

Realtors® Get Good Marks

By Lawrence Yun

Most consumers like REALTORS®. So says a report from the Consumer Federation of America (CFA). More than two-thirds – 68 percent – of consumers surveyed viewed real estate brokers and agents favorably. The favorable rating is even higher among those consumers who had *recently* used a professional real estate service (79%). To top that, the favorable rating skyrockets to 84 percent when it comes to a consumer’s *own personal* agent and broker.

Those findings are consistent with data that we have been collecting in-house at NAR through our customer tracker survey – a web-based survey that agents send to their clients immediately following closing. The survey questionnaire includes many questions that remind clients about specific services that were provided to them during their recent real estate transaction such as local market analysis, price negotiation, and explanations of closing costs. On a zero-to-10 (terrible-to-outstanding) scale, these *very recent* clients gave their agent’s service an average score of 9.3. With the memory of purchasing or selling a property fresh in their mind, clients were exceptionally appreciative of the services provided by their REALTORS®.

Despite this evidence, there are still many pundits and those in the media who think *they* know what is best for consumers. They continue to shout about real estate commissions. Hmm. Services provided by lawyers, accountants, doctors, and hedge fund managers are not cheap either. (After all, real estate commissions are negotiable.) But as with legal, tax, medical or investment advice consumers are making a calculated decision to take advantage of the experience, knowledge and expertise of real estate professionals. It is consumer’s choice!

People always have had the option of not paying any real estate commission – by simply selling their home via a For-Sale-By-Owner (FSBO) transaction. But year after year the majority of sellers have chosen to work with a professional. The FSBO share of home sales has been running at around the 15 percent mark – plus or minus a few points. In other words, 85 percent of consumers want and choose to work with a REALTOR. This is not surprising considering that FSBO homes generally sell for less than those homes brokered by agents. Yes, there are some cases where a FSBO seller did come out ahead — good for them. These people evidently believe that the long hours worked in putting together marketing brochures, signs, answering calls, writing the contracts and a myriad of other steps that go into home selling is worth it. When I got my first car, I changed oil with my own hands to save few bucks. Now, my time is too important to do that on my own.

Similarly, consumers have spoken loud and clear regarding real estate transactions. They want hassle-free professional representation. That is, again, consumer’s choice. Let consumers vote with their feet and pocketbooks. Let the academics, self-anointed experts, and television network correspondents keep scratching their heads as to why consumers are making the “wrong” choice.

The Forecast

By Lawrence Yun, *Vice President, NAR Research*

You've seen and heard the news: home mortgage delinquencies and foreclosures are on the rise – in some areas to record levels. And while I wish I could assure you that the bad news is over, mortgage delinquencies and foreclosures are likely to continue well into 2008. That is almost guaranteed, given anticipated interest-rate resets on subprime adjustable loans. Those overly aggressive -- and even reckless -- lenders who completely mispriced risk deservedly need to be weaned out of the market. There is no such thing as high-yielding easy money. There is no such thing as a free lunch. High yields always come with dicey RISK!

When will the housing market get back on its feet? Imminently! There is a large pent-up demand accumulating that will be unleashed in a short matter of time – our best estimate is early 2008. Consider this year's conditions versus that in 2005, the peak housing year. Home sales have already fallen by 1.5 million since 2005. Even if all the 1.4 million subprime mortgage originations were to disappear -- which no one expects -- then the bottom has already been reached in terms of any impact from tightening credit standards. In reality the level of subprime lending activity could be reduced by half at most, implying that the declines in home sales have been far greater than any tightening of lending availability. The additional decline in home sales can be attributed to other factors outside of the subprime loan disruptions. Is it jobs? A resounding NO. Is it due to lack of income and wealth? Another resounding NO. Is it due to higher home prices? NO. Is it due to higher mortgage rates? Surely some impact, but the rates are only modestly higher. What's the explanation then?

The primary reason seems to be a lack of confidence. Constant reminders in the media of how “bad” the housing sector is has eaten into buyer confidence. However, that decision to put off buying a home comes with an “opportunity cost”. Apartment vacancy rates have been declining and rents have been rising by 4.5 percent in the second quarter of 2007, the highest increase in five years. People have also been doubling-up by having additional roommates or moving back “home” with parents, as evidenced by a drastic slowing in household formation. Familiarity will inevitably breed contempt in close living quarters. It is only a matter of time before people begin to form their own households.

	2005	2007	Difference
Total Home Sales	8.4 million	6.9 million	1.5 million fewer
Subprime Loans	1.4 million (est.)	700,000 (est.)	700,000 fewer
Jobs	133.7 million	138.0 million	4.3 million more
Wage and Salary Disbursement	\$5.7 trillion	\$6.4 trillion	\$700 billion more
Household Wealth	\$52 trillion	\$57 trillion	\$5 trillion more
Home Price	\$219,600	\$219,300	No notable change
Mortgage Rates	5.9%	6.5%	Modestly higher

Locally, home sales are forecasted to fall 19% in 2007 and then make a modest rise of 1.5% in 2008. Home prices will be flat in 2007 and then increase 1% in 2008. With all the subprime problems out of the way by 2009, the momentum will inevitably strengthen further.

