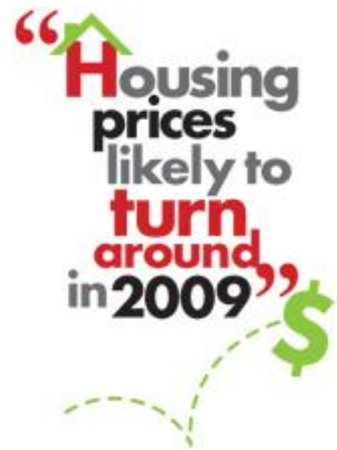
Housing Prices Likely to Turn Around in 2009, Survey Finds

**by Charles North, Ph.D., Chris Pullig, Ph.D.,
Laura Indergard, M.B.A., Jacqueline Simpson, M.B.A. Candidate**

Housing prices are likely to stop falling by the end of 2009, say nearly three-fourths of economists in a recent survey. In addition, life-cycle issues, such as needing a home, should determine when people buy homes, not investment considerations.

The online survey, conducted in July 2008 by researchers from the Keller Center at Baylor University's Hankamer School of Business, asked 840 economists their opinions on several matters related to the housing market. Topics addressed included expected future mortgage interest rates, reasons for buying and owning a home, and anticipated trends in future home prices and numbers of sales.



Housing Prices Likely to Stabilize

Since the first quarter of 2007, housing prices across the U.S. have fallen by about 6 percent.[1] In many cities, the drop in home values has been even more dramatic. For example, from the second quarter of 2007 to the second quarter of 2008, housing prices fell by about 9-10 percent in the Orlando, Detroit, and Washington, D.C. metropolitan areas. For the same period, prices fell by about 13-14 percent in Los Angeles and Tampa/St. Petersburg, and by over 17 percent in Las Vegas and Sacramento.

Despite the dramatic decline in home prices, most of the economists surveyed expect the market to bottom out no later than next year. As Table 1 shows, almost three-fourths expect housing prices to stabilize by the end of 2009, with just under half of the respondents expecting the bottom to be reached by the end of the second quarter of 2009.

[1] Based on OFHEO's Monthly House Price Index, April 2007 to July 2008, available at www.ofheo.gov/hpi.aspx.

Table 1. When will declining housing prices stabilize?

	Percent of Responses	Cumulative Percentage
Third Quarter 2008	1%	1%
Fourth Quarter 2008	7%	8%
First Quarter 2009	14%	22%
Second Quarter 2009	24%	46%
Third Quarter 2009	17%	63%
Fourth Quarter 2009	11%	74%
Sometime in 2010	22%	96%
Sometime in 2011	4%	99%
Sometime in 2012	1%	100%

n = 754. Differences between columns are due to rounding error.

The surveyed economists were also generally in agreement that housing prices would increase over the next five years, though the anticipated gains are expected to be modest. As Table 2 shows, nearly four out of every five economists surveyed believe that housing prices will be higher in five years than they are now. The expected price increases are modest though. Nearly half think that home prices will go up by less than 10 percent over five years – i.e., less than 2 percent a year. At that rate, housing prices are unlikely to keep up with overall inflation, which has averaged 2.9 percent per year from 2002 to 2007 and was 5.4 percent from August 2007 to August 2008.[2] Thus, while housing prices are expected to stop falling at some point in 2009, large price increases in the near future are unlikely, according to the economists surveyed.

Table 2. Compared to today, home prices in five years will be . . .

	Percent of Responses
At least 10% lower	5%
0% to 10% lower	16%
1% to 5% higher	24%
5% to 10% higher	25%
10% to 20% higher	23%
20% to 30% higher	6%
More than 30% higher	1%

n = 803.

[2] Numbers are based on the Consumer Price Index, available at www.bls.gov.

Timing the Market, Sales Volume, and Interest Rates

The reluctance of buyers to get into the market may be making the housing slump worse. More than half of the economists (57%) believe that there is a sizable number of people waiting for the housing market to bottom-out before buying a home.

Two-thirds of the economists believe that overall sales volume will slowly rebound over the next two years, and only a small minority (7%) thought declines in the number of home sales were likely in the next two years.

The economists also expected little change in mortgage interest rates, which averaged around 6.5 percent in the first half of 2008. Over the next year, approximately three-fourths of the economists thought that interest rates would be between 6 and 7 percent, with 51 percent expecting rates to average between 6.5 and 7.0 percent. Over the next ten years, almost 6 of 10 economists (58 %) expected mortgage interest rates to hover between 6 and 7 percent.

