growth in residential fixed investment.</p>	2007:III 4.9% 2007:II 3.8% 2006:III 1.1%	↔	Very slow growth in the first half of 2008 but no economic recession

Notes: All rate are seasonally adjusted. New home sales, existing home sales, and housing starts are shown in thousands. Employment growth is shown as month-to-month change in thousands. Inflation is shown as the month-to-month change in the Consumer Price Index. Sources: NAR, Bureau of the Census, Bureau of Labor Statistics, Freddie Mac, and the Mortgage Bankers Association