

The Mortgage Corner

Pending Home Sales Soar

By **Harlan Green** / Special to CASA

FEBRUARY PENDING HOME SALES INDEX, a forward-looking indicator based on contract signings, rose 3.1 percent to 106.9 from a slight downward revision of 103.7 in January and is now 12.0 percent above February 2014 (95.4). The index is at its highest level since June 2013 (109.4), has increased year-over-year for six consecutive months, and is above 100 – considered an average level of activity – for the tenth consecutive month.

This is while new U.S. homes sold at an annual rate of 539,000 in February to mark the best month of sales in seven years, the government reported Tuesday. The pace of sales for January was also revised up sharply to 500,000. It's the first time annualized sales have hit 500,000 or more for two straight months since early 2008, as we said last week.

NAR Chief Economist Lawrence Yun says demand appears to be strengthening as we head into the spring buying season. "Pending sales showed solid gains last month, driven by a steadily-improving labor market, mortgage rates hovering around four percent, and the likelihood of more renters looking to hedge against increasing rents," he said. "These factors bode well for the prospect of an uptick in sales in coming months. However, the underlying obstacle – especially for first-time buyers – continues to be the depressed level of homes available for sale."

Even better news is, according to NAR's monthly REALTORS® Confidence Index, the percent share of first-time buyers increased slightly for the first time in February since November 2014, up to 29 percent from 28 percent in January. But such good news may not last, as the depressed level of inventories is continuing to boost home prices, making homes less affordable for those first-timers.

The Case-Shiller Home Price Index reports that home prices are firming as the Case-Shiller composite-20 index rose 0.9 percent in January following a 0.9 percent gain in December and a 0.8 percent rise in November. This is the strongest streak for this report since late 2013, and gives us more

evidence of the need for more inventory. Year-on-year, however, prices are still on the soft side, up only 4.6 in January and only fractionally higher than the prior two months.

The increase in mortgage applications is another sign that home sales may be increasing this selling season. The seasonally adjusted Purchase Index increased six percent from one week earlier. The unadjusted Purchase Index was eight percent higher than the same week one year ago.

"There was a broad based increase in mortgage applications last week relative to the week prior. The increase in purchase volume was led by a nearly six percent increase in both conventional and government markets, perhaps signaling that households are finally ready to begin the home-buying season," said Lynn Fisher, MBA's Vice President of Research and Economics.

The rise in the share of first time home buyers is not a huge change but may predict more millennials of the Generation Y cohort aged 18 to 36 years, entering the housing market that have been renting until now. "Several markets remain highly-competitive due to supply pressures, and REALTORS are reporting severe shortages of move-in ready and available properties in lower price ranges," added Yun. "The return of first-time buyers this year will depend on how quickly inventory shows up in the market."

But still record low interest rates have to be a major reason both refinance and purchase loan activity has picked up. Conforming 30-year fixed rates are still as low as 3.375 percent in California for one origination point. This is the rate that prevailed during the Fed's QE purchase program more than one year ago. It has to be thanks to Fed Chairwoman Janet Yellen who has been unrelenting in her opposition to any interest rate increases until she sees sustainable growth and rising wages.

Harlan Green has been the 11-year Editor-Publisher of PopularEconomics.com, a weekly syndicated financial wire service. He writes a Popular Economics Weekly Blog. He is an economic forecaster and teacher of real estate finance with 30-years experience as a banker and mortgage broker.