



An Article Of Interest...

Near-Term Home Sales to Stay in Narrow Range

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The level of home sales is expected to show little movement in the months ahead, according to the latest projections by the National Association of Realtors®.

The Pending Home Sales Index,¹ a forward-looking indicator based on contracts signed in July, fell 3.2 percent to 86.5 from an upwardly revised reading of 89.4 in June, which had risen 5.8 percent from May. The July index remains 6.8 percent below July 2007 when it stood at 92.8.

Lawrence Yun, NAR chief economist, said home sales continue to edge up and down. "Pending home sales are oscillating month-to-month, with the long-term trend essentially flat," he said. "Overly stringent lending criteria imposed by Fannie Mae and Freddie Mac in the past month no doubt held back contract signings."

Even with the latest pullback, pending home sales have been fairly stable on a national basis for nearly a year, with dramatic local market differences continuing. "Contract signings have been steaming ahead, nearly doubling in activity from a year before in several California and Florida markets," Yun said.² "The outer Washington, D.C., exurbs also are coming around very strongly. The Northeast region retreated following a robust gain in the previous month, and soft activity was observed in the broad midsection of America despite very affordable conditions."

The PHSI in the Midwest rose 2.8 percent to 81.6 in July but remains 2.4 percent below a year ago. In the South the index was unchanged, holding at 93.7, but is 13.4 percent below July 2007. The index in the Northeast fell 7.5 percent to 73.6 in July and is 13.2 percent below a year ago. In the West, the index dropped 10.6 percent to 90.3 but is 6.5 percent higher than July 2007.

NAR President Richard F. Gaylord, a broker with RE/MAX Real Estate Specialists in Long Beach, Calif., said there's been a surge in FHA mortgage applications. "Unfortunately, many people in high-cost areas aren't familiar with FHA programs, which is why we produced a toolkit so

Realtors[®], lenders, and other real estate professionals can familiarize themselves with this increasingly valuable program,” he said.

“FHA is taking a more active role in serving a broad cross section of home buyers, but it will take some time to fully get up to speed. We’re working with regulators to improve the process, and the good news is that this is becoming a big help to first-time buyers,” Gaylord said.

Yun said there are many ambiguities in the marketplace. “The economy is producing more, yet cutting jobs. A first-time home buyer tax credit and lower interest rates on newly conforming jumbo loans favors consumers, yet buyer confidence remains low,” he said. “Even with the Treasury Department’s direct intervention in the secondary mortgage market, it is unclear if we will go back to sound normal underwriting criteria, or if it will remain overly stringent. The housing market outlook is very cloudy.”

Yun mentioned that the speed and timing of a recovery depends on local market conditions. “Based on local market fundamentals, I expect robust home price growth in places like Denver and Houston over the next two years,” Yun said. “In addition, the frequent reporting of multiple bids in California and Florida may be signaling a bottom in home prices in these areas. Nationally, home sales are stable now but are expected to increase in coming quarters.”

Looking at middle-ground assumptions, existing-home sales are projected to total 5.01 million this year before rising 6.9 percent in 2009 to 5.35 million. After declining an average of 4 to 7 percent this year, home prices are forecast to rise by 2 to 4 percent next year.

New-home sales will total about 508,000 in 2008 and 463,000 next year, down significantly from 775,000 in 2007. With builders motivated to clear inventory, housing starts, including multifamily units, will probably fall 17.1 percent in 2009 to 801,000 units from 966,000 this year.

The 30-year fixed-rate mortgage, which also has been moving up and down, should trend up to 6.6 percent by the end of this year, edging up to 6.7 percent in 2009. NAR’s housing affordability index is likely to remain favorable throughout 2008, averaging 13 percentage points higher than last year.

Growth in the U.S. gross domestic product (GDP) is forecast to remain positive with a growth rate of 2.0 percent for all of 2008, and 2.0 percent also next year. The unemployment rate is estimated to average 5.8 percent over the coming year.

Inflation, as measured by the Consumer Price Index, is anticipated at 3.8 percent this year and 1.6 percent in 2009. Inflation-adjusted disposable personal income is projected to grow 1.8 percent in 2008 and 2.1 percent next year.

The Pending Home Sales Index is a leading indicator for the housing sector, based on pending sales of existing homes. A sale is listed as pending when the contract has been signed but the transaction has not closed, though the sale usually is finalized within one or two months of signing.

The decline from July 2007 was the most modest annual decline since December of 2006 when it was 3.9 percent below a year earlier.

The index is based on a large national sample, typically representing about 20 percent of transactions for existing-home sales. In developing the model for the index, it was demonstrated that the level of monthly sales-contract activity from 2001 through 2004 parallels the level of closed existing-home sales in the following two months. There is a closer relationship between annual index changes (from the same month a year earlier) and year-ago changes in sales performance than with month-to-month comparisons.

An index of 100 is equal to the average level of contract activity during 2001, which was the first year to be examined as well as the first of five consecutive record years for existing-home sales.

²Market information is from unpublished snapshot data; please contact your local association of Realtors[®] for more information.

Existing-home sales for August will be released September 24; the next Pending Home Sales Index / Forecast will be released October 8.

