

Super boom ends; '80s look tough for real estate

By TIM RICHARD

"Brace yourself," economist Anthony Downs told a roomful of suburban real estate advisors and lenders.

The real estate "super boom of the last four years" is over. The first three quarters of 1980 will be tough in the housing industry.

While "demand for single-family houses will not collapse," Dr. Downs said, the old adage of housing depreciating like any other durable good may yet prove true.

"You may feel threatened," he said recently in a speech that had to be depressing to his audience in Fairlane Manor, Dearborn. "But consider the average Cambodian or even citizen of Iran."

Downs is a senior fellow at the Brookings Institution, a private nonprofit research organization on public policy issues in Washington and a for-

mer faculty member (economics, political science) at the University of Chicago.

For the past three years, he has made his predictions of what to expect in the year ahead at a luncheon sponsored by Standard Federal Savings & Loan. So accurate have his predictions been, said SF President Thomas Ricketts, that they keep inviting him back.

Ricketts was applauded for saying SF, largest mortgage lender in southeast Michigan, "will try to keep up a heavy flow of mortgage money."

He also announced Standard Federal will open four new offices early in 1980: at Grand River and Drake in Farmington Hills, Maple and Farmington roads in West Bloomfield Township, Wayne Road and Nankin in Westland and in Brighton. They will bring SF's total number of offices to 50.

HOW ATTRACTIVE an investment is real estate?

Downs, an expert in real estate research and urban planning, gave three answers:

• "Ownership for your own use is attractive."

• "Ownership for speculation is not good unless you get a super deal."

• "Right now (corporate) stocks are undervalued, and real estate is overvalued, in relation to their intrinsic earning power."

FOREIGN EVENTS in Iran and the Middle East will adversely affect energy and the economic outlook of the 1980s, said Downs.

He saw a probability of 50 percent or more that "the U.S. will intervene militarily in the Mideast," if not in 1980 then sometime during the decade. One possible weak spot, besides Iran: the leadership in Saudi Arabia.

"The outlook for the Detroit area must be considered negative for 1980," he said. "The big automakers failed to

guess consumers' would want more fuel-efficient cars." The result is that the auto industry is hurting "more than the economy would warrant."

Downs said that in the 1980 election year, the government would try to attack the problems of inflation and recession simultaneously — "and fail to do both."

The Federal Reserve Board's moves in October to raise interest rates should have slowed down the rise in housing rates — but didn't.

"Nothing bore the brunt, and the economy didn't slow down," he said.

"THE SAVINGS and loans cannot hold savings from leaving for greener pastures," Downs went on, predicting money would leave the institutions which provide so much housing mortgage money and that Detroit area saving and loan institutions would continue to lose funds.

One reason the supply of mortgage

money is down is that Americans simply aren't saving, he said. They apparently regard the increase in their housing equity due to inflation as a form of saving and aren't salting away money in thrift institutions.

Mortgage interests rates, now running at more than 14 percent, will stay high until at least the third quarter of 1980.

And the Fed must keep interest rates high, he said, in order to keep big foreign deposits here and because rising oil prices keep worsening America's balance of payments, even if Americans don't consume more.

HOUSING PRICES reached a peak last July, when the average price in the four central states reached \$32,400, Downs said.

Since then, prices have slipped, but

how much more they'll slip is an open question.

"House prices are declining compared to what sellers had hoped to get in their moments of wildest optimism. But prices are not — yet — below what they (sellers) would have gotten one year earlier."

Downs said that in the western Wayne and Oakland market, prices in October averaged \$32,900, some 4 percent below the July peak but still 8 percent ahead of the October 1978.

But if prices continue to slide at the current rate, Downs said, by February 1980 they will be below prices of February 1979.

"By the end of the first quarter of 1980, many prices will be below a year earlier. In many respects, that is a healthy development."

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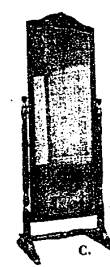
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