Business Day

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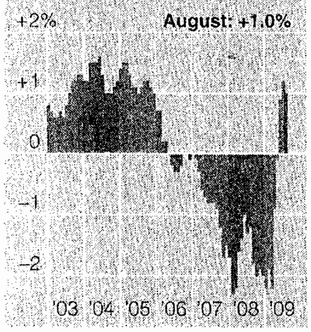
The New York Times

CHANGE IN HOME PRICES
Change from previous month in the S.& P./Case-Shiller index of 20 cities, seasonally adjusted.



Source: S.& P./Case-Shiller THE NEW YORK TIMES

Fears of a New Chill in Home Sales

By DAVID STREITFELD

Even as new figures show house prices have risen for three consecutive months, concerns are growing that the real estate market will be severely tested this winter.

Artificially low interest rates and a government tax credit are luring buyers, but both those inducements are scheduled to end. Defaults and distress sales are rising in the middle and upper price ranges. And millions of people have lost so much equity that they are locked into their homes for years, a modern variation of the Victorian debtor's prison that is freezing a large swath of the market.

"Plenty of pain yet to come," said Joshua Shapiro, chief United States economist for MFR. He is forecasting an imminent resumption of price declines.

This summer, housing seemed at last to be stabilizing. A flood of last-minute buyers trying to conclude a deal before the tax credit expires Nov. 30 helped push up the Standard & Poor's/Case-Shiller home price index a seasonally adjusted 1 percent in August, it was announced on Tuesday.

That was the first time since early 2006 that the widely watched measure of 20 metropolitan areas put together three consecutive increases.

While underlining the importance of that long-awaited rise, Maureen Maitland, the S.& P. vice president for index services, warned, "Everything is up for grabs this winter."

Consumers seem acutely aware of the strains ahead. The Conference Board's consumer confidence index fell unexpect-

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Even as Home Sales Thaw, Fears Arise of a New Chill

From First Business Page

edly in October, after reaching its high for the year in September, the board announced on Tuesday.

The only hot sector of the real estate market has been foreclosures. Investors and first-time buyers have been competing for these, often creating bidding wars. But with the economy still weak, many analysts expect more foreclosures.

Another factor likely to weigh on home sales in the coming months is a rise in interest rates. As the Federal Reserve ceases its buying of mortgage-backed securities, rates may well drift up to 6 percent, from 5 percent.

Worries about the fragility of the housing market, fanned by the real estate industry, may prompt an extension of the tax credit. The controversial program has spurred as many as 400,000 buyers, including Brenda Colon, a nurse in Las Vegas.

"If you had told me in January that I would be buying a house, I would have laughed," said Ms. Colon, 48, who lives with her two daughters and granddaughter. "But the tax credit was just the kicker to throw me over."

Yet despite the tax credit and other local and federal incentives for homebuyers in Las Vegas, prices there are continuing to fall, shedding 0.8 percent in August. The city's home prices have declined on average more than 55 percent from their peak, more than in any other metropolis.

Whenever the tax credit finally expires, Las Vegas and every other city will have to confront the inevitable question after all such stimulus packages: what will motivate the buyers of tomorrow?

ONLINE: MORE ON HOMES

Jeff Sommer and David Streitfeld discuss the rise in home prices on Today's Business, a daily podcast.

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"In my office, people were buying homes left and right because of that tax credit," said Kitty Berberick, who works for an insurance company in Las Vegas. "That credit was a godsend."

Ms. Berberick, 62, could not strike a deal in time, and now has signed another lease for her apartment. If the credit is not extended, she said, she is likely to give up the search entirely until the market really crashes.

This, of course, is the sort of fatalistic attitude that relentlessly drove down prices last fall.

"Everyone keeps telling me, it's going to go down before it goes up," Ms. Berberick said. "I hope it does, because then I can buy."

The recovery is both modest and tentative when measured against the preceding plunge. Prices have fallen nearly a third from their peak, and are down 11.4 percent over the last year.

In most major cities, it is as if the housing boom never happened. Prices over all are back to where they were in the fall of 2003. Some cities have been pushed down even more: In Cleveland, prices are at 2001 levels; in Detroit they're at 1995.

It is the magnitude of this decline that makes Karl E. Case, the Wellesley professor for whom the Case-Shiller index is partly named, an optimist.

While acknowledging "there are a lot of dangers out there," Mr. Case said "housing is as affordable as it's been in 20 years. I don't see a very rapid recovery, but I think we've seen the bottom."

RICK WILKING/REUTERS

A home sold in Golden, Colo. The Case-Shiller home price index has risen the last three months.

Sixteen of the 20 cities in the index rose in August, including San Francisco, up 2.6 percent, and Minneapolis, which rose 2.3 percent. Besides Las Vegas, three cities fell: Charlotte, Cleveland and Seattle. New York was up 0.3 percent.

The Case-Shiller numbers on prices lag behind the National Association of Realtors' report on existing-home sales, which has been issued for September. Sales were up 9.4 percent from August, with the tax credit again getting much of the credit.

Critics of the credit argue that the number of those who merely qualify for it — and gladly take it — greatly outnumber those it is precisely intended to assist: people who would not have bought a house otherwise. That means, they argue, that the government is essentially paying more than $40,000 for each purchase that would not have occurred without the credit.

That is an expensive proposition, said Roberton Williams, a senior fellow at the Tax Policy Center who has closely followed the issue. "The bigger threat to the housing market is not the reduction in demand from the end of the credit, but the continuing wave of foreclosures we're likely to see over the next 18 months," he said.

In California, there is strong evidence that foreclosures are beginning to migrate from the subprime inland areas to the more exclusive coastal region.

According to MDA DataQuick, third-quarter notices of default in Santa Barbara were up 25 percent from 2008; in San Luis Obispo, they rose 46 percent; in Marin County, they were up 66 percent.

Defaults in hard-hit Sacramento, by contrast, were up only 10 percent. In Merced County in the Central Valley, an epicenter of the bust, they actually fell.

While defaults are only the first stage in foreclosure, Mr. Shapiro, the MFR economist, expects many formerly creditworthy homeowners to go under. He says he thinks the recent improvement in Case-Shiller numbers is an aberration rather than the beginning of a long-term improvement, with consequences for the larger economy.

"Another leg down in home prices, even if much more limited than the initial move, would nonetheless weigh on consumer spending," Mr. Shapiro said, adding that he did not expect a second recession.