

The Mortgage Corner

Pending Home Sales Show Recovery

It may be too soon to call it a trend, but the National Association of Realtors reported the so-called pending home sales—existing homes under a sales contract, but not yet closed—rose for the second consecutive month.

The Pending Home Sales Index (PHSI), based on contracts signed in June, increased 0.4 percent to a reading of 113.9 from an upwardly revised level of 113.5 in May, but is 9.6 percent below June 2005.

The index is based on pending sales of existing homes. A sale is listed as pending when the contract has been signed and the transaction has not closed, though the sale usually is finalized within one or two months of signing.

This may quell rumors of the premature demise of real estate this year, at least, as existing home final sales as of June are selling at a 6.62 million annual rate, according to NAR. This is on track to make 2006 the third-best sales year ever, in spite of surging mortgage rates that have risen approximately 1 percent in the past year.

Price rises are moderating, however, as inventory levels continue to rise. The median price of an existing home is up just 1.1 percent in a year, while for sale inventories rose to a 6.8-month supply, the highest since July 1997, according to NAR.

David Lereah, NAR's chief economist, said the small rise in the index is good news, indicating that the trend is stabilizing. "Once again, we have various housing indicators moving in different directions, which itself is an indicator of a market in transition," he said. "The housing market is striving for balance – a process that will take several months."

"A quieting in the movement of indicators should restore confidence to home buyers who've been on the sidelines, waiting for the right time to get into the market, and now is the best time we've seen since the 1990s in terms of housing choices and flexible terms" said Lereah.

The PHSI in the South rose 2.5 percent in June to 130.7 but was 4.8 percent below June 2005. The index in the Midwest increased 1.9 percent to 103.3 in June but was 11.9 percent below a year ago. The index in the West was unchanged, holding at 110.1 in June, and was 14.2 percent lower than June 2005. In the Northeast, the index dropped 6.3 percent in June to 99.4 and was 11.6 percent below a year ago.

This pretty much follows existing-home final sales data. June sales were flat in the west and Midwest, while falling 2.3 percent in the South and 3.5 percent in the Northeast.

Improving home sales could well become a trend, if mortgage rates continue their downward trend that began with spreading of the Mideast wars into Lebanon. Mortgage rates have plunged one quarter percent in just one week. The bad geopolitical news is combining with more predictions of an economic slowdown, as second quarter economic growth seems to have fallen sharply in the Commerce Department's 'advance' estimate of Q2 GDP growth at just 2.5 percent, versus its 5.6 percent increase in Q1.

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