Real estate growth expected

Unfaltering economic conditions are expected to result in another lucrative year for the nation's residential real estate market, according to the latest projections in the National Association of Realtors' "Outlook for the Economy and Real Estate."

NAR's chief economist John A. Tuccillo said early signs are encouraging, considering what appears to be a small but steady increase in the growth rate of the gross national product — the total market value of the nation's good and services.

"The economy in general — including inflation, interest rates and growth — shows stability. The rate of growth is not as high as we would like, but we are seeing a consistent growth pattern that likely will be sustained through 1988," Tuccillo said.

"Inflation will remain mild, largely because of the stability of oil prices and labor costs. There are no obvious factors now leading to higher rates of inflation." Labor costs heavily influence prices, comprising as much as two-thirds of the total costs for consumer goods and services.

"The numbers suggest that 1987 will be another favorable year for real estate. The forces at work in the economy will lead to a fifth year of expansion in the housing industry and to one of the top five sales years on record," Tuccillo said.

An increase in sales of existing single-family homes began in 1983, when 2.72 million resales took place. The NAR predicts resales will total between 3.6 and 3.7 million for 1987, which would rank it among the resale boom years of 1977, 1978, 1979 and last year.

The buying and selling spree will continue to stem from attractive financing. The affordability of mortgage interest rates is due in part to the growing investment in securities funded by home loans, Tuccillo said. The competition among mortgage-money suppliers in the secondary mortgage market is helping hold down interest rates and loan discount points for consumers.

"Mortgage interest rates will continue to trend downward, because of general low economic growth, and because of increased efficiency of the mortgage market. The development of the secondary market has led to a reduced spread between mortgage rates and other capital interest rates," he said.

Instead of remaining artificially high, mortgage rates have dropped to a level that correlates better with the overall decline in capital rates that has occurred over the past two years, Tuccillo said.

Below is a summary of the National Association of realtors' "Outlook for the Economy and Real Estate."

• Existing-home sales: Sales of previously owned single-family homes should reach a total between 3.6 million ad 3.7 million, increasing approximately 2 percent over the 3.57 million sold in 1986. Home resale volume in 1988 likely will be close to 1987 activity.

• New home sales: A total of 700,000 new single-family homes should are expected to be sold this year, a 6.5 percent drop from 1986. The rise in existing-home sales is expected to offset the decrease in new home sales.

• Housing starts: Housing starts, including single-family and multifamily structures, are expected to total about 1.65 million units for 1987, an 8.6 percent drop from the 1.81 million starts in 1986. Single-family starts should total about 1.1 million units, falling 8.3 percent from the 1.2 million in 1986.

Construction of residential buildings with two to four units probably will drop around 25 percent. A 23 percent reduction in starts is anticipated for buildings with five or more units.

• Home prices: The median price of existing single-family homes probably will rise 4 percent to $83,500 for 1987 from the 1986 median of $80,300. The median is the midpoint figure in a listing of the lowest to highest prices.

• Interest rates: Interest rates for mortgages probably will decline to a nominal, or quoted, rate of 8.7 percent by the fourth quarter of 1987. The nominal rate is predicted to average about 9 percent for the year.

• GNP: The real (inflation-adjusted) growth rate for the gross national product is anticipated to be 2 percent for the first half of 1987, then increase to about 2.6 percent for the second half.

• Inflation: The rate of inflation for 1987 is expected to be about 3.5 percent, due primarily to stable labor costs and oil prices.