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The Mortgage Corner
Pending Home Sales Surge

Pending home sales have increased for seven straight months, the longest in the series of the index which began in 2001, according to the National Association of Realtors.

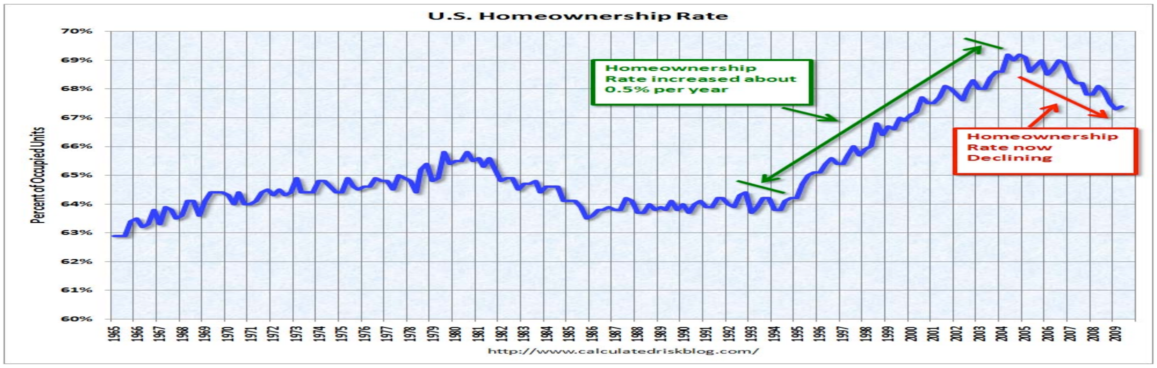
The Pending home sales index, based on contracts signed in August, rose 6.4 percent to 103.8 from a reading of 97.6 in July, and is 12.4 percent above August 2008. The index is at the highest level since March 2007 when it was 104.5.

NAR chief economist Lawrence Yun said not all contracts are turning into closed sales within an expected timeframe. “The rise in pending home sales shows buyers are returning to the market and signing contracts, but deals are not necessarily closing because of long delays related to short sales, and issues regarding complex new appraisal rules,” he said. “No doubt many first-time buyers are rushing to beat the deadline for the $8,000 tax credit, which expires at the end of next month.”

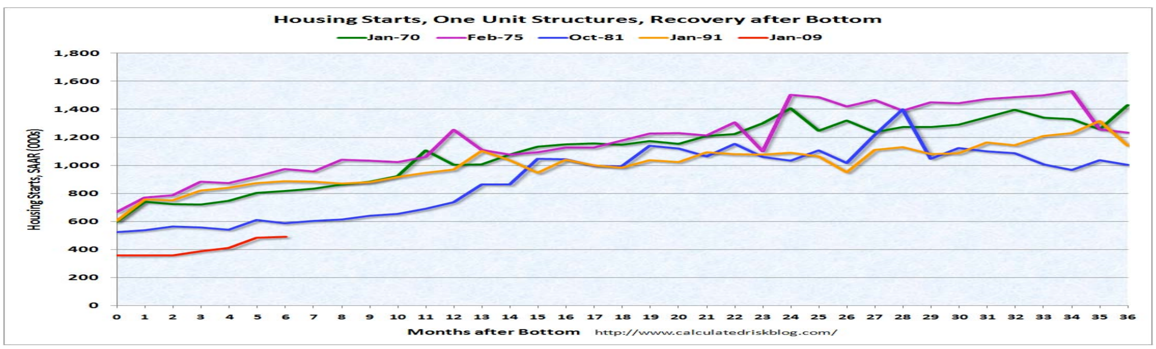
The Pending Home Sales Index in the Northeast jumped 8.2 percent to 85.3 in August and is 12.0 percent higher than August 2008. In the Midwest the index rose 3.1 percent to 90.8 in August and is 7.6 percent above a year ago. In the South, pending home sales increased 0.8 percent to an index of 104.6 and is 8.2 percent above August 2008. In the West the index surged 16.0 percent to 130.5 and is 22.3 percent above a year ago.

NAR President Charles McMillan said a sizable number of homebuyers already in the pipeline could be let down because of the December 1 deadline for the homebuyer tax credit. “We know there is a pent-up demand because sales are below normal levels for the size of our population. The faster we absorb excess inventory, the sooner we’ll turn the corner on home prices, prevent additional families from becoming upside-down in their mortgages, and give Wall Street the confidence to extend credit to other sectors,” he said. “Each home sale pumps an additional $63,000 into the economy through related goods and services, so the benefits of extending and expanding the tax credit far outweigh the costs.”

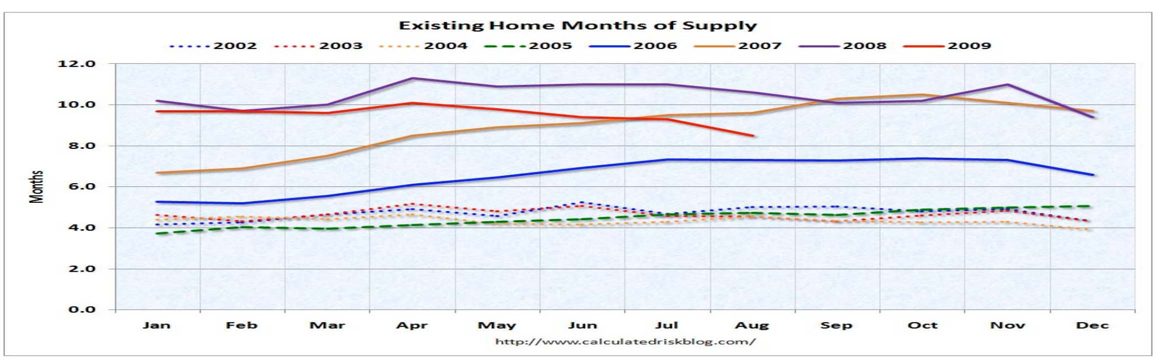
A declining homeownership rate is a factor putting pressure on sales. It has declined to 67 percent, about 0.5 percent per year since 2007. This equates to 500,000 units that become rental units, resulting in the 10 percent plus national vacancy rate. Population growth is about 3 million per year. This translates to 1.25 million new household units with 2.4 persons per household. That normally means an 800,000 unit increase in homeownership. But with the huge inventory overhang and declining ownership rate, it has dropped to approx. 333,000 units per year, according to the Calculated Risk Blog.



The lower homeownership rate has translated to a much lower number of housing starts. This graph shows that housing starts usually double in the two years following the bottom. Starts increased 80 percent over two years in the recovery following the Jan 1991 bottom, and 136 percent in the recovery following the Jan 1970 bottom. If starts doubled over the two years following the Jan 2009 bottom, single-family starts would recover to 715 thousand by Jan 2011.



Home sales in general have been slow to recover from this recession. But inventories are steadily declining, especially for existing-home sales—down to an 8.5-month supply, which is below 2008 and 2007 supplies, and approaching the 2006 level.



Yun said the forecast for home sales and prices depends very much on whether a tax credit is extended. "All we can say for certain is sales will decline when the tax credit expires because we are not yet on a self-sustaining recovery path. It also raises a risk of a double-dip recession," he said. "Extending and expanding the tax credit is the best tool in our arsenal to encourage financially qualified buyers to stimulate the economy and help reduce the budget deficit."

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