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The Top 5 Housing-Market Hopes for 2009

By Luke Mullins, USNews.com
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In the face of an intractable credit crisis and a recession that could be the deepest since World War II, economists are expecting another downcast year for housing in 2009. Mission Residential Chief Economist Richard Moody, for example, projects home prices to continue along their downward slope for the entire year before hitting bottom in early 2010. But while there's no shortage of gloomy data-rising unemployment, higher [mortgage](#) delinquencies, increasing [foreclosures](#)-glass half-fullers do have a number of hopes to cling to. And while these more optimistic factors might not be enough to spring housing back to life in 2009, they could-with a few lucky breaks-prevent the market from declining as sharply as it otherwise might.

Here are the five best reasons to be hopeful about housing in 2009:

1. Cheap mortgage rates: With inflationary pressures easing and economic concerns mounting, shell-shocked investors are seeking the protection of government securities, such as 10-year treasury notes, driving down yields. The lower yields, coupled with the Fed's recently announced plans to buy up debt and mortgage-backed securities from Fannie Mae and Freddie Mac have dragged [mortgage rates](#) to multi-year lows. Thirty-year, fixed mortgage rates hit an average of 5.47 percent last week, the lowest they've been since 2004, according to Freddie Mac.

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To be sure, not everyone will be able to take advantage of these attractive rates: Tougher lending standards will prevent many would-be buyers from getting into the market, while homeowners whose houses are now [worth less](#) than what they owe on their mortgage won't be able to [refinance](#). Still, the rates present a welcome incentive for qualified borrowers to step up to the plate. "Lower mortgage rates mean more people with those credentials will be able to qualify," says Patrick Newport, a U.S. economist at IHS Global Insight. While that might not make a dramatic impact on the market, it could be enough to keep home sales from declining as much as they otherwise would, Newport says.

2. Lower prices: Home prices at the national level have already fallen 21 percent from their 2006 peaks. And in certain bubble markets, the crash has been even steeper-prices have fallen more than 30 percent in [Phoenix](#) and [Las Vegas](#) over the past year alone. Although that's a big blow to homeowners-the housing bust is expected to wipe out more than \$2 trillion in [home values](#) in 2008-lower prices do help stimulate buyer demand, which is badly needed to mop up the excess housing inventory. And while home prices are expected to drop further in 2009, values in certain markets are already at levels low enough to tempt bargain hunters. "Falling home prices aren't part of the problem, they are part of the solution," says Mike Larson, a real estate analyst at Weiss Research.

3. Fewer housing starts: In the face of dwindling demand, home builders have been forced to sharply pull back on new construction. The government reported Tuesday that November housing starts dropped to their lowest level since 1959, when officials started keeping the statistics. While that's bad news for the economy-because it means fewer jobs for builders and others-it's an important step in bringing housing supply back in line with demand. The

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cutback will limit the supply of new homes coming into the market, which helps to reduce the glut of unsold homes that is putting such downward pressure on housing prices. "In order to get rid of the inventory, builders have to cut back even further and prices have to drop," Newport says. "It's very painful, but there is no way to get around the fact that that's what you need to do to equilibrate the market."

4. Obama stimulus: In an attempt to hoist the economy out of its rut, President-elect Barack Obama has announced plans for a massive federal spending program. The initiative is expected to put between \$500 billion and \$1 trillion into infrastructure repair and other projects in an effort to keep Americans working. Should this program succeed in preventing unemployment from skyrocketing and keeping the economic contraction from hitting the dourest projections, certain housing markets may firm up quicker than expected, says Susan Wachter, a professor of real estate at the University of Pennsylvania's Wharton School of Business. In the best-case scenario, "the housing market declines become contained to those markets where house price declines are significant," Wachter says.

5. Credit programs: It will be tough for the housing market to come back to life until the credit markets-which have been log-jammed by fear for more than a year-begin to unlock. Like the fight to limit unemployment, reviving the credit markets is a daunting challenge. But remember, the federal government has already taken a number of steps designed to do just that. The Federal Reserve has slashed its benchmark interest rate to between 0 and 0.25 percent and committed nearly \$2 trillion to new lending programs, bailouts, and additional measures designed to bolster the financial markets. Meanwhile, Congress passed a \$700 billion bailout and the Treasury has already injected a chunk of that money into banks of all sorts. While these efforts haven't been enough to restore the credit markets to health, they have produced results. Interbank lending, for example, has eased. And should this modest victory lead to a broader recovery in the credit markets, the economy-and the housing demand that comes with growth-could turn around quicker than expected. "Right now, panic is driving the credit markets," says Moody of Mission Residential. "If, for whatever reason, confidence were to resume and people's appetite for risk was starting to increase, then you could start all of a sudden seeing credit flowing much more freely, which obviously supports spending in both business and households."

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