

December home sales down nearly 17%

By ALAN ZIBEL, AP Real Estate Writer Alan Zibel, Ap Real Estate Writer January 25, 2010

WASHINGTON – Sales of previously occupied homes took the largest monthly drop in more than 40 years last month, sinking more dramatically than expected after lawmakers gave buyers additional time to use a tax credit.

The report reflects a sharp drop in demand after buyers stopped scrambling to qualify for a tax credit of up to \$8,000 for first-time homeowners. It had been due to expire on Nov. 30. But Congress extended the deadline until April 30 and expanded it with a new \$6,500 credit for existing homeowners who move.

"It's 'exit stage left' for first-time homebuyers," wrote Guy LeBas, an analyst with Janney Montgomery Scott.

December's sales fell 16.7 percent to a seasonally adjusted annual rate of 5.45 million, from an unchanged pace of 6.54 million in November, the National Association of Realtors said Monday. Sales had been expected to fall by about 10 percent, according to economists surveyed by Thomson Reuters.

The report "places a large question mark over whether the recovery can be sustained when the extended tax credit expires," wrote Paul Dales, U.S. economist with Capital Economics.

The median sales price was \$178,300, up 1.5 percent from a year earlier and the first yearly gain since August 2007. However, some of that increase could be due to a drop-off in purchases from first-time buyers who tend to buy less expensive homes.

Sales are now up 21 percent from the bottom a year ago, but down 25 percent from the peak more than four years ago.

The big question hanging over the housing market this spring is whether a tentative recovery will stumble after the government pulls back support. The Federal Reserve's \$1.25 trillion program to push down mortgage rates is scheduled to expire at the end of March — a month before the newly extended tax credit runs out.

Last year, first-time buyers were the main driver of the housing market, but their presence is on the decline. They accounted for 43 percent of purchases in December, down from about half in November, the Realtors group said.

The inventory of unsold homes on the market fell about 7 percent to 3.3 million. That's a 7.2 month supply at the current sales pace, close to a healthy level of about 6 months.

Total sales for 2009 closed out the year at 5.16 million, up about 5 percent from a year earlier. That was the first annual sales gain since 2005. But prices fell dramatically last year, declining 12.4 percent to a median of \$173,500, the largest decline since the Great Depression.

Though the results missed Wall Street's expectations, the Realtors' group says there are signs the market is finally stabilizing.

"There is some sustainable momentum building in the housing market right now," said Lawrence Yun, the group's chief economist. However, he cautioned that the recovery will depend on whether the economy starts adding jobs in the second half of the year.

Many experts project home prices, which started to rise last summer, will fall again over the winter. That's because foreclosures make up a larger proportion of sales during the winter months, when fewer sellers choose to put their homes on the market.

Despite fears that home prices are starting to fall again, some analysts still believe the worst is over.

"We do not believe it is fair to consider this a double dip in the housing market," Michelle Meyer, an economist with Barclays Capital, wrote last week. "The recovery is still under way, but hitting some bumps in the road."

Courtesy of JB Goodwin