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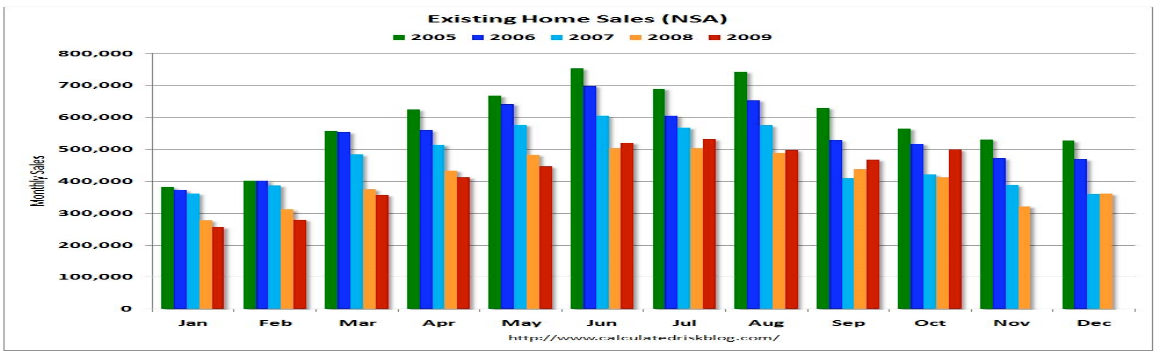
The Mortgage Corner

Home Sales Showing Recovery

A huge jump in October existing-home sales confirms that real estate is in recovery. Including single-family, townhomes, condominiums and co-ops – existing sales surged 10.1 percent to a seasonally adjusted annual rate1 of 6.10 million units in October from a downwardly revised pace of 5.54 million in September, and are 23.5 percent above the 4.94 million-unit level in October 2008. Sales activity is at the highest pace since February 2007 when it hit 6.55 million.



And total housing inventory at the end of October fell 3.7 percent to 3.57 million existing homes available for sale, which represents a 7.0-month supply at the current sales pace, down from an 8.0-month supply in September. Unsold inventory totals are 14.9 percent below a year ago.

"The supply of homes on the market is now at the lowest level in over two-and-a half years – we're getting closer to a general balance between buyers and sellers," Yun said. The last time the relative housing inventory was this low was in February 2007 when it also was at a 7.0-month supply.

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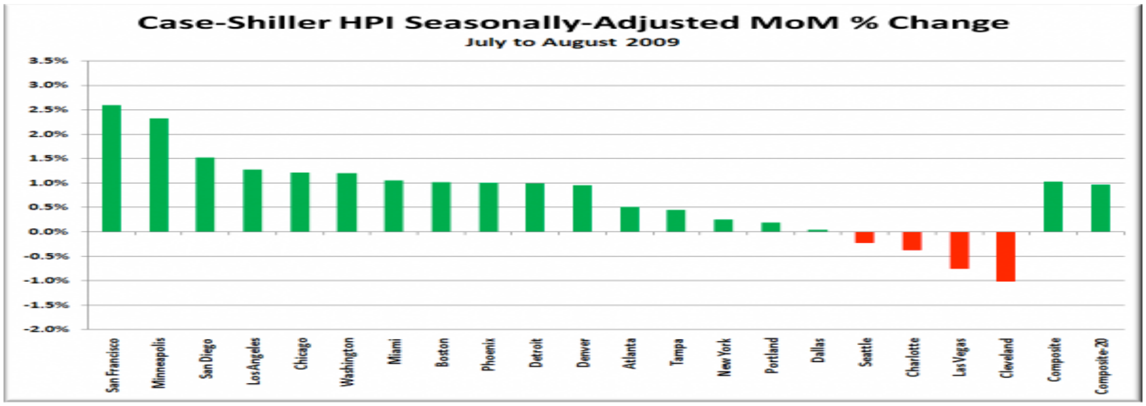
This coincides with the rise in overall same-home prices in the September S&P Case-Shiller index for existing, same-home sales. In fact 3 of the 4 top price increases were California cities—San Francisco, Los Angeles, and San Diego.



NAR chief economist Lawrence Yun was surprised at the size of the gain. "Many buyers have been rushing to beat the deadline for the first-time buyer tax credit that was scheduled to expire at the end of this month, and similarly robust sales may be occurring in November," he said. "With such a sale spike, a measurable decline should be anticipated in December and early next year before another surge in spring and early summer."

Now that the tax credit has been extended and expanded, potential buyers have until April 30 to have a contract in place. "There is still a large pent-up demand that can be tapped before the tax credit expires. Our recent consumer survey further shows that 13 percent of successful first-time buyers had a previous contract that was cancelled or fell through – there likely are many more buyers who were attempting to purchase but simply ran out of time," Yun said.

Historically low interest rates also are 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. Stay tuned.

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