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The Mortgage Corner

Home Sales Show Growing Demand

Pending home sales, a forward-looking indicator based on contracts signed in October, increased 3.7 percent. It has risen for nine months in a row, a first for the series of the index since its inception in 2001, according to the National Association of Realtors. The rise from a year ago is the biggest annual increase ever recorded for the index, which is at the highest level since March 2006.

NAR chief economist Lawrence Yun said home sales are experiencing a pendulum swing. “Keep in mind that housing had been underperforming over most of the past year. Based on the demographics of our growing population, existing-home sales should be in the range of 5.5 million to 6.0 million annually, but we were well below the 5-million mark before the home buyer tax credit stimulus,” he said. “This means the tax credit is helping unleash a pent-up demand from a large pool of financially qualified renters, much more than borrowing sales from the future.

Pending sales rose in every area but the West, where it fell 11.2 percent, but the West is still 21.9 percent above October 2008 pending sales.

Yun cautioned that home sales could dip in the months ahead. “The expanded tax credit has only been available for the past three weeks, but the time between when buyers start looking at homes until they close on a sale can take anywhere from three to five months. Given the lag time, we could see a temporary decline in closed existing-home sales from December until early spring when we get another surge, but the weak job market remains a major concern and could slow the recovery process.

“Still, as inventories continue to decline and balance is gradually restored between buyers and sellers, we should reach self-sustaining housing conditions and firming home prices in most areas around the middle of 2010. That would mean broad wealth stabilization for the vast number of middle-class families,” Yun said.

	2009 Q3 Level	2009 Q3/2009 Q2 Change (%)	2009 Q2/2009 Q1 Change (%)	1-Year Change (%)
U.S. National Index	137.19	3.1%	3.1%	-8.9%
Metropolitan Area	**September 2009 Level**	**September/August Change (%)**	**August/July Change (%)**	**1-Year Change (%)**
Atlanta	111.26	0.0%	1.1%	-9.3%
Boston	155.62	-0.2%	0.9%	-3.3%
Charlotte	119.84	-0.7%	-0.4%	-8.1%
Chicago	132.13	1.2%	1.7%	-10.6%
Cleveland	105.75	-1.6%	-0.5%	-3.7%
Dallas	120.57	-0.7%	0.2%	-1.2%
Denver	129.45	-0.5%	1.0%	-1.2%
Detroit	72.90	1.8%	1.9%	-19.2%
Las Vegas	104.82	-0.9%	-0.3%	-28.6%
Los Angeles	167.93	0.8%	1.6%	-9.0%
Miami	149.69	0.5%	1.1%	-16.2%
Minneapolis	124.96	1.8%	3.1%	-11.2%
New York	174.38	-0.3%	0.6%	-9.0%
Phoenix	109.26	0.8%	1.6%	-21.8%
Portland	149.72	-0.5%	0.3%	-11.8%
San Diego	154.76	0.9%	1.6%	-5.7%
San Francisco	134.16	1.3%	2.8%	-7.8%
Seattle	148.94	-0.4%	0.1%	-13.8%
Tampa	142.57	-0.6%	0.4%	-16.7%
Washington	180.45	0.5%	1.8%	-5.0%
Composite-10	158.61	0.4%	1.3%	-8.5%
Composite-20	146.51	0.3%	1.2%	-9.4%

Source: Standard & Poor's and Fiserv
Data through September 2009

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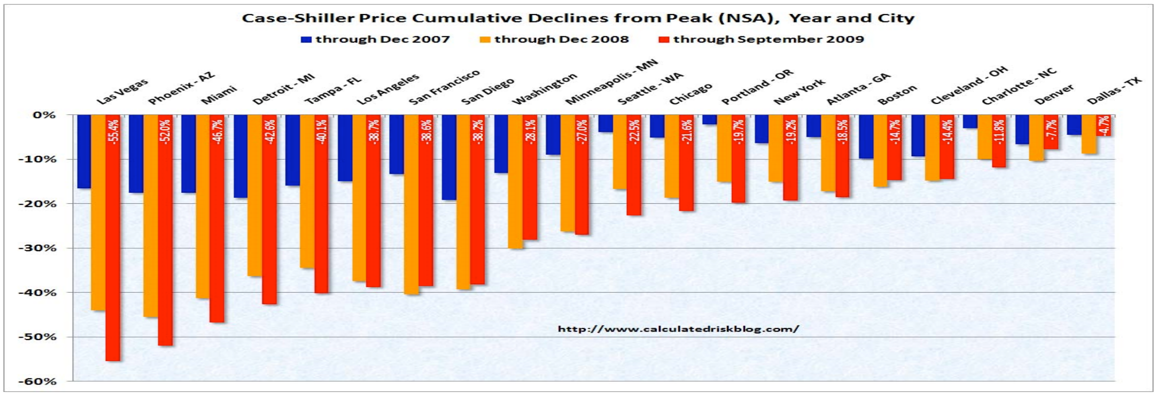
The S&P/Case-Shiller Home Price Indices have shown consecutive 3 percent growth over the past 2 quarters, another sign of balance between housing supply and demand, with September showing prices increases in 10 of the 20 metro areas, down from 16 of 20 metro area price increases in August.



But we still have a long way to go. Detroit and Chicago had the largest price increases in September, with California cities San Francisco, Los Angeles, and San Diego not far behind.

Historically low interest rates are also boosting the market. "Mortgage interest rates last month were the third lowest on record dating back to 1971," Yun noted. According to Freddie Mac, the national average rate for a 30-year, conventional, fixed-rate mortgage fell to 4.95 percent in October from 5.06 percent in September; the rate was 6.20 percent in October 2008. Last week, Freddie Mac reporter the 30-year rate dropped to 4.83 percent.

The key to continued affordability will be maintaining the record low interest rates. This should continue until at least March 2010, when the Federal Reserve has said it will discontinue purchasing Mortgage Backed Securities that set the price of fixed rate mortgages. The Fed has bought almost $1 billion to date, but it is the private financial sector that must replace the Fed's purchases next year. That will happen when we see a decline in default and foreclosure rates, which are dependent on an improving jobs market.

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