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Price Cuts Spur Home Sales

Largest Monthly Gain Since 2002, but Economists Warn of Sluggish Season Ahead

By JAMES R. HAGERTY

U.S. home sales registered their biggest monthly jump in nearly seven years in December, as cratering prices began to draw out more buyers and several major housing markets showed some signs of stabilizing.

The 6.5% rise in sales from November was attributed in part to strong sales of foreclosed homes. Economists say it is too early to suggest that broad improvement is at hand, though, and warned that the spring buying season is likely to be sluggish amid growing economic hardship. Indeed, the employment picture continued to darken Monday as U.S. employers announced at least another 65,000 layoffs. (See related article.)

Investors nonetheless seized on the whiff of good housing news, sending the Dow Jones Industrial Average up more than 100 points before it retreated to close up 38.47 points, or 0.5%, at 8116.03.

The National Association of Realtors said sales of previously occupied single-family homes, condominiums and cooperative homes reached a seasonally adjusted annual rate of 4.74 million units in December. Last month's rise was the largest since the early phase of the housing boom in January 2002 and a sharp rebound from the prior month, when sales plunged 9.4%, according to revised data from the Realtors.

But home sales were still down 3.5% from a year earlier. The trade group said 45% of transactions completed in December were "distress sales" by banks unloading foreclosed properties or homeowners selling for less money than they owe to lenders.

The December figure "is by no means a sustainable type of improvement," said Ivy Zelman, chief executive of research firm Zelman & Associates. She said the latest data represent a normal recovery from November's extremely weak performance and show that banks became more aggressive in selling foreclosed homes late last year.

For 2008 as a whole, sales dropped 13% from a year earlier to 4.91 million, the lowest since 1997.

There are glimmers of hope. The Realtors said there were 3.68 million previously occupied homes listed for sale at the end of December, down 7.5% from a year earlier. Moratoriums on foreclosures by some lenders probably reduced the flow of such homes into the market late in the year, said Michelle Meyer, an economist at Barclays Capital.

Separately, The Wall Street Journal's quarterly survey of housing-market conditions in 28 major metropolitan areas shows that inventory levels dropped fastest in some places where foreclosures are attracting bargain hunters. These areas include Los Angeles, San Francisco, San Diego, Sacramento and Orange County, Calif., as well as Denver and Washington, D.C.

Some Still 'Stuck'

Meanwhile, mortgage-interest rates for people who have good credit records and enough savings for a sizable down payment have fallen to around 5%, the lowest level in decades. Plunging prices have made housing much more affordable relative to incomes. On average, U.S. home prices are down about 19% since peaking in 2006, returning to levels recorded in 2004, the research firm First American CoreLogic reported Monday.

Many people who would like to take advantage of the lower prices find themselves unable to do so, however. Jae and Frank Shin of Phoenix bought a new three-bedroom home near a Wal-Mart store in mid-2006 for about $280,000, and played it safe by making a 20% down payment. Now, they are keen to sell that home and move to a neighborhood with better schools and playgrounds for their two sons.

But Ms. Shin screamed when her mortgage broker, Steve Walsh of Scout Mortgage, recently provided an estimate of the home's current value: $180,000 to $190,000. That is less than the Shins owe on their mortgage and means they can't refinance their loan or sell the home for enough to satisfy the lender. Until prices recover, Ms. Shin said, "we're stuck."

Rising unemployment and announcements of huge job cuts have sapped consumer confidence nationwide, discouraging some potential buyers from making a move. "People rightly feel less secure in their future income," said Richard K. Green, director of the Lusk Center for Real Estate at the University of Southern California, who believes the housing market won't recover until the unemployment rate stops rising.

Several U.S. employers announced layoffs totaling 65,000 jobs on Monday, including 20,000 at Caterpillar Inc. and 7,000 at Home Depot Inc.

So far this year, big U.S. employers have announced plans to shed more than 140,000 jobs, on top of the 2.5 million shed last year, the biggest drop since 1945.

