Moody's bearish on housing recovery

Analysts say it will take more than 10 years to recapture peak home prices

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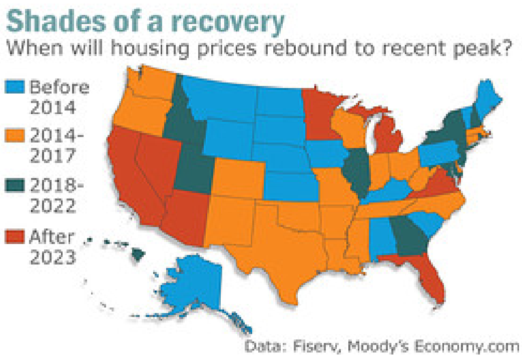
BOSTON (MarketWatch) -- Moody's Investors Service threw cold water on optimistic projections of a V-shaped recovery in the battered U.S. housing market, predicting it could take more than 10 years to get back to boom-level prices.

"For many reasons, the rebound will be disproportionately small compared to the decline," Moody's said this week in its latest outlook on the residential market. "It will take more than a decade to completely recover from the 40% peak-to-trough decline in national home prices."



The housing market is in the third year of the current downturn, one of the worst corrections in U.S. history as a result of the economic recession and the mortgage industry nearly grinding to a halt during the credit crunch.

"The bursting of the housing bubble precipitated a crisis in financial markets the likes of which have not been seen since the Great Depression and plummeted the nation into recession," Moody's said.

"The scars that this downturn will leave on the economy and the housing market will be long lasting and persist in nearly all facets of the housing industry, including the demand for homes, ownership patterns, homebuilding, and house price appreciation," the analysts forecast.

"It will take more than a decade for many measures of housing activity to regain ground that has been lost as a result of the correction: The intense downturn will overcorrect for the excesses in the housing market generated by the boom years," they added.

Despite the ongoing challenges facing the U.S. housing market such as rising foreclosures and a supply glut, the rally in home-builder stocks shows investors are hopeful the worst is over. The sector has doubled from the March lows. See Ratings Game.

Moody's said the home-building industry will rebound, "but a lingering overhang of inventories, combined with consolidation in the industry and caution on the part of both home builders and lenders to builders, will keep the pace of construction from reaching the peak it achieved at the end of 2006."

On home values, the analysts said price volatility has been "particularly wild" during this housing cycle, with a giddy run-up followed by the dramatic crash. However, prices "will behave in a much more moderate manner during the recovery."

According to the latest data available from the S&P/Case-Shiller home-price indexes, the prices of single-family homes in 20 major cities rose in June for the second month in a row. The national index rose in the second quarter, the first quarterly gain in three years.

Yet Moody's predicted home prices "will remain at a persistently lower level than we anticipated prior to the crisis, and it will take a full decade from the 2010 bottom just for the [Case-Shiller] national index to climb back to its 2006 peak."

On a regional basis, Moody's said hard-hit states such as Florida and California will be among the last to recover and "will only regain their pre-bust peak in the early 2030s, well after the nation does." Meanwhile, a decimated Wall Street will weigh on New York's recovery, although the state's overall price decline will be less severe.

"In general, the length of the downturn and the length of recovery in a region will depend on the degree of aggressive lending or overinvestment in housing that occurred during the boom," said Celia Chen, senior director of housing economics at Moody's Economy.com. "On the recovery side, states with weaker job growth will also take longer to return to peak."

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