

**INSIDE ADVICE**

# 2008 prognosticators show existing home sales going up

The Federal Reserve cut the federal funds rate by a quarter-percentage point recently to the lowest level in nearly two years. The move is designed to stimulate the economy and prevent a credit crunch from hurting consumer and business lending. Real estate sales should benefit from this.

Banks typically base their prime interest rate on this federal funds rate plus 3 percent, bringing the prime down to 7.25 percent. Lowering the prime rate tends to lower overall borrowing costs and encourage consumer and business spending.

Lowering the prime helps everyone making payments on loans that have an interest rate tied to prime, including many ARMs tied to the one year T-bill, most home equity loans, many business loans, and even some credit cards. In addition, by leaving more money in consumers' wallets, the central bank hopes to encourage local banks to lend more money.

So how will Georgia real estate owners fare in 2008? There are favorable factors on the horizon for this new year:

► The cost of borrowing is still remarkably low, with 30-year fixed-rate loans for owner-occupants hovering around 6 percent, making this a great time to lock in a



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long-term loan. Interest rates tend to move up and down in cycles, and this home loan rate is very near the historical lows of 2003. And let's face it — the cost of borrowing is one of the prime drivers of real estate sales.

► Georgia has largely dodged the real estate meltdown that has hit Michigan, California, Florida and New Mexico. In fact, the economy here is strong and growing. We are adding jobs daily. And that's another driver in real estate sales.

Our part of the United States has experienced much more stable growth and less of the speculative frenzy that drove up home prices wildly in some parts of the country. Remember that all real estate is local, and what's happening in New Mexico is not relevant to what's happening in your neighborhood. Many of those negative reports miss this point completely.

► Home prices in Georgia have not slipped, and, in fact, are still rising, though mod-

estly. The average home in Georgia is worth more today than it was a year ago. As hard as it is to believe, your real estate is still a good investment and is likely to be worth more in the future.

► People still need a place to live, and they almost always prefer to live indoors.

With an additional 2 million to 3 million new residents projected to arrive in the Atlanta area over the next 20 years, we will need a lot more housing units than are currently available. And that new housing will cost more, not less. I am not suggesting a housing boom during 2008, but I am saying that demand is going to increase, and we will need new housing to meet that demand.

► This current market won't last. The southeastern United States (even Florida) continues to attract new jobs and new residents. People are moving here to fill jobs, and other people are moving here for a sunny retirement.

In a recent study, the Realtors' chief economist Lawrence Yun stated that he believes the worst part of the credit crunch has worked its way through the economy, and projected existing home sales in the United States to trend up in 2008.

He projects existing home sales to reach

a total of 5.67 million for 2007, making last year the fifth highest on record. He looks for a total of 5.70 million homes sold in 2008, compared with the 6.48 million units sold in 2006. His prediction for new-home sales is slightly gloomier, stating that a recovery for this part of the market is unlikely before 2009. The new-home market traditionally makes up around 16 percent of all home sales annually.

These things tend to go in cycles, and when the current new-home inventory finally dries up, and the glut of foreclosures gets absorbed, demand will force prices higher in the years ahead. How high remains to be seen.

I am willing to go on record as predicting that 2008 will be seen as the year of the real estate turnaround in the Atlanta metro area. Home demand will be strongest in the detached single-family "under \$300,000" range, and sales will begin to pick up in spring, then improve through the remainder of the year.

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