Job growth, interest rates will drive home sales in 2010

Tax credits led to surge in activity in second half of year, but healthy economy needed to keep the pace

By Shankar P.
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Home sales in New Jersey were stronger between June and November compared to year-ago trends, driven by pent-up demand, the federal homebuyer tax credit, low interest rates and declining prices. But going forward, job growth and interest rates hold the keys to sustaining that growth, developers, brokers and industry experts say.

“It’s a perfect storm, and it gets better from here,” said **Jeffrey Otteau**, president of **Otteau Appraisal Group**, an East Brunswick research and consulting firm that tracks the state’s housing markets. Otteau’s charts show contracts for home sales surged 55 percent, to 7,020 contracts, in October compared to the prior-year period. In November, the year-over-year increase was 33 percent, with 4,782 contracts.

Real estate developers are understandably delighted. **Steve Caparaso**, the Edison-based area vice president at homebuilder **K. Hovnanian Homes**, said the company sold 215 homes in New Jersey, New York and Pennsylvania in its latest quarter of August through October, compared to 168 homes in the year-ago quarter.

Caparaso credited the uptick in the market to the extension of the federal homebuyer tax credit — to homes in contract by April 30, 2010, and closed by June 30, 2010 — low interest rates, a low supply of new homes and attractive prices.

“We are at the bottom of the market, and what we are offering is significantly low, [but] in some cases we have increased prices,” Caparaso said. He added that cancellations of home-sale contracts have decreased in the latest quarter.

Caparaso maintained that the improvement in home sales “is not a flash in the pan,” pointing to “the creation of households and the rising population, coupled with [low] interest rates” as factors allowing a sustained recovery.

Otteau, too, felt “the pent-up demand from the past four years is quite large” to support the strong buying sentiment, even after the homebuyer tax credit expires. Also, he said, the pace of new homebuilding in the state in 2009 was the lowest since 1945.

“You have very low building activity, very little land left to build on and still-high incomes, relative to the rest of the country,” Otteau said. “The question is, once [the tax credit] expires, whether the job market will recover to pick up the slack.”

Anthony Rocco, division president at **Toll Brothers Inc.**, in Lakewood, said he does see “some hopeful signs … [but] I wouldn’t call it a recovery.” He said his company uses special events and promotions to tap pent-up demand, he added.

There certainly are more aspiring homebuyers these days, but they are extremely price sensitive, and much more so than in the past few years, according to **Tricia Beam**, a Realtor with **Coldwell Banker Residential**, in Wall Township.

Beam said three- and four-bedroom homes priced at less than $400,000 have done well since June. Now, she said, she is seeing that sentiment spread to homes in the next price range of between $450,000 and $600,000 in her markets of Monmouth and Ocean counties.

Beam had a good 2009, selling 22 homes compared to 19 the year before; the latest quarter has been particularly strong for her, with nine home sales, she said. However, she does see “some hesitation out there” as homebuyers grapple with the uncertainties in the job market.

Otteau’s research found that some submarkets in the state are “still struggling … because of their distance from jobs, and [relatively] lower income.” Those include the rural markets in Sussex and Warren counties, and Atlantic and Cape May counties in the south, although the fortunes of the latter two are dictated also by their profile as vacation home markets, he said.

But other negatives persist, such as the 10.1 percent decline in household income in New Jersey between 2005 and 2008, which was 100 times greater than the national average of 0.1 percent, Otteau said. Furthermore, New Jersey continues to have a high cost of living, high property taxes and consequently “constrained purchasing power,” he said.

Things don’t look very encouraging on the macro front, either. Otteau pointed out that a large number of adjustable-rate mortgages coming up for refinance may not qualify because of high loan balances. The ripple effect of the projected “wave” of commercial real estate mortgage defaults could also hurt money supply, he said.

On the foreclosure front, New Jersey ranked 10th nationwide, with 9,227 foreclosures — 1 in every 329 homes in November, according to Realty Trac, a firm that tracks industry trends. Essex County had the most foreclosures that month — 1,020 — while Salem had the least, with 71, according to **Realty Trac**.

Trends in mortgage delinquencies were also uninspiring, as revealed by a report released Dec. 21 by the Office of the Comptroller of the Currency and the Office of Thrift Supervision. It said seriously delinquent prime mortgages — once the least-risky category of U.S. home loans — rose more than 118 percent, to 838,000, nationwide in the third quarter from a year earlier.

Beam, however, is still upbeat. “If the economy continues to grow, we will see sustained sales growth,” she said. “A lot of parents are telling their children to buy because they are not going to find homes at better prices or interest rates that are lower.”

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