

Stable housing market key to recovery

Increased consumer confidence needed for rebound



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November 23, 2008 6:00 AM

When President-elect Barack Obama takes the oath of office on Jan. 20, his administration will confront a slate of economic policy challenges not seen since the Great Depression — and one of the most difficult will be to stabilize the housing market, which many analysts believe will be a key to economic recovery.

But few believe recovery or stabilization will come easily, as the economic turmoil caused by the bursting of the housing bubble is threatening other sectors of the economy.

Ross Gittell, a professor at the Whittemore School of Business and Economics at the University of New Hampshire, said the housing market downturn is creating a vicious economic cycle that hurts every sector of the economy, from the financial markets to retail to manufacturing.

"It has a negative multiplier impact," Gittell said about the housing downturn of increasing foreclosures and declining housing value. It's impacting employment in the construction and real estate broker industries. Big-box retailers such as Home Depot will be hurt because homeowners are becoming reluctant to spend money on remodeling, and refinancing has become more difficult. And if companies continue to shed jobs or not hire, it will put more strain and possibly lead to more foreclosures and bankruptcies.

The ongoing housing market correction is dramatic. Overall, new home permits in New Hampshire have plunged from 6,438 issued permits in 2002 to 3,094 in 2007, and the state has a 20-month inventory of houses on the market. The region has avoided the worst of the foreclosure crisis — the Federal Deposit Insurance Corp. estimates that more than 4.4 million borrowers will become delinquent by the end of next year.

But the numbers are rising.

According to ForeclosureNet.net, there are 237 pending foreclosures in Rockingham County, 81 in Strafford County, and 100 in York County, Maine. Consumer confidence is the key, but rebuilding that confidence will take time. At best, economic analysts such as Gittell say the country is heading for a serious recession into 2010, and the housing market will take just as long to recover.

Gittell, a supporter of Obama, said it's vital for the incoming administration to stabilize the market by focusing on homeowners.

While New Hampshire looks like it will be spared the brunt of the recession, it won't escape unscathed. During the campaign and in the current transition period, Obama said direct help for homeowners is one of his top priorities. Obama has called for a wide range of policies, including immediate, government-



"For Sale" signs, like this one along Route 103 in Kittery Point, Maine, are appearing all over the Seacoast. Rich Beauchesne photo

wide focus on altering loan structures to help struggling homeowners, changing bankruptcy laws to allow bankruptcy judges to alter loan agreements, a 90-day moratorium on foreclosures for homeowners acting in good faith, and a \$25 billion grant to states to forestall local property tax increases in communities hit hardest by the housing downturn.

"We need to stabilize housing as well as we can," Gittell said.

In a sign of the seriousness of the situation, the mortgage giants Fannie Mae and Freddie Mac announced Thursday that they were suspending foreclosure sales on more than 16,000 homes across the country from Nov. 26 through Jan. 9, 2009.

The crisis is a mix of financial reality and psychological reaction. One Portsmouth real estate broker believes the media has played an unhelpful role.

"I think the biggest enemy of the economy is the media," said Jim Mills of RE/MAX Coast to Coast Properties. Mills, a 17-year real estate veteran, said the media has "sensationalized" national trends that may have no relevance to the different dynamics of local markets.

Mills said there is no doubt that some homeowners are being hurt and losing their homes, but the overall regional market is relatively strong. But Mills believes that news isn't getting out. He said while sales dollars are down at his office for the year, total number of sales is only down 20 from last year.

The good news for buyers in southern New Hampshire and southern Maine is that housing prices have dropped around 20 percent in the past couple of years — compared to the national average of 30 percent — and that some first-time buyers who never thought they could get into the market can.

But in another sign of the times, buying a house has become harder. Unlike the boom period, when buyers with questionable credit histories and no down payment were often fast-tracked into home ownership, the environment today demands more accountability up and down the lending ladder. Mills said there is financing available, but only with those with strong credit histories and a down payment.

"The world is turned pretty much upside down right now," said Dick Ingram, executive director of the nonprofit The Housing Partnership, which develops and owns affordable housing units. Ingram said banks and investors have less of an appetite to consider new projects with even a hint of risk — even from organizations like The Housing Partnership, which has a proven and strong credit history.