Remember 'normal'?

Housing market shows signs of stabilizing in 2007, forecasters say.

By Diane Wedner
Times Staff Writer

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Segments of last year's real estate market resembled thrill rides at Magic Mountain: Scream, Freefall and Psyclone. Translation: "bubble" fears, tumbling home sales and weaker price gains.

And this year's? Expect Merrie Melodie's Carousel — no thrills, no spills — economists and industry watchers say. That's not necessarily a bad thing, they add, after last year's wild ride. Barring big hikes in mortgage interest rates, which are not expected, or an even bigger glut of resale homes, the market will pretty much stay the current course.

"The first two or three quarters of this year will be the tail end of the ugliness," said Ryan Ratcliff, an economist at UCLA Anderson Forecast. "Things will pick up before the end of 2007."

In other words, the market is returning to "normal," a state in which sales and prices are in the "middle of the grid historically," said John Karevoll, chief analyst at the La Jolla-based research firm DataQuick Information Systems. That means single-digit price appreciation and a dip — then leveling off — of the sales count. By spring, "the market will be more in balance between buyers and sellers."

For real estate enthusiasts eager to peer into the crystal ball, here are predictions by a handful of Southern California's top economists and real estate experts about prices, sales, inventory, interest rates, realty hot spots and builders' prospects for the 2007 market:

Prices: Last year home appreciation slowed down. The median price of all new and existing single-family homes and condos in the Southland increased only 5.7% from the previous year, compared with the 16.8% gain of 2005, according to DataQuick. The upside for 2007 is that prices overall should hold that current level of growth through the end of the year, Karevoll said. The median price of a home in Southern California in December was $495,000, up 3.3% from the year before. The median price in Los Angeles County was $522,000, a record.

Less optimistic than most of his colleagues, Michael Carney, an economist with the Real Estate Research Council at Cal Poly Pomona, predicts that 2007 prices will fall about 5% from last year, as buyers continue to wait on the sidelines for prices to level off.

Sales: Leslie Appleton-Young, chief economist for the California Assn. of Realtors, predicts a 7% drop in sales this year compared with 2006, a much better prospect than last year's 23% dive from 2005's sales count.

The number of unsold homes on the market has diminished since summer, Appleton-Young said, possibly prompting previously unmotivated sellers to jump in this year. The market still has to absorb some of the homes for sale left over from 2006 before the sales count levels off, but "we're close."

The good sales news for 2007 is that "the worst is over," she added.

Inventory: This is the market's wild card, said Delores Conway, director of the Casden Real Estate

Economics Forecast at USC. For now, many sellers are choosing not to compete with builders of new homes, who are lowering prices and offering concessions. So they're waiting to list their homes.

Conway expects the number of resale homes on the market to go up this spring, which it typically does. The unknown is how much. If it's a lot, that could force prices downward.

"We will see a surge of inventory only if something negative happens to the job market," she said.

Financing: Interest rates should remain close to their present levels, about 6% for 30-year fixed mortgages, said Rich Gale, a California Mortgage Bankers Assn. board member and division president of Provident Bank in Riverside. If the economy slows and the Fed lowers short-term rates in response, which Gale and some economists say could happen by midyear, mortgage interest rates would tick down slightly.

The number of loans for home purchases — not refis — is "way down" from the recent years' real estate markets and probably will remain so this year, Gale said. Refinancings, however, are expected to climb in 2007, as borrowers with adjustable-rate mortgages and option ARMs convert to fixed-rate mortgages. Currently, refis make up 49.9% of the mortgage business nationwide, according to the Mortgage Bankers Assn.; at the peak in 2003, they made up 76.7%.

Popular loans in 2007, in addition to 30-year fixed mortgages, will be the so-called hybrid five-year loans, Gale said. They have fixed rates for the first five years, then change to adjustable rates thereafter.

"We're in a fragile market," Gale said. "We're watching the market's direction in the next three to six months. A lot depends on what the Fed does then."

Realty hot spots: Buyers seeking more affordable housing — without long commutes from outlying areas — should consider towns that are not necessarily trendy, but have good schools and public safety, said Jack Kyser, chief economist of the L.A. Economic Development Corp.

La Mirada, Whittier and Downey are good bets. South Los Angeles still is a good place for entry-level buyers seeking lower prices, and San Dimas got Kyser's two thumbs-up for location (on a hill) and quality of life. The South Bay cities and Westside still are hot, but pricey.

New construction: By the end of the first quarter of this year, new-home builders will see a return to a more typical market, according to the California Building Industry Assn. So now — while unsold homes still are more abundant — is the best time to get a good deal.

Housing production in the state is expected to dip a bit lower than last year's, falling to a range of 155,000 to 170,000 permits issued for all types of units, a solid count for a "normal market," said Alan Nevin, the association's chief economist.

At the peak, in 2004, 212,960 permits were issued. Construction will be especially slow in the first quarter as builders sell off last year's leftover inventory. It should pick up during the last half of the year.

Builders will not be focused on affordable, entry-level homes, which are less profitable for them. There also will be a slowdown in high-rise, urban building, according to the association, until lenders and developers regain confidence in the market.