

Pending Home Sales up Strongly

Contributed by Imperial Valley News
Monday, 13 October 2008

Washington, DC - Pending home sales activity surged as buyers took advantage of low home prices and affordable interest rates, according to the National Association of Realtors.

The Pending Home Sales Index, a forward-looking indicator based on contracts signed in August, jumped 7.4 percent to 93.4 from an upwardly revised reading of 87.0 in July, and is 8.8 percent higher than August 2007 when it stood at 85.8. The index is at the highest level since June 2007 when it stood at 101.4.

Lawrence Yun, NAR chief economist, said home buyers were responding to improved affordability. "What we're seeing is the momentum of people taking advantage of low home prices, with pending home sales up strongly in California, Nevada, Arizona, Florida, Rhode Island and the Washington, D.C., region," he said. "It's unclear how much contract activity may be impacted by the credit disruptions on Wall Street, but we're hopeful most of the increase will translate into closed existing-home sales."

The PHSI in the West surged 18.4 percent to 109.5 in August and remains 37.8 percent above a year ago. In the Northeast the index jumped 8.4 percent to 79.8 and is 2.0 percent higher than August 2007. The index in the Midwest rose 3.6 percent to 84.5 in August and is 6.6 percent above a year ago. In the South, the index increased 2.3 percent to 96.0 but is 2.1 percent below August 2007.

Yun notes the unusual timing of contract activity in August. "Home buyers in July were hampered by overly stringent lending criteria in the months before the government takeover of Fannie and Freddie," he said. "August shows some unleashing of pent-up demand before the credit crisis accelerated in September."

He cautioned that the sampling size for pending home sales is smaller than the track on existing-home sales, so there is more volatility in the forward-looking series. "We need to see just how much of this gain holds up," Yun said.

NAR President Richard F. Gaylord, a broker with RE/MAX Real Estate Specialists in Long Beach, Calif., said despite all the turmoil in world financial markets, home mortgages are available. "Mortgages have been harder to find, and availability and terms vary depending on credit score and location, but Realtors can help buyers find reputable lenders while helping them navigate the transaction process," he said. "The recently enacted economic stimulus package should help housing by gradually freeing the flow of credit."

Yun now expects growth in the U.S. gross domestic product (GDP) to contract for two consecutive quarters, in the fourth quarter of this year and the first quarter of 2009, before expanding in latter part of 2009 as the housing market begins a steady improvement.

Looking at middle-ground assumptions, existing-home sales are forecast at 5.04 million this year and 5.41 million in 2009. Following national declines of 5 to 8 percent in 2008, home prices are projected to increase 2 to 3 percent next year.

New-home sales should total around 503,000 this year and 471,000 in 2009. Housing starts, including multifamily units, are likely to fall 28.2 percent to 973,000 units this year, and come in around 843,000 in 2009 as builders continue to clear the accumulation in inventory.

The 30-year fixed-rate mortgage will probably average 6.1 percent in the fourth quarter and rise gradually to 6.6 percent by the end of 2009. NAR's housing affordability index is expected to average 18 percentage points higher this year than in 2007.

The unemployment rate is projected to average 6.4 percent in the fourth quarter and then average 6.6 percent in 2009. Inflation, as measured by the Consumer Price Index, is estimated at 4.0 percent for 2008 and 2.0 percent next year. Inflation-adjusted disposable personal income is forecast to grow 1.7 percent this year and 1.0 percent in 2009.