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## July Home Sales Set Record; But Some Experts Say Surge Marks Boom's 'Last Hurrah'

By Daniela Deane  
*The Washington Post*

Sales of existing homes around the country soared to a new record in July as buyers rushed to take advantage of historically low interest rates. But some economists said the frenzy signaled the peak of the bull housing market.

"This is the last hurrah for housing," said David A. Lereah, chief economist of the National Association of Realtors, a trade group that compiles the monthly home resale numbers that were released yesterday. "When we look back to this July, we'll say, 'Housing peaked then.'"

The Realtor group said sales of existing homes shot up 5 percent in July to an annualized 6.12 million units -- an all-time high -- from 5.83 million units in June. The national median existing home price -- \$182,000 -- was up 12.1 percent in July from the same month of 2002.

The Commerce Department is scheduled to release new-home sales figures for July this morning.

The July sales reflect the steep drop in interest rates on mortgages in June -- when rates were at their lowest levels in decades -- because the sale of an existing home is recorded only when a property has gone to settlement. Buyers settling in July would typically have entered into a purchase contract in May or June.

And the fact that interest rates have jumped more than a percentage point since their June lows is what's prompting economists to warn that a softening in the housing market may be inevitable.

"That was as good as it gets," said Mark M. Zandi, chief economist at Economy.com, an economic consulting firm. "The next three years are going to be considerably weaker than the last three years. It's basically the end of the crazy housing market."

Rates on 30-year fixed-rate mortgages averaged 6.28 percent last week, according to secondary mortgage giant Freddie Mac. The lowest point in about 40 years was in June, at 5.21 percent.

Economists say rates fell abnormally low in June because Federal Reserve Chairman Alan Greenspan brought up the subject of deflation. "When the Fed expressed concerns about deflation, the market assumed the worst, which turned out not to be the case," said Sung Won Sohn, chief economist at Wells Fargo & Co., one of the country's largest mortgage lenders. "As a result mortgage rates went too low, probably the lowest rates that we will see in many decades."

The economists also pointed out that buyers anxious about rising rates moved to purchase quickly. "Those low rates were a signal to people who perhaps would have waited until next year to buy, that it made sense with rates that low to jump in right then," said Jay Brinkmann, economist at the Mortgage Bankers Association in Washington. "That psychology played its part in keeping sales high." Housing starts also rose last week to a 17-year high.

Brinkmann said that as rates inched up, mortgage purchase applications declined 14.5 percent in the first two weeks of August.

He said refinancings dropped 32 percent during that same period.

Rising rates have also prompted housing industry groups to cut forecasts for home price growth. Freddie Mac, for example, now foresees an annualized growth rate for the fourth quarter of this year of just 3.1 percent, revised down from 4.4 percent.

In the past, when interest rates have shot up quickly, home price gains have leveled off quickly too, a phenomenon that economists say may be tempered now with an improving economic situation.

"It depends on why rates have gone up," said Sohn of Wells Fargo. "Rates are going up now because the economic outlook has improved. It's good news. It means we're having decent economic growth."

Many economists predict the Washington area housing market will stay relatively strong because there are still more buyers than sellers here and because the job market remains relatively strong. But others aren't quite as sure.

"In Washington, there may be a period of outright price declines," said Zandi from Economy.com. "Prices have risen so much, partly driven by speculative activity with people betting that housing will continue to be such a great investment. That only works if mortgage rates stay low."

Most housing groups are predicting a gradual increase in mortgage rates, perhaps rising to 7 percent by the end of next year. Brinkmann from the Mortgage Bankers Association sees another dip in rates before they start climbing again. No major housing industry group had predicted the sharp spike in rates over the past two months, however.

Most economists agree that rates approaching 8 percent will put the brakes on the housing market. "We're all so used to seeing very low mortgage rates, that if it goes between 7.5 and 8 percent, we might see a dramatic slowdown in housing activity," Sohn said.

Local real estate agents report a slowdown in business this August, which they say is normal for the dog days of summer.

**"There are still more people looking to buy than there are sellers, though," said Ron Sitrin, an agent with Long & Foster Inc. in suburban Maryland. "Even though rates have gone up, five- and seven-year ARMs [adjustable-rate mortgages] are still very reasonable." He said properties under \$500,000 were selling best -- some still fetching multiple contracts -- and that the million-dollar-plus market remained sluggish.**

Cheryl Stovall, 36, who does design and marketing work for a local real estate developer, said she's been looking to buy a property in Northwest Washington under \$450,000 for the past month.

"You should have seen the open houses this past weekend," Stovall said. "It was a mad house, mobs of people everywhere."

But why did she decide to buy now after being a renter for so many years?: "Number one, because interest rates are so low," she said.

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