

## Pending Sales - 9 June 2008

### Home sales may rise modestly before broader upturn in second half of 2008

WASHINGTON – June 9, 2008 – A modest gain in the level of home sales is possible over the next couple months, and an improvement is forecast for the second half of this year as more buyers are able to access affordable mortgages, according to the latest forecast by the National Association of Realtors® (NAR).

The Pending Home Sales Index, a forward-looking indicator based on contracts signed in April, rose 6.3 percent to 88.2 from a reading of 83.0 in March. It's the highest index since last October, but remains 13.1 percent lower than April 2007 when it stood at 101.5.

Lawrence Yun, NAR chief economist, said pending sales contracts have picked up notably in areas undergoing significant price drops. "Bargain hunters have entered the market en masse, especially in areas that have experienced double-digit price declines, but it's unclear if they are investors or owner-occupants," he said. "Sharp price reductions are leading to a quicker discovery of price equilibrium points. The West is already seeing year-over-year gains in pending contracts."

The PHSI in the West rose 8.3 percent to 98.8 in April and is 4.0 percent higher than April 2007. In the Midwest, the index jumped 13.0 percent to 83.7 in April but remains 13.1 percent below a year ago. The index in the South increased 4.6 percent to 88.8 but is 22.5 percent below April 2007. In the Northeast, the index declined 1.9 percent in April to 79.3 and is 12.2 percent below a year ago.

NAR President Richard F. Gaylord said the market may be breaking its holding pattern. "It appears that more buyers are realizing they can take advantage of a favorable combination of mortgage interest rates, home prices and family income," he said. "Overall affordability conditions are the best we've seen since the middle of the housing boom in 2004, but with far more choices and much less pressure than buyers experienced four years ago to make an investment in their future. Recent declines in mortgage rates on conforming jumbo loans and a return to sound but not overly stringent underwriting standards will permit more people to qualify for a loan."

NAR's housing affordability index has been trending up this year and is projected to rise 15 percentage points to 128.0 for all of 2008.

"Although mortgage interest rates will remain historically favorable, they will start to steadily inch up," Yun said. The 30-year fixed-rate mortgage should rise gradually to 6.3 percent by the end of this year, and then hold at that level for most of 2009.

Yun said the underlying fundamentals point to a pent-up demand. "Home sales are at about the same level as they were 10 years ago, yet the population has grown by 25 million people and we have over 10 million more jobs," he said. "The housing market has been underperforming by historical standards, partly because buyers were hampered by mortgage availability issues, but that's improved and an upturn is more likely. On the other hand, it's unclear what role consumer confidence will play in the coming months."

Existing-home sales should increase from an annual pace of 5.05 million in the second quarter to 5.83 million in the fourth quarter. For all of this year, existing-home sales are expected to total 5.40 million, and then rise 6.3 percent to 5.74 million in 2009. "Sales gains will be greatest in areas that underwent sharp price declines," Yun said.

After unprecedented home price declines in the first half of the year, many markets can anticipate stabilizing price trends in the second half. The aggregate median existing-home price is likely to decline 8.4 percent in the first half of this year, and then begin to stabilize in the second half before rising 4.4 percent next year to \$213,900.

"Policymakers need to be attentive to the fact that many homeowners have seen a reduction in housing equity, or are in an 'underwater' situation. More needs to be done on the policy front to alleviate hardships and bring fence-sitters back into the marketplace," Yun said.

A great mix of conditions continues around the country. "We're seeing healthy price gains in moderately priced areas like Erie, Pa., and Corpus Christi, Texas, and double-digit gains in others," Yun said. "Our most recent data shows sales rising strongly from a year ago in some areas that experienced sharp price drops, including Detroit and Las Vegas."

New-home sales will probably fall 31.7 percent to 529,000 in 2008 before rising 12.5 percent to 595,000 next year. Housing starts, including multifamily units, are projected to drop 27.2 percent to 987,000 this year, and then slip 0.6 percent to 980,000 in 2009.

"Rising construction costs will provide less room for price cuts on new homes," Yun said. The median new-home price is forecast to decline 3.1 percent to \$239,500 in 2008, and then rise 5.4 percent next year to \$252,400.

Yun sees an improving economy. Growth in the U.S. gross domestic product (GDP) should be 1.7 percent in 2008 and 2.0 percent next year. The unemployment rate is estimated to average 5.3 percent this year and 5.6 percent in 2009.

Inflation, as measured by the Consumer Price Index, is expected to be 3.6 percent this year and 2.4 percent in 2009. Inflation-adjusted disposable personal income should grow 1.4 percent in 2008 and 2.5 percent next year.

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