

Sales of new homes drop 11% in U.S.

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Market cooling, but records still being set

NEWS SERVICES

A dip in new-home sales last month is the most dramatic evidence that the hard-charging housing market is slowing.

New single-family homes nationwide were sold at a seasonally adjusted annual rate of 1.245 million units last month, a drop of 11.3 percent from October, when sales were at an all-time high.

The Commerce Department's latest figures represent the largest drop in sales of new homes in nearly 12 years.

Wall Street analysts had been expecting a less dramatic drop of about 8.7 percent.

Sales of new and existing homes should still hit record levels for the fifth-straight year this year.

Existing-home sales in the Pikes Peak region this year have set a record, and new-home sales are near the record, the Pikes Peak Association of Realtors says.

Though the local housing market remains strong, some analysts expect a nationwide decline in 2006.

Housing appears to have cooled late in the year, as 30-year mortgage rates moved back above 6 percent and houses, especially the most expensive ones, started to linger on the market.

"Two things every American knows: the price at the gas pump and their house story. We all sense there is a shift in the market . . . from a seller's market to a buyer's market," said James Glassman, senior economist with J.P. Morgan Chase.

As the market comes into better balance in 2006, home sales will taper from their record pace, dropping anywhere from 5 percent to 10 percent, according to a forecast from mortgage agency Fannie Mae.

And those double-digit homeprice increases will shrink, averaging 6½ percent or so next year, the National Association of Home Builders predicts.

Housing is beginning a "systematic simmering-down process," said David Seiders, chief economist with the National Association of Home Builders. "My judgment is still that while the housing market has been strong, we are toying around with a peak or slightly past it."

Seiders said home-builder confidence is well off its highest levels of the year and some residential builders have started rolling out incentives, such as free upgrades.

"The demand side has tapered off to some degree, and there has been an obvious deterioration of affordability," he said. "Higher energy costs are also giving some buyers pause."

The NAHB forecast calls for home-price gains to ease, dropping from 11 percent this year to 6.5 percent in 2006 and 4.4 percent in 2007.

"We're certainly seeing a record rate of return in real terms (after factoring out inflation), and there has been very little sign of deceleration," Seiders said. "But it is probably inevitable that some of this will slow down."

Don't think that housing is going down the tubes.

Glassman agreed homeprice gains overall will moderate, and said some markets — notably those in southern Florida, the New York area and much of California — could see performance that is weaker than the national numbers.

But Glassman said the overall economy remains in good shape, and that will mitigate any downturn in housing.

"It looks like a pretty good, if not booming, backdrop for housing," he said.

In fact, David Lereah, chief economist for the National Association of Realtors, said even with projected declines, 2006 should be the second-best year ever for home sales.

Existing home sales, expected to rise 4.7 percent to 7.1 million this year, are likely to decline 3.7 percent in 2006 to 6.84 million, according to the NAR forecast, which is not as pessimistic as Fannie Mae.

New home sales, projected to increase 7 percent to 1.29 million in 2005, are forecast to drop 4.8 percent to 1.23 million next year. That would also be the second best on record.

"Home sales are coming down from the mountain peak, but they will level out at a high plateau — a plateau that is higher than previous peaks in the housing cycle," Lereah said. "This transition to a more normal and balanced market is a good thing."

Sellers who set unrealistic prices are likely to see houses languish if they don't bring their expectations down, real estate agents say.

PRICE FORECAST

The National Association of Home Builders expects home-price gains to ease, dropping from 11 percent this year to 6.5 percent in 2006 and 4.4 percent in 2007.

New-home sales

Sales of new single-family homes
at a seasonally adjusted annual
rate:



SOURCE: Department of Commerce THE ASSOCIATED PRESS
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