

The Mortgage Corner

HOUSING SALES STAY ROBUST

Sales of existing homes experienced a minor decline in May with home prices rising near normal rates, according to the National Association of Realtors, while housing construction and new-home sales rose 5 percent, confusing experts who are predicting a housing slowdown.

Why? David Lereah, NAR's chief economist, said conditions are mixed around the country. "There's now a clear pattern of slower home-sales activity in many higher cost markets, which are more sensitive to rises in interest rates, and higher home sales in moderately priced areas which have experienced job growth," he said. "Although mortgage interest rates remain historically low, the uptrend in interest rates this year is affecting those buyers who are at the margins of affordability."

New-home sales rose for the third consecutive month but are still 5.9 percent below last year's rate. And the report counts signed contracts as sales, while some builders are reporting a high number of cancellations. The annualized sales rate of 1.23 million units is near the 1.23 million unit record set in 2005.

Total existing-home sales including single-family, townhomes, condominiums and co-ops – eased 1.2 percent to a seasonally adjusted annual rate of 6.67 million units in May from a pace of 6.75 million in April, and were 6.6 percent below the 7.14 million-unit level in May 2005.

Why wouldn't this be confusing? Housing starts rose for the first time in 3 months to 1.97 million annualized units due to dryer weather, reports the Commerce Dept. This could mean that construction is settling into a more normal rate, after January's 33-year high of 2.3 million units. Starts have averaged 2.05 million units over the first 5 months.

According to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage was 6.60 percent in May, up from 6.51 percent in April; the rate was 5.72 percent in May 2005.

The national median existing-home price for all housing types was \$230,000 in May, up 6.0 percent from May 2005 when the median was \$217,000. The median is a typical market price where half of the homes sold for more and half sold for less. "Overall price appreciation has returned to normal levels as the supply of homes on the market has risen to a balanced range," Lereah said.

Total housing inventory levels rose 5.5 percent at the end of May to 3.60 million existing homes available for sale, which represents a 6.5-month supply at the current sales pace. NAR President Thomas M. Stevens said it's important to keep the current market in perspective. "We didn't break the 6-million sales barrier until 2003, so the current level of home sales is still pretty healthy by historic standards," said Stevens. "Housing is continuing to support the overall economy by providing a sound foundation for other sectors to grow – the normalization that is taking place in the housing market is good for the long-term health of the industry."

Existing condominium and cooperative housing sales rose 1.9 percent to a seasonally adjusted annual rate of 852,000 units in May from a pace of 836,000 in April, but were 6.6 percent below the 912,000-unit pace in May 2005. The median existing condo price³ was \$229,300 in May, up 1.9 percent from a year earlier.

Single-family home sales slipped 1.5 percent to a seasonally adjusted annual rate of 5.82 million in May from 5.91 million in April, and were 6.6 percent below the 6.23 million-unit level in May 2005. The median existing single-family home price was \$229,700 in May, up 6.4 percent from a year ago.

Regionally, existing-home sales in the West rose 0.7 percent to an annual pace of 1.41 million in May, but were 13.5 percent lower than May 2005. The median price in the West was \$345,000, up 4.5 percent from a year ago. Sales also rose 0.4 percent in the South, but fell in the Midwest and Northeast.

The median price of a new home was \$235,300, up 3.1 percent in a year. New-home sales increased 6 percent in the South, 5.3 percent in the West, 2.7 percent in the Midwest, while sales fell 7.9 percent in the Northeast.

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