That bodes ill for the home-shopping season that usually kicks off in February or March, the busiest time for housing sales in most of the U.S. Largely because of the weak job market, "we're looking for a very tepid spring market," said Jeffrey Otteau, president of Otteau Valuation Group, an East Brunswick, N.J., appraisal firm. Mr. Otteau doesn't expect prices in New Jersey to bottom out before the second or third quarter of this year.

Banks Hold the Key

Even when prices do level off, he said, he doesn't expect a rapid recovery. For one thing, any sign of an improving market will cause an increase in supply as people who had given up on selling their homes rush to put them back on the market.

One key to the eventual recovery is how fast banks can sell their enormous holdings of foreclosed homes. Barclays Capital estimates that banks and loan investors owned 844,700 foreclosed homes as of Dec. 1, up from 460,900 a year earlier. Barclays forecasts that this inventory will peak at around 1.3 million homes in mid-2010.

Not all regions are suffering to the same degree. The Wall Street Journal's survey found that inventory in the Miami-Fort Lauderdale area at the end of 2008 was down 9% from a year earlier. But there are still enough homes on the market to last nearly 30 months at last year's sales rate. That is about five times the level considered healthy.

"Florida is still a train wreck," said Dr. Green of the Lusk Center. "It will be a long time before that market comes back."

In most big metropolitan areas, the supply of homes for sale is down from a year ago, an encouraging sign. But the inventory in New York's borough of Manhattan, which until recently was one of the nation's few strong housing markets, bloated 39% last year as Wall Street job losses crushed demand.

Areas with relatively lean supplies of homes in relation to recent sales include Boston, Washington, San Francisco, Sacramento and Orange County, Calif. That suggests these areas may recover more quickly than others once consumer confidence revives.

But almost no one expects a quick turnaround. Orders of homes from major builders this year are likely to be about one-quarter of the level in 2005, the final year of the boom, says Daniel Oppenheim, an analyst at Credit Suisse in New York.

Based on the S&P/Case-Shiller home price index, the mortgage payment on a median priced U.S. home has fallen to about 17% of average family income, in line with historical norms, from more than 25% two years ago, according to a recent report by economists at Goldman Sachs. Even so, such factors as a glut of supply and "self-fulfilling expectations of further house price declines ... are likely to push down home prices considerably further over the next two years," the Goldman Sachs economists say.

They predict that house prices as measured by the Federal Housing Finance Agency will plunge 36% in the Miami metro area in the two years ending in the third quarter of 2010. They also anticipate big declines in the metro areas of Las Vegas (-21%), Los Angeles (-26%), Phoenix (-20%) and Washington (-20%), but increases in Dallas (7%), Houston (8%) and Denver (3%).

Of course, house-price fluctuations vary hugely from neighborhood to neighborhood, and some may show little or no decline.

Though prices and interest rates have fallen, credit remains tight. Rob Weigand, a finance professor at Washburn University in Topeka, Kan., wants to buy a second home in Denver as an investment and place to stay when he visits relatives there. He is prepared to put 10% down in cash but found he would be required to pay more than $2,000 a year in mortgage insurance to get a $300,000 loan, despite his excellent credit record. So Mr. Weigand is holding off, saying lenders have now become too cautious.

"We've gone crazy in the other direction," Mr. Weigand said.

Some people are finding it a good time to buy. John Haughom, an executive for PeaceHealth, an operator of hospitals, recently bought a penthouse in a development called Atwater Place in the South Waterfront district of Portland, Ore. The 2,792-square-foot condominium was listed at just under $2 million and had sat empty since it was completed in August. With most units still unsold, Dr. Haughom said he was able to negotiate a discount of about 30%, adding, "The sellers are very flexible."

Dr. Haughom acknowledged that prices could fall more, but said, "We're in it for the long run." He believes today's economic woes could lead to high inflation and, if so, property will be a good investment. "Portland is going to continue to be a very desirable place to live."

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