

A healthy regional housing market – moderating to fit the times

The 2006 Twin Cities residential real estate market is expected to be robust, from a historical perspective. That said, 2006 pending sales activity is expected to fall slightly short of the energetic pace experienced in 2004-2005 – evidence of a market that is evolving from a booming market to a market of steady and sustainable growth.

The Minneapolis Area Association of REALTORS® (MAAR) forecasts a small decline in 2006 buyer and seller activity. Yearend residential new listings in the 13-County Twin Cities metropolitan area should be close to 97,000 units– slightly off the pace of 2005 projected record numbers. Residential pending and closed sales should end 2006 slightly below 2005, at 61,000 and 56,500 units respectively.

As we advance into 2007, the residential market should evolve to one of slow and steady growth in most categories, eventually surpassing the record numbers of 2004-2005.

Changing market dynamics

Aided by low interest rates, relatively tight supply and increased demand from first-time homebuyers and retiring boomers, the Twin Cities residential real estate market saw unparalleled growth over the past several years. Records were consistently shattered for pending sales, closed sales, new listings, and price growth. Inventories were low, homes sold relatively quickly, and the market was tipped generously in the direction of the seller. The extreme nature of this seller's market was unsustainable and the region has now begun to experience the expected soft landing for residential real estate.

Total listing inventory made substantial gains in 2005, finally catching up with several years of unfettered growth in buyer demand. As the year ended, the number of single-family listings for sale in the Twin Cities was up 27 percent as compared to December 2004. During this same time period, buyer activity lagged slightly behind the previous year's record results.

Housing affordability is another factor that will contribute to a market change in 2006. An increase in the cost of borrowing money creates an increase in the cost of homeownership. Interest rates for 30-year fixed mortgages in the Twin Cities have steadily risen in recent months and are expected to move into the mid to upper 6 percent range in 2006, according to the National Association of REALTORS® (NAR). While rates are still historically low, the gradual rise will suppress buyer demand as compared to the previous two years.

The regional Housing Affordability Index (HAI), which resided in the 140 range for much of this decade, has declined to its current rate of 132 over the past few months. (An HAI of 132 means the median family income is 132 percent of the necessary income to qualify for the median priced home.) It is expected that the HAI will settle into the 120 range during 2006.

According to Todd Shipman, MAAR president, "A positive outcome of these changes in market dynamics is the relatively healthy balance between buyers and sellers. A return to a more traditional and modest price growth in the 3 to 6 percent range annually is expected, along with longer market times than witnessed earlier this decade."

As a case in point, January 2004's Housing Supply Outlook (HSO) stood at 2.9, meaning there was a 2.9 months supply of homes currently listed on the market and available for purchase. Through December 2005, the HSO has risen to a 4.8 month supply of homes.

Shipman states, "REALTORS® need to be aware of the market's changing dynamics and prepare themselves to consult their clients accordingly in the buying and selling process."

Poised for a bright long-term future

Despite a brief and slight slowdown, the Twin Cities residential real estate market outlook appears to be relatively healthy and robust for the coming years. Real estate markets are inherently local and our region is on track to be healthy, prosperous and expanding.

Two of the biggest drivers of home sales are employment and population growth. The unemployment rate in the Twin Cities is a scant 3.5 percent compared to the national rate of 4.8 percent. More important than unemployment is job growth –at 1.2 percent last year regionally and expected to expand.

Population growth has been strong with 37,000 people per year moving into the 13-county region since 2000. This is the equivalent of one suburban-sized community per year – and the Metropolitan Council projects the region's population will grow by more than one million people by 2030.

Robust population growth, regional economic health, and quality housing stock paints a picture of the Twin Cities remaining a great place to buy and sell residential real estate.

National real estate sales for 2006

While expecting a solid national real estate market for 2006, NAR is not projecting record sales. According to David Lereah, NAR's chief economist, "market conditions are still favorable for housing. The slowdown amounts to a tapping of the brakes on a hot market," said Lereah. "Home sales are coming down from the mountain peak, but they will level-out at a high plateau – a plateau that is higher than previous peaks in the housing cycle. transition to a more normal and balanced market is a good thing."

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