

# Existing home sales rally for third month

## Rising income, lower prices and loan rates fuel surge not seen since April 2004.

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Sales of previously owned homes unexpectedly surged last month by the most in three years, a sign that the U.S. housing market probably is past the worst of its slump.

Purchases increased 3.9 percent in February to an annual rate of 6.69 million, the National Association of Realtors said Friday in Washington. Sales have risen in each of the past three months, a streak not matched since April 2004 in the midst of the five-year housing boom.

Gains in home construction, mortgage rates near a 14-month low and an increase in loan applications from a year ago are helping lay the groundwork for an industry rebound. Stocks advanced as traders took the figures as an endorsement of the Federal Reserve's forecast that the economy will grow at a moderate pace.

"We expect the drag on the economy from housing will be gone by mid-year," said Dean Maki, chief U.S. economist at Barclays Capital in New York. The rebound in sales is "an important development."

**Even with last month's sales gain, some economists noted that the supply of unsold properties continued to climb. Mounting defaults on subprime mortgages — loans to people with patchy or poor credit histories — might throw more properties onto the market and weaken prices. Sales were down 3.9 percent from a year earlier.**

"Most of the housing adjustment is completed," said Eric Green, chief market economist at Countrywide Securities in Calabasas, Calif. "We're just not seeing the subprime problem in these numbers yet."

Countrywide Financial Corp., the largest U.S. mortgage lender, said this week that delinquencies on some subprime home loans might climb to 9.89 percent, exceeding a company record set in 2000. The firm is among lenders tightening standards.

At the same time, lower prices and rising incomes are making houses more affordable, along with a decline in mortgage interest rates.

The National Association of Realtor's affordability index rose to an almost two-year high in January.

Last month's jump in sales partially reflects the closing of contracts signed in December, when unseasonably warm weather brought out more house hunters, David Lereah, the Realtors' chief economist, said at a briefing in Washington.

More stringent lending standards, after a wave of defaults in the subprime market, will limit sales this year, said Lereah, who estimated "we could be losing between 100,000 and 250,000 home sales" annually in the next two years as a result.

"It will spill over into the overall housing sector, but will be somewhat contained," Lereah said. "With the economy being healthy, this is a problem, not a crisis."

Existing home sales averaged 6.51 million last year, lower than the 7.06 million average for 2005.

The median price fell 1.3 percent last month from a year ago to \$212,800, the Realtors group said.

"The real key here is that prices have come down seven consecutive months," Lereah said. "It seems to be working."

The supply of homes for sale increased 5.9 percent to 3.748 million last month, representing a 6.7 months' supply at the current sales paces. That compares with 6.6 months at the end of January.

Resales of single-family homes rose 3.7 percent in February to an annual rate of 5.88 million, the report said. Sales of condos and co-ops rose 5.3 percent to an 810,000 rate.

Purchases increased in all regions of the country except the West, where they were unchanged. They rose 14.2 percent in the Northeast, 3.9 percent in the Midwest and 1.6 percent in the South.

**Courtesy of JB Goodwin**