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Multi-Family Market at Crossroads, Downturn Likely

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In a talk at *Multi-Housing News'* 38th Annual Multi-Housing World Conference and Exposition, one of the multi-family industry's leading economists and market experts saw the state of the housing market--and the economy in general--as standing at a crossroads, with a downturn of undetermined magnitude likely imminent.

Dr. Sam Chandan (pictured) of REIS Inc., speaking to a packed auditorium on Tuesday, expressed the belief--commonly held amongst industry experts and economists--that the single-family housing market is headed for a downturn. Given the size of that sector's role in the overall market, the national economy in general is soon to feel the effect. The only real difference of opinion among experts, said Chandan, lies in the degree and magnitude of the slowdown.



The economy is growing at a slower rate than it had been as recently as the first quarter of 2006, he advised. At that time, GDP growth stood at 5.6 percent, a number that has dropped to 2.9 percent at present.

Reasons behind the slowdown are both market driven and psychological, said Chandan. Job growth has underperformed compared to economists' expectations. The net number of new jobs created over the past five months has ranged from 100,000 to 134,000 per month--significantly fewer than the 180,000 to 200,000 monthly job creations that were projected.

In addition, Chandan highlighted a decrease in consumer spending as another significant factor in slowing economic growth. Personal consumption growth in the second quarter of 2006 was down 50 percent compared to the rate at which it grew from the fourth quarter of 2005 to the first quarter of 2006. This decline was likely due to a combination of high energy costs, high household debt, and, significantly, the wealth effect of the sluggish housing market. Home and condo owners, said Chandan, are much less apt to spend when the value of their property--the main asset for most individuals--is declining. Chandan cited a statistic by the Department of Commerce indicating that new and existing home sales are down 10 percent since June 2005, further eroding owners' confidence in the value of the property.

"This (housing downturn) is problematic, because what has driven growth in the economy is growth in housing and personal consumption," Chandan remarked, highlighting the unique problems faced when both areas are lagging.

Chandan divided economists into three camps in regards to their expectations for the coming months.

The most optimistic, he said, believe that the slowing economic growth will bring a measured slowdown to the housing market, in turn allowing inflation to ease without any further tightening by the Federal Reserve.

Another group of experts hold that the growth slowdown will be insufficient to slow inflation without further tightening by the Fed to prevent stagflation.

The third group--which has been increasing in size in recent months--sees the correction of housing prices dampening consumer spending to the extent that a recession could be on the horizon.

Chandan said that, despite all of the attention that has been given to rising oil prices, the housing decline is the main danger facing the economy at large. "Compared to housing, oil prices are not that big a deal," he said.

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