Economic and Housing Market Outlook: August 2007

	Quarterly										2006	2007	2008
	2006.3	2006.4	2007.1	2007.2	2007.3	2007.4	2008.1	2008.2	2008.3	2008.4			
U.S. Economy													
<i>Annual Growth Rate</i>													
Real GDP	1.1	2.1	0.6	3.4	2.3	2.5	2.8	2.8	3.0	3.0	2.9	1.9	2.8
Nonfarm Payroll Employment	1.6	1.5	1.5	1.3	1.2	1.3	1.3	1.2	1.4	1.7	1.9	1.4	1.3
Consumer Prices	3.1	-2.1	3.8	6.0	1.9	1.2	2.1	2.2	2.1	2.0	3.2	2.7	2.2
Real Disposable Income	1.7	6.2	5.9	-0.8	2.5	1.9	3.1	2.4	2.8	2.8	3.1	3.1	2.4
Consumer Confidence	104	107	110	109	109	108	107	108	109	110	106	109	109
<i>Percent</i>													
Unemployment Rate	4.7	4.5	4.5	4.5	4.6	4.7	4.8	4.8	4.8	4.8	4.6	4.6	4.8
<i>Interest Rates, Percent</i>													
Fed Funds Rate	5.3	5.2	5.3	5.3	5.3	5.3	5.0	4.8	4.8	4.8	5.0	5.3	4.9
3-Month T-Bill Rate	4.9	4.9	5.0	4.7	5.0	4.9	4.7	4.5	4.5	4.5	4.7	4.9	4.6
Prime Rate	8.3	8.3	8.3	8.3	8.3	8.3	8.0	7.8	7.8	7.8	8.0	8.3	7.9
Corporate Aaa Bond Yield	5.7	5.4	5.4	5.6	5.7	5.8	5.7	5.7	5.8	5.8	5.6	5.6	5.8
10-Year Government Bond	4.9	4.6	4.7	4.8	4.9	5.0	4.9	4.9	4.9	4.9	4.8	4.9	4.9
30-Year Government Bond	5.0	4.7	4.8	5.0	5.1	5.1	5.0	5.0	5.0	5.0	4.9	5.0	5.0
<i>Mortgage Rates, percent</i>													
30-Year Fixed Rate	6.6	6.3	6.2	6.3	6.6	6.7	6.6	6.5	6.5	6.5	6.4	6.5	6.5
1-Year Adjustable	5.7	5.5	5.5	5.5	5.6	5.5	5.3	5.1	5.1	5.1	5.5	5.5	5.2
National Housing Indicators													
<i>Thousands</i>													
Existing Single-Family Sales	6,287	6,263	6,423	5,913	5,853	6,081	6,275	6,351	6,398	6,483	6,478	6,039	6,376
New Single-Family Sales	994	986	853	880	842	831	836	839	855	862	1,051	852	848
Housing Starts	1,704	1,555	1,460	1,462	1,403	1,400	1,397	1,395	1,403	1,415	1,801	1,431	1,402
Single-Family Units	1,393	1,232	1,172	1,166	1,094	1,080	1,071	1,062	1,069	1,078	1,465	1,128	1,070
Multifamily Units	311	323	288	296	310	320	325	333	334	338	336	303	333
Residential Construction*	555	529	506	494	493	486	484	484	486	490	570	495	486
<i>Percent Change -- Year Ago</i>													
Existing Single-Family Sales	-12.4	-10.1	-6.4	-10.8	-6.9	-2.9	-2.3	7.4	9.3	6.6	-8.5	-6.8	5.6
New Single-Family Sales	-23.3	-21.9	-24.6	-19.0	-15.3	-15.7	-2.0	-4.7	1.5	3.7	-18.1	-19.0	-0.5
Housing Starts	-18.8	-24.8	-31.4	-21.5	-17.7	-10.0	-4.4	-4.6	0.0	1.1	-12.9	-20.5	-2.0
Single-Family Units	-20.2	-28.6	-33.1	-23.3	-21.5	-12.3	-8.6	-9.0	-2.3	-0.2	-14.6	-23.0	-5.1
Multifamily Units	-11.9	-5.9	-23.3	-13.3	-0.5	-0.9	12.9	12.7	7.8	5.5	-4.5	-9.7	9.6
Residential Construction	-8.5	-12.8	-16.5	-15.9	-11.1	-8.2	-4.4	-2.0	-1.4	0.9	-4.6	-13.1	-1.8
National Home Prices													
<i>Thousands of Dollars</i>													
Existing Home Prices	225.0	219.3	214.0	224.2	220.1	217.1	215.3	227.1	225.4	224.7	221.9	219.3	223.6
New Home Prices	236.2	245.1	255.9	239.7	229.9	239.9	248.2	245.5	243.2	248.8	246.5	240.8	246.3
<i>Percent Change -- Year Ago</i>													
Existing Home Prices	-1.1	-2.7	-1.4	-1.1	-2.2	-1.0	0.6	1.3	2.4	3.5	1.0	-1.2	2.0
New Home Prices	-0.1	2.1	4.5	-2.6	-2.7	-2.1	-3.0	2.4	5.8	3.7	2.3	-2.3	2.3
Local Region													
<i>Thousands</i>													
Payroll Jobs (in thousands)	1890.4	1946.9	1944.6	1953.8	1952.8	2003.4	2002.9	2016.3	2015.3	2069.5	1894.6	1963.6	2026.0
Home Sales	17732	16144	15141	16660	14061	13835	14672	16860	14596	14444	73805	59698	60572
Home Prices (in thousand \$)	329.5	333.8	342.2	345.2	327.9	330.8	343.2	349.3	333.4	337.4	335.3	337.0	341.2
<i>Percent Change -- Year Ago</i>													
Jobs	5.7%	5.5%	4.7%	3.7%	3.3%	2.9%	3.0%	3.2%	3.2%	3.3%	6.0%	3.6%	3.2%
Home Sales	-37.7%	-25.8%	-18.3%	-22.1%	-20.7%	-14.3%	-3.1%	1.2%	3.8%	4.4%	-28.8%	-19.1%	1.5%
Home Prices	4.4%	3.0%	2.3%	1.0%	-0.5%	-0.9%	0.3%	1.2%	1.7%	2.0%	11.7%	0.5%	1.2%

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.

