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Home sales plunge 27 percent, to lowest rate on record

By STEPHANIE ARMOUR • USA TODAY • August 24, 2010

Home sales plunged in July to record lows as buyer demand withered after the expiration of a federal home buyer tax credit - a drop that shows troublesome weakening in the housing market recovery.

Sales of existing homes tumbled 27.2 percent in July to a seasonally adjusted annual rate of 3.83 million units from 5.26 million in June, according to a report Tuesday from the National Association of Realtors. Sales are at the lowest level since the report began being released in 1999, and sales of single-family homes - which account for the bulk of transactions - are at the lowest level since May 1995.

"This qualifies as a double dip in housing," says Mark Zandi, with Moody's Analytics.com. "It's particularly disconcerting given that fixed mortgage rates are lower. The recovery is weakening. These are pretty ugly numbers."

The housing market deflated after the federal government let expire a program giving home-buyers tax credits of up to \$8,000. Legislation to create a similar program in New Jersey was vetoed by Gov. Chris Christie because, he said, the state couldn't afford it.

Even though mortgage rates have dropped to historic lows, economic fundamentals aren't working to buoy the housing market, economists say, and the real engine that is needed to turn the recovery around is more private-sector jobs.

"Jobs, jobs, jobs," says Robert Dye, senior economist with PNC Financial Services Group, adding that government stimulus efforts such as another tax credit are unlikely to create lasting benefits. "Another tax credit will pull demand forward and then a hollowing out (of sales) again."

The Shore's housing market told a similar story. Monmouth County sales in July were down 35 percent from last year; Ocean County sales were

down 25 percent, according to statistics compiled by real estate analyst and appraiser Jeffrey Otteau, president of Otteau Valuation Group Inc. in East Brunswick.

Judy Appleby, president of the New Jersey Association of Realtors and owner of Appleby Realty in Seaside Park, says the market is slow, but not as dire as it was in the aftermath of the housing bubble's collapse.

Other industry officials echoed economists who think the job market holds the key to the recovery.

"If you don't have good credit, it's a little bit harder to get a mortgage than it used to be," says Christina Banasiak, sales associate at Weichert Realtors in Marlboro and past treasurer of the New Jersey Association of Realtors. "And with the amount of unemployment we have, if you don't have a job, you're not getting a mortgage either."

Economists say they were surprised by the size of July's drop in home sales, which indicates buyers have scant confidence in the housing market. Existing-home sales fell 35 percent in the Midwest in July, 29.5 percent in the Northeast; in the West, they fell 25 percent and they were down 22.6 percent in the South.

"This is extraordinary, how low the demand is," says Joel Naroff of Naroff Economic Advisors. "The (housing) sector is still flat on its back."

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The number of homes on the market also grew, which tends to dampen prices. Housing inventory at the end of July increased 2.5 percent to 3.98 million existing homes available for sale, a 12.5-month supply at the current sales pace, up from an 8.9-month supply in June.

A six-month supply is considered normal.

One reason the market is hurting is that buyers and sellers are in a standoff over prices. Many sellers are reluctant to lower their prices. And buyers are hesitating because they think home prices haven't bottomed out.

"It really is a self-fulfilling prophecy," said Aaron Zapata, a real estate agent in Brea, Calif. "If all buyers perceive that home prices are coming down, then they will stop making offers - and home prices will come down."

Some economists say any turnaround in the housing market is going to take time. Sales are expected to perk up in October and November, but even then, so many homeowners have so little equity in their homes that many can't afford to buy a new home.

"Even if you have 10 percent (equity) left in your house, you don't have enough to get you to another house unless you downsize dramatically," Naroff says.

The median sale price was \$182,600, up 0.7 percent from a year ago, but down 0.2 percent from June.

Staff writer Michael L. Diamond contributed to this story.



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