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Tax Credit Helps Lift New-Home Sales

Some Economists Think Rise Is Overstated and That Sales Are Simply Being Shifted to the Present From a Few Months Out

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New-home sales jumped in March as buyers rushed to qualify for a federal tax credit and realtors homed in on the soon-to-expire credit as a way to ramp up interest.

Sales of new single-family houses jumped 27% last month to a seasonally adjusted annual rate of 411,000, according to the Census Bureau. That was up from the revised pace of 324,000 for February.

The Census estimate is based on a small sample and is frequently subject to large revisions.

Some economists believe the latest report may overstate the increase in sales activity and that the credit is simply moving sales forward that otherwise would have occurred later in the year.

Still, some home builders say foot traffic at developments has picked up in recent weeks, spurred by buyers hoping to qualify for a federal tax credit. The credit is available to many people who sign a contract to buy a principal residence by April 30 and complete the purchase by June 30.

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- [Tax Credit Expiry Looms](#)

"The tax credit has been a huge boon to the industry," said Tim Minton, executive vice president of the Home Builders Association of Raleigh-Wake County in North Carolina. He said inventories of unsold homes in his area have dwindled, and "the national builders are starting to ramp up new production."

Stock prices of home builders surged on the news, with [Hovnanian Enterprises](#) Inc. adding 8.7% to close at \$7.15; sector-giant [PulteGroup](#) Inc. climbed 5.7% to end at \$13.19.

The gains continue what has been a good year for the group: The Dow Jones U.S. Home Construction index is up almost 30% year to date, with a 3.6% gain Friday.

The tax credit can be as much as \$8,000 for first-time home buyers and as much as \$6,500 for people who already have owned a home for at least five consecutive years during the previous eight years. The credit is available for individual taxpayers with annual incomes of as much as \$145,000 or joint filers with incomes as much as \$245,000.

Home sellers are doing their best to whip up a sense of urgency. Outside the Century 21 Frontier Realty office in McMurray, Pa., a sign reads: "Tax Credit Expiring April 30. Hurry!" In what it calls Moonlight Madness, national builder [KB Home](#) plans to keep its sales offices open until 9 p.m. rather than the usual 7 p.m. this weekend.

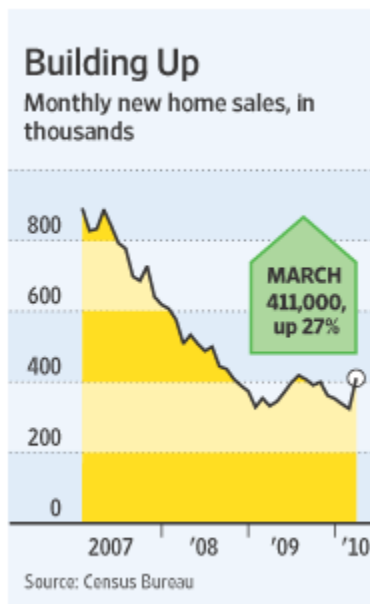
David Crowe, chief economist of the National Association of Home Builders, a trade group, said the credit has been much more effective for first-time buyers than for repeat buyers, who often are saddled with homes that must be sold before another purchase.

The reported annual pace of March sales is less than a third of the peak of nearly 1.3 million in 2005 during the housing frenzy. "By historical standards, March's numbers were abysmal," said Patrick Newport, an economist at IHS Global Insight, "but they were much higher than February's."

He and other economists warn that the tax credit probably pulled forward sales that otherwise would have occurred later in the year. As a result, they say, the sales rate may drop at least temporarily after the April 30 tax-credit deadline. "We certainly have moved some sales from the future into the present," said Mr. Crowe of the home builders group.

Michael Savage, owner of Savage Homes, which builds homes in the San Antonio area and parts of New Mexico, said his first-quarter sales doubled from a year earlier to 120, largely because of the tax credit.

But Mr. Savage remains cautious. "Most of the builders I talk to around the country are still very concerned that the market has not turned the corner" and fear that sales will retreat after the tax deadline, he said.



Irvine Co., a builder in Orange County, Calif., is more bullish. "The buyer is seeing the bottom, agreeing that we've hit the bottom," said Dan Young, president of community development at Irvine. "The new-home market is back."

Home builders and real-estate brokers hope that an improving economy will soon start generating more jobs, bringing more home buyers into the market.

"I don't see everything [in terms of sales] falling off the cliff after the tax credit expires," said Jeff Bernard, chief executive of Bernard Real Estate Analytics, a research firm in Denver.

Fear of unemployment also remains an obstacle. "If you feel that your job is at risk, you're not going to go out and buy another home," says Mark Vitner, senior economist at Wells Fargo Securities. He predicts only a "gradual recovery in home sales and new home construction over the next several years."

John Burns, a real-estate consultant in Irvine, Calif., said an improving economy and strong demand from investors for foreclosed homes should help stabilize prices, despite continuing waves of bank-owned homes washing onto the market. "The high end of the market still has a long way to fall," Mr. Burns said, "but the low end is pretty stable and even appreciating in some places."

Courtesy of JB Goodwin