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# Pain Street USA: '08 housing outlook

**The forecast is for a longer, deeper home-price slump than previously expected, with double-digit declines in many markets.**

**By Les Christie, CNNMoney.com staff writer**
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NEW YORK (CNNMoney.com) -- The United States is deep in its worst housing slump since the Great Depression, and according to a new report, it's not going to get better any time soon.

In a new survey, Moody's Economy.com says many metro areas will record losses of 20 percent or more during the downturn, with the national median price for single-family homes dropping 13 percent through early 2009. Factoring in discount offers from sellers, the actual price decline would be well over 15 percent.

Eighty of the 381 metro areas covered by the report will record double-digit losses, according to the report. Most of the worst-hit markets are in once high-flying areas, such as California and Florida.

The steep losses were bound to arrive sometime. Throughout the housing slump, which began in the summer of 2006, experts kept expecting prices to tumble, but it wasn't until recently that they dropped substantially, according to Mark Zandi, chief economist for Moody's Economy.com.

"There has been a sea change in seller psychology since the subprime shock this summer," he said. "Sellers now realize they have to drop their prices to make a sale and prices are coming down very rapidly in some markets."

One such place is Punta Gorda, Fla. In Moody's outlook, prices there will undergo the steepest correction of any U.S. market. From their peak during the first three months of 2006, to their bottom, forecast for the second quarter of 2009, prices will decline 35.3 percent. That's in nominal dollars; adjusted for inflation, the loss will be even greater.

Other metro areas expected to go through crushing price drops include: Stockton, Calif., where prices are forecast to drop 31.6 percent, Modesto, Calif. (-31.3 percent), Fort Walton Beach, Fla. (-30.4 percent) and Naples, Fla. (-29.6 percent).

The worst hit market outside the Sun Belt is expected to be Ocean City, N.J. where prices will fall 24.9 percent, according to Moody's. Prices in St. George, Utah (-21.8 percent), Grand Junction, Colo. (-18.9 percent) and Atlantic City, N.J. (-18.6 percent) will also suffer. In the Washington, D.C. metro area, Moody's forecasts a decline of 18.4 percent.

Home prices are being pulled down by an even more severe decline in home sales, which Moody's expects to bottom out in early 2008, when unit sales will be down more than 40 percent from their peak.

Home builders continued to add to inventory even as the slump got well under way, contributing to what is

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**Top 10 worst hit markets**

Where the home price slump will be most severe.

| Metro area | State | Peak to bottom loss | Peak quarter | Bottom quarter |
|---|---|---|---|---|
| Punta Gorda | FL | -35.3 | 1Q '06 | 2Q '09 |
| Stockton | CA | -31.6 | 1Q '06 | 2Q '09 |
| Modesto | CA | -31.3 | 1Q '06 | 1Q '09 |
| Fort Walton Beach | FL | -30.4 | 4Q '05 | 3Q '09 |
| Naples-Marco Island | FL | -29.6 | 1Q '06 | 2Q '09 |
| Merced | CA | -29.1 | 1Q '06 | 2Q '09 |
| Sarasota | FL | -27.4 | 1Q '06 | 2Q '09 |
| Reno-Sparks | NV | -27.2 | 1Q '06 | 3Q '09 |
| Miami | FL | -26.7 | 4Q '06 | 4Q '09 |
| Carson City | NV | -26.1 | 1Q '06 | 3Q '09 |

Source:Moody's Economy.com

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now an 11-month back-log of homes for sale, according to the National Association of Realtors.

Many of these homes are sitting completely empty: The Census Bureau reported a total of 2.1 million vacant homes for sale. Vacant homes add pressure on prices because owners of these houses are usually more willing to slash prices to move the properties. They cost out-of-pocket cash each month while providing neither income nor shelter.

Even though home construction has now contracted severely - the Census Bureau reported Tuesday that new housing starts were down to an annualized rate of 1.187 million units in November, the lowest in 16 years - it will take time to work through the excess inventory.

The housing slump will have a substantial impact on the overall economy, according to Moody's, which says it will depress real gross domestic product by more than a percentage point this year and by 1.5 percentage points in 2008.

Speculative investment in the mid-2000s helped fuel the current slump. Zandi pointed out that 16 percent of mortgage originations during 2005 were for non-owner-occupied housing, twice the number of a few years earlier.

"And that's a very conservative estimate of investor demand," he said. "Many home buyers lied on their mortgage applications." That's because interest rates are lower for owner/occupied dwellings.

Buying for investment was especially prevalent in many resort areas, such as Ocean City, N.J. Many buyers were betting they could hold onto the property for a short time and sell it for a quick profit, a difficult feat to finesse, considering the high transactional costs. Many speculators came late to the party and got caught in the slump. Now their properties are adding to mountainous inventories.

Another factor was excessive new home construction, especially in once hot markets. As prices skyrocketed, builders rushed to take advantage of the increases, contributing to the now high inventories.

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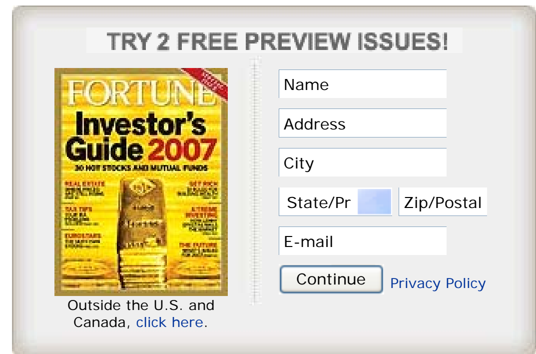

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Also adding homes to markets was the increase in foreclosure filings. When lenders take back properties, they put them back on the markets. Foreclosures have just about doubled this year.

For the slump to end, much of the excess inventory will have to be worked through. Zandi doesn't envision that happening much before 2010, which he forecasts to be a very modest recovery year with low, single-digit growth. ■

November foreclosures take a dip

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