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After Years of False Hopes, Signs of a Turn in Housing

By BINYAMIN APPELBAUM June 27, 2012

WASHINGTON — Announcements of a housing recovery have become a wrongheaded rite of summer, but after several years of false hopes, evidence is accumulating that the optimists may finally be right.

The housing market is starting to recover. Prices are rising. Sales are increasing. Home builders are clearing lots and raising frames.

Joe Niece, a real estate agent in the Minneapolis suburb of Eden Prairie, said he recently concluded a streak of 13 consecutive bidding wars over homes that his clients wanted to buy. Each sold above the asking price.

“I just had a home that wasn’t supposed to go on the market for two weeks sold before it even went on the market,” Mr. Niece said. “It’s definitely a lot different than what we saw” during the last few summers.

Like the economic recovery that began three years ago, what happens next is likely to prove a little disappointing. The pace of recovery will probably be slow, and the prices of many homes will continue to decline.

Millions of people remain underwater, owing more on their homes than the homes are worth, and unable to sell. Millions of families still face [foreclosure](#). And a setback in the still-fragile economic recovery could easily reverse the uptick in housing prices, too.



Justin Sullivan/Getty Images

A house in San Francisco that has been sold. Pending home sales are increasing along with sale prices, and construction companies are clearing lots and raising frames for new homes.

But roughly six years after the housing market began its longest and deepest slide since [the Great Depression](#), a growing number of experts and people who actually put money into housing believe the end has come.

“Our sense is that the market is recovering, and we’re extremely confident that it’s not going to get worse,” said Ronnie Morgan, a San Diego real estate professional who recently created a \$10 million partnership to buy foreclosed homes. The group, Alegria Real Estate Funds, already has bought about 20 homes in suburban communities, most of which they plan to hold as rental properties.

“It feels very much like we’ve hit a bottom and we’re starting to come off of that bottom,” said Stuart Miller, chief executive of Lennar, a major national home builder based in Miami. The company said Wednesday that [second-quarter profits](#) were higher than expected, and orders for new homes rose 40 percent.

“I’m a little nervous,” Mr. Miller quickly added in a conference call with analysts, “about saying the word ‘recovery.’ ”

The trend is clear in the data. The widely respected S.&P./Case-Shiller index [reported earlier this week](#) that sales prices for existing homes rose in April for the first time this year. Several other measures, including a seasonally adjusted version of the index, show that price increases began in February. The pace of housing construction [has increased](#). And the [National Association of Realtors said Wednesday](#) that pending home sales climbed to the highest level since the end of a federal tax credit for first-time buyers in September 2010.

This is the fourth consecutive year that the housing market has shown signs of revival, and each previous episode ended with prices renewing their downward slide.

But with each passing year, an eventual recovery has grown more likely. Prices have continued to fall, and the economy has continued to recover, a combination that has expanded the pool of potential buyers. The population has continued to grow while few new homes have been built.

Basic indicators of market health that bulged during the bubble, like the ratio of housing prices to income, have returned to more normal levels.

Government efforts to help homeowners have intensified, allowing more borrowers to refinance or avoid foreclosure.

“All bets are off if anything happens to the economy, but apart from that, I think the fundamentals look better than they’ve looked in 17 or 18 years,” said Richard K. Green, a professor of real estate at the University of Southern California.

Professor Green cited the combination of rising rents and low mortgage rates as a powerful inducement to potential buyers, both renters who would prefer to own and investors who want to become landlords.

“Compared to a lot of other investments right now this looks pretty good,” he said.

The influx of investors is a major reason that the market is looking stronger. Mr. Morgan, 56, built apartments before the housing crash. In 2010, seeing a new opportunity, he and some friends started bidding at the foreclosure auctions then held on the steps of the San Diego County Courthouse.

At first they bought properties to renovate and resell. Now they are focused on potential rental properties in the kinds of gated, planned communities in suburban San Diego that once were populated almost exclusively by people who owned their homes. Some of their tenants are former homeowners.

And competition has increased. The auctions were moved from the courthouse steps last year because the crowds had grown too large.

“There’s not a whole lot of other places to put your money,” Mr. Morgan said.

There are still reasons for caution. An unusually warm winter seems to have given a temporary and misleading boost to a range of economic indicators.

The pace of economic growth remains slow and fragile, shadowed by the risk that politicians in Europe and Washington will fail to address looming problems.

And the rise in prices is happening despite the vast number of vacant houses awaiting buyers, up to two million more than the normal level, with several million more houses still at risk of being foreclosed.

But this “shadow inventory” is not distributed uniformly, according to a new analysis by Goldman Sachs. Even within metropolitan areas like Phoenix, the vacant houses are clustered in less desirable neighborhoods, while buyers are seeking homes in areas where there are few vacancies.

Under these circumstances, the researchers concluded, “It is possible for us to see both house price increases and excess housing supply at the same time.”

Indeed, in a growing number of areas demand for homes is outstripping supply.

The number of homes for sale has been falling for more than a year, [according to the National Association of Realtors](#). Some owners are waiting for prices to rise; some of them must wait because they are underwater.

Mr. Niece, the Minnesota real estate agent, said he and his partner had seen their book of listings decline from about 120 properties to 70 properties, about 45 of which already are under contract.

“I have buyers every single day complaining that they can’t find houses,” he said.

Driving through a neighboring suburb last week, Mr. Niece said that he passed a sign outside another real estate office that read, “The market is great. We’ve sold all of our inventory. We need listings.”