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## New Attempt at a Housing Turnaround

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### MORRIS PLAINS

Morris Plains-based home seller Weichert, Realtors is pushing for congressional support for a tax-credit plan it hopes will drive more people to buy homes, thereby reinvigorating both the housing market and the economy. But while some real estate and economic experts say the proposed measure could help to increase home sales, the plan would be only one of many components needed to turn around the deeply troubled housing industry.

The real estate company's proposal, which the firm announced two weeks ago and would provide a tax credit for homebuyers beginning this year, is the latest in a series of measures that are designed to pull the housing market out of a deepening slump. In December, President Bush announced a plan to allow some borrowers of adjustable rate mortgages to freeze their current interest rates for five years.

Weichert's plan differs from the other proposals because it is aimed at prospective homebuyers rather than existing homeowners, says Jace Botti, the company's head of residential sales. "Most of the stimulus plans have focused on providing support for at-risk homeowners that may be having trouble keeping up with their adjustable mortgages," she says. "We're looking for a stimulus to get [prospective homebuyers] who currently may be on the fence to make a move."

The tax-credit plan is currently just "a conceptual idea," according to Dominick Prevete, Weichert's regional vice president of sales, who says the company is in the early stages of trying to find a sponsor in Congress to support the measure. The company's president and founder, James Weichert, met last week with members of the National Association of Realtors (NAR), which has a big lobbying unit, to discuss the proposal. "One of the things we're working on with the National Association of Realtors is what's going to have the biggest impact on the most number of potential homebuyers," says Prevete.

The firm's plan "is worth exploring," says Mary Trupo, NAR's public-issues director. But the association does not intend to take action until the federal government comes out with its economic stimulus package. Whether NAR decides to endorse Weichert's proposal will be based on what the package includes, Trupo says.

Weichert is proposing its measure at a time when the housing crisis is threatening the stability of the economy as a whole. "The bursting of the housing bubble has put the country on the precipice of recession," says economist Joseph Seneca at the Edward J. Bloustein School of Planning and Public Policy at Rutgers University in New Brunswick. Seneca says declining house prices and tight credit standards, together with rising energy costs, may cause consumer spending, which represents about 70 percent of the economy, to decline in the first or second quarter of this year. Consumer spending has not fallen on a quarter-by-quarter basis since 1991, he says.

"We think that something has to be done immediately," says Weichert's Prevete. He says the housing market has a big impact on the economy because of the numerous sectors that are tied to housing, such as furniture manufacturers and retailers, decorators and contractors. "When someone purchases a house, a lot of other people go to work, so the impact can be significant," he says.

But houses have been failing to move in spite of falling prices and historically low interest rates. "We sold fewer homes in 2007 than in 2006," says Prevete. "We're doing fewer transactions."

Last November, home sales in New Jersey were down 21 percent from the same month a year ago, according to the Otteau Valuation Group, a real estate appraisal firm in East Brunswick. Unsold inventory climbed to a 12.5-month supply last November, up 9 percent from the start of the year.

A tax credit for homebuyers could help home-sales activity pick up, says Jeffrey Otteau, president of the Otteau Valuation Group. Reducing the amount of taxes that a household pays leaves more money to go toward housing costs, he says. "Anything we can do in terms of a tax credit would be an advantage to households, in terms of helping them to afford to buy homes," says Otteau.

A lack of housing affordability in the state is one of the main reasons why very low interest rates have failed to generate more home sales, he notes. New Jersey, which has the nation's highest property taxes and the second-highest median monthly housing costs after California, has a housing affordability index of 70 percent, according to Otteau. This means that a household earning a median income of \$65,216 has only 70 percent of the income needed to qualify for a 90 percent mortgage on a median-priced home of \$328,530, he says.

Affordability was the driving factor behind the spike in the number of subprime mortgages that originated between 2003 and 2006,

says Otteau. "Subprime lending tells us there are a lot of people who can't afford to buy real estate," he says. "Subprime was just a way for them to overcome that."

In the wake of the subprime collapse, which has resulted in an escalating number of mortgage defaults and foreclosures, a tax credit would be a less costly and more stable way to bridge the gap between incomes and home prices, says Otteau.

But other housing experts say a tax credit may not be a strong enough incentive for potential buyers. Many so-called fence sitters who remain undecided about purchasing a home are waiting for prices to drop even further, says Seneca. "If many potential buyers think prices have reached bottom, then they'll jump in," he says. "But they're not likely to jump in if the economy is showing signs of continuing to weaken."

Seneca questions whether a tax credit would have a substantial impact on housing demand, especially given the extent of troubles in the housing industry. "The housing market is deeply constrained," he says. "There is a whole portfolio of problems," which include rising foreclosures, declining sales and tightening credit.

A turnaround in the housing market is unlikely to occur unless both housing inventory and home prices are reduced, he says. "The painful correction has to work itself out," he adds. "Prices have to come down significantly. There's still a lot of excess capacity and supply that has to be worked off."

Otteau agrees that a tax credit alone would not have a large enough impact to stimulate the housing market. Such a measure would only be effective in conjunction with other favorable economic conditions, he says. He expects that a combination of declining home prices, which have been falling for the past two years, lower interest rates and rising salaries will help to restore housing affordability. In addition, a more liquid mortgage market would make more funds available for potential buyers to purchase homes, he says.

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