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Financial FAQs

SECOND CONSECUTIVE RECORD MONTH FOR EXISTING-HOME SALES

What does it mean for real estate that Sept. existing-home sales kept up it record-breaking pace by equaling last month's 7.28 million annualized sale rate? Part of the surge has been attributed to home buying by firms relocating their employees outside the hurricane-devastated areas.

Sales of existing homes held at the second highest pace on record in September, with sales surging in some areas following Hurricane Katrina, according to the National Association of Realtors. The national median existing-home price for all housing types was $212,000 in September, rising 13.4 percent from September 2004 when the median price was $187,000. The median is a typical market price where half of the homes sold for more and half sold for less.

Total existing-home sales – including single-family, townhomes, condominiums and co-ops – were at a seasonally adjusted annual rate of 7.28 million units in September, unchanged from August. Sales were 7.2 percent above the 6.79 million-unit level in September 2004, and were second only to a rate of 7.35 million in June of this year.

David Lereah, NAR's chief economist, said near-record activity was supported by spiking home sales in areas surrounding the Hurricane Katrina disaster zone. "We are now getting some hard data from this region, with spot checks showing sharply higher home sales to residents who were displaced by the hurricane. The sales surge is more than offsetting declines in the disaster zone," he said.

Ad hoc checks in markets such as Baton Rouge show existing-home sales rose dramatically from September 2004. Parts of New Orleans recorded a fraction of the year-ago volume, although some suburban areas are doing well.

Sales are also holding up because mortgage rates are not following the Federal Reserve's lead in raising short-term interest rates. The gap between their short-term fed funds rate percent and long-term bond rates has narrowed from 1.8 percent in March to .56 percent in Sept. According to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage was 5.77 percent in September, down from 5.82 percent in August; the rate was 5.75 percent in September 2004.

Lereah said the housing market is entering a period of transition. "The underlying fundamentals of the housing market are solid and sales will stay historically strong, but they will trend modestly down from current peaks," he said. "Masked by the data are early signs that housing is starting to wind down from a boom and will transition into an expansion – in other words, a soft landing.

Home prices will continue to rise faster than historic gains until we see sustained improvements in the supply of homes, and we expect the balance between home buyers and sellers to begin to equalize in the months ahead." Total housing inventory levels inched up 0.3 percent at the end of September to 2.85 million existing homes available for sale, which represents a 4.7-month supply at the current sales pace.

NAR President Al Mansell said the investment dynamics for housing are firm. "When you look at projections for higher construction costs in combination with the needs of a growing population – a population that is growing faster than the supply of homes – it's unforeseeable that the long-term outlook for home-price appreciation could be anywhere but up," he said. And in fact the national existing-home median price now exceeds that of new homes, probably because the supply of existing homes is fixed.

Single-family home sales rose 0.6 percent to a record seasonally adjusted annual rate of 6.38 million in September from 6.34 million in August, and were 6.9 percent above the 5.97 million-unit level in September 2004. The median single-family home price was $212,200 in September, up 14.3 percent from a year ago.

Existing condominium and cooperative housing sales declined 4.7 percent to a seasonally adjusted annual rate of 898,000 units from a pace of 942,000 in August. Last month's sales activity was 10.2 percent above the 815,000-unit level in September 2004. The median condo price[3] was $213,600, up 9.0 percent from a year ago.

Regionally, existing-home sales in the South rose the most—3.7 percent in September to a record pace of 2.83 million, stimulated by the hurricane's effects. Sales were 12.3 percent higher than September 2004. The median price in the South was $184,000, up a huge 8.2 percent from September 2004.

Total existing-home sales in the Northeast rose 0.8 percent to an annual sales rate of 1.21 million units in September, and were 7.1 percent above September 2004. The median price in the Northeast was $245,000, up 10.9 percent from a year ago.

Existing-home sales in the Midwest slipped 3.0 percent to annual pace of 1.61 million in September from a record of 1.66 million in August, and were 4.5 percent higher than a year ago. The median price in the Midwest was $175,000, which was 14.4 percent higher than September 2004.

Total existing-home sales in the West declined 4.1 percent to a pace of 1.62 million in September, but were 1.3 percent higher than September 2004. The median existing-home price in the West was $302,000, up 14.8 percent from a year ago.

Our longer-term prognosis? We see interest rates actually trending downward next year, once newly anointed Federal Reserve Chairman Ben Bernanke takes the helm. Why? Rising interest rates will defeat his mission of curing the twin budget and trade deficits. Lower rates mean a weaker dollar, and we need a weaker dollar to stem the inflow of cheap imports that is fuelling the trade imbalance. Higher rates also exacerbate the budget deficit by raising borrowing costs. All this will suffice to keep home sales at their near record level for another year.

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