Why Buy A Home?

The Keller Center survey also asked economists for their opinions on why people should buy homes. The overwhelming response was that people should buy homes because they are ready to do so from a financial and life-cycle perspective. Moreover, a slight majority of the surveyed economists recommended *against* trying to "time the market" in order to get the largest possible financial gain. Table 3 shows the economists' degree of agreement or disagreement with several statements about home-buying strategies.

Table 3. Reasons to Buy a Home

Statement	Percent Responding: Agree or Strongly Agree	Neither Agree nor Disagree	Disagree or Strongly Disagree
In choosing a time to purchase a house, buyers should primarily focus on whether they are ready for such a purchase from a financial and life-cycle perspective.	94%	4%	2%
In choosing a time to purchase a house, buyers should try to "time the market" in an attempt to obtain the greatest possible financial gain.	26%	23%	51%
The primary reason that individuals should purchase and own a home is as a place to live.	79%	14%	7%
The primary reason that individuals should purchase a home is as an investment vehicle.	9%	20%	71%
A person can increase their long-term wealth by purchasing a house rather than renting.	58%	32%	10%

In addition, 89 percent of the economists agree that people should closely evaluate the benefits and costs of owning versus renting before buying a home. Combined with the results in Table 3, the economists' responses imply that a home purchase is best viewed as a life-cycle decision rooted in prudent financial analysis. While financial gain on the home may be an added benefit to home ownership, the economists on the whole do not think investment value should be the main motive in buying a home.

Conclusion

The recent decline in home prices has made many people nervous about buying a home. The Keller Center's survey of economists conducted in July 2008 should provide some assurance to potential buyers that, in the opinion of an array of experts, the housing market should stabilize within the next year, with price declines ending and sales slowly rebounding. Additionally, the economists expect mortgage interest rates to stay relatively level in both the near- and longer-terms.

Also, the economists' opinions about when to buy a home revolve around the buyer's needs and readiness to buy a home, not efforts to time the market and garner investment gains. This is not surprising, because economists rarely believe that most people can perfectly and systematically time markets so as to buy at the lowest point and sell at the highest.

Finally, it is worth noting that these survey responses came in July 2008, well before the turmoil in the financial markets of September 2008. We cannot know how the subsequent stock market decline and collapse of the investment banks would affect the answers reported above.

About the Authors:

Charles North, Ph.D., Associate Professor of Economics, Baylor University

Professor North conducts research in the economics of religion, law and economics, and labor economics. Prior to entering academia, he earned a J.D. from the Duke University School of Law and practiced law with firms in Dallas and Austin. He has a Ph.D. in Economics from the University of Texas and has been on the faculty at Baylor University since 1998. He has taught microeconomic theory from the introductory to the graduate levels, along with courses in law and economics, game theory, and an upcoming course in labor economics. He recently published the book Good Intentions: Nine Hot Button Issues Viewed Through the Eyes of Faith, and his academic work has appeared in the Southern Economic Journal, the Industrial and Labor Relations Review, and other journals.

Chris Pullig, Ph.D., Associate Professor of Marketing, Baylor University
Chair of the Marketing Department

Before beginning his academic career, Professor Pullig worked in the retail industry as the CEO of a chain of specialty clothing stores and also as a consultant with the Small Business Administration. He received his PhD from Louisiana State University and was previously on the faculty at the University of Virginia. His research is in consumer attitudes and decision making, with an emphasis on effective creation and protection of consumer-based brand equity. His previous work has been published in the Journal of Marketing, Journal of Academy of Marketing Science, Journal of Retailing, Journal of Consumer Psychology, Journal of Public Policy and Marketing and others.

Laura Indergard, MBA, Baylor University
Associate Director Keller Center for Research and Keller Center for Professional Selling
Editor, Keller Center Research Report

Laura earned an MBA from Baylor University and a BS in Radio-TV-Film production from Texas Christian University. Her background includes work in the advertising industry as a copywriter for IT Network and as an independent small business consultant focusing on marketing and feasibility studies.

Jacqueline Simpson, MBA Candidate, May 2009, Baylor University
Graduate Assistant, Keller Center for Research

Jacqueline is a second year graduate student from Georgetown, TX. She earned her BBA with a double major in Marketing and International Business from Baylor University.