THE EVENING SUN

# Real Estate Report: Watt is happening?

By Carl Delmont May 2, 2013

This week was a busy one for housing. Monday brought positive news from Pending Home Sales after Existing Home Sales missed expectations the prior week. While Pending Home Sales is a forward looking indicator, I do not put a lot of stock in it as too many things can alter the final results.

For instance, a flawed appraisal could kill the deal. Likewise, a home inspection could highlight problems that the seller is unwilling to repair and/or, the buyer is unwilling to accept. Worse, the buyer could lose their job; change their mind; or, have their financing denied. Any of which would lower the numbers from this indicator. Still, better that this is a positive than a negative.

On Tuesday, the Case Shiller Index showed a 9.3 percent increase in home values. This index looks at the Top 20 housing markets.

The index covers roughly half of U.S. homes, measuring prices compared with those in January 2012 and creates a three-month moving average. some feel that the numbers are not reflective of housing as cities that were hit hardest are rebounding and "inflating" the gains. For me, it is simple supply and demand (low for the former, high for the latter) that is driving these gains.

Wednesday brought disappointing jobs numbers from ADP, but most eyes were focused on the Fed meeting. While no changes were made, or expected, Bernanke did offer some ambiguity in his remarks. One example talked about the possibility of adding to or retracting from

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the current plan. Not earth shattering, but given the current economic environment, many analysts were offering their thoughts. I do not see any rate increases this year or most of next year, but Bernanke is rumored to step down when his term expires early 2014, and his replacement could alter the 2015 timetable.

At the time of my writing this column (late Wednesday evening), The European Central Bank had not yet announced their decision on rates and Friday's Jobs Report was still in the distance. It appears that The ECB will adjust rates downwards and I would predict that jobs will be mediocre. Some will spin jobs numbers as great regardless, but until we see over 200,000 jobs continually, it is just a Sisyphean Dream.

As stated in previous columns, while I like that The Fed has tied policy to a determinable index, in this case unemployment and inflation, I strongly disagree with their using the U3 BLS numbers from the government as the basis. The formula used by BLS (Bureau of Labor and statistics) is inherently flawed. The U6 number, is more accurate but is not the figure issued or relied upon by mainstream media.

U6 is the broadest unemployment measure, including short-term discouraged and other marginally-attached workers as well as those forced to work part-time because they cannot find full-time employment. To me, counting "under employed," part-time and those that are no longer looking is more comprehensive.

Some bears are publicly blasting housing numbers, including some vocal ones arguing that housing is about to bubble. While possible, I am not ready to concur. First, housing is appreciating for several reasons:

increased confidence

increased affordability

lack of supply

While there are other reasons, the third one offered seems to have the most influence. My primary concern with the current housing market is that a jobless recovery is oxymoronic. Without jobs, housing can only travel so far. Of course, if prices increase too rapidly, affordability will diminish. If rates increase, that only adds to the dilemma. That stated, given the slew of less than attractive economic news the past week, rates dropped to near record lows (see my 2013 Predictions column from January where I correctly predicted both the drop in rates and the month).

Finally, this week President Obama nominated Congressman Mel Watt (D-North Carolina) to replace Ed DeMarco as the FHFA head. Both parties carefully drafted The Housing and Economic Recovery Act of 2008 and in doing so, created the FHFA as the GSE conservator that oversees Fannie and Freddie as well as created a job description for the director.

That description outlines qualifications mandatory for the position and many are debating if Mr. Watt has the credentials needed to earn the position. The last person nominated quickly changed their mind once Senate hearings were to start. While Gary Thomas, The President of NAR (National Associations of Realtors) issued a statement complimentary of the nomination, many others are scratching their heads, from The Cato Institute to politicians to housing experts.

CNBC opined last week that Mark Zandi, a frequent guest economist on their station, would be the nominee. Per the qualifications mandated in The Act, Zandi is certainly more qualified than Mr. Watt. Time will tell if Congress will agree with that statement. While most voters focus on The President's ability to nominate for The Supreme Court, it is wise to remember that he also nominates The FHFA Director, The Fed Chief and The Treasury Secretary, as well as other posts. Important to consider when the health of housing and the overall economy hang in the balance.