

7 Reasons The Real Estate Market Will Not Improve In 2011

by Chris Poindexter

We sold all of our real estate holdings in '05-'06. What prompted me to do that was a conversation at the grocery store where the checker was telling me about herself and her husband, who also worked at the store, flipping a house. A checker and a stocker flipping real estate, time to get out.

I had my real estate license in those days and saw it all. 8,000 square foot McMansions with theater rooms, vaulted ceilings and even one that had a chapel. A chapel. Really? To pay for this spacious excess the finance industry cooked up an amazing array of tricks for people to take on the payments for homes priced into the stratosphere of valuations. Wrap-arounds, second mortgages, balloon payments, variable interest rate loans, even interest only mortgages structured just for home flippers. It was a feeding frenzy of greed fueled by easy money and fanned by willful ignorance.

Like with any wild party there was going to be a morning after. If you were paying attention it wasn't that hard to see coming.

Since then I've held off on buying and prices continued to slip, every new low accompanied by an announcement from NAR (National Association of Realtors) that the market had bottomed and sales would improve. They were wrong.

Here in 2011 I think there's some downside left in the market, though less now. We may actually be nearing a bottom. But here is why I think this year is still likely to be slow and prices will continue down:

1) Credit remains unnaturally tight. The federal government loans money to big banks like they're pouring vodka at a Russian wedding, but for the average person trying to get a mortgage it's a different story. Yes, in '05-'06 it was too easy to get a loan. My dog could have gotten a conforming mortgage in those days. Today it's a struggle, even for people with good credit. With Congress debating the fate of Freddie and Fannie there's no sign the mortgage picture is going to improve any time soon, certainly not this year. Maybe not ever.

2) There are more homes for sale than qualified buyers who want one. By [some estimates](#) there could still be 10-11% inventory left over if every qualified bought a house. It may take a decade or more to absorb that inventory and for prices to recover. Even if sales pick up, as they're expected to do this year, there's little to suggest prices will recover.

3) There is a growing body of former homeowners with a mortgage default or bankruptcy on their credit record. Those buyers are dead to real estate purchases for at least three to five years and some may never rejoin the ranks of homeowners. They may be hesitant to get back into a market they were burned. Even if they do they may be more likely to consider non-traditional housing options.

4) Real estate is [losing its luster as an investment](#). During the crash it became glaringly apparent to many that there is little financial incentive for the average person to buy a home, particularly one they may not be able to sell if they decide to move. If home ownership is such a great investment, then why does the real estate industry feel they have to [lie about home sales](#)?

5) Even real estate investors are pretty much stocked up at this point. Of the real estate investors I know personally, few are really out shopping for any additional properties. Most of them have all they want to carry, and that at a time the deals can't get much better than they are today. For a long time investors were soaking up some of the excess inventory but as the down market continues, so does investor enthusiasm for adding more real estate purchases.

6) Valuations are all over the road. Truth be told home valuations have always been sort of a dark art, but now it's a secret. Even if buyers manage to claw their way through the loan approval process, the deal still has to survive the appraisal. Changes in how "comps", or comparable sales, are analyzed has made putting a value on a home not unlike consulting a Ouija board. The uncertainty hits buyers and sellers equally hard as sellers find they are often competing with foreclosure sales in neighborhoods where a significant number of homes are vacant or abandoned. Valuation uncertainty is going to continue to impact sales for years to come. Eventually the market will stabilize at a new baseline, but it's not there yet.

7) No more home buying incentives. The stimulus plan included an incentive for home buyers that was not insignificant. That fueled a lot of home sales. Unfortunately the political climate in Washington and the tide of public opinion turned against further stimulus spending and home sales promptly dried up. By not extending the incentives until the credit markets stabilized, it set up a "double dip" on home values.

So as Spring 2011 approaches, instead of being excited about the upcoming listing season, the real estate industry is letting out a collective sigh and hunkering down for a long, hot summer.