

Pending Home Sales Drop as Expected

WASHINGTON (July 1, 2010) – Following a surge driven by the home buyer tax credit, pending home sales fell with the expiration of the deadline for qualified buyers to sign a purchase contract, according to the National Association of Realtors®.

[The Pending Home Sales Index](#),* a forward-looking indicator, dropped 30.0 percent to 77.6 based on contracts signed in May from a reading of 110.9 in April, and is 15.9 percent below May 2009 when it was 92.3. The falloff comes on the heels of three strong monthly gains as home buyers rushed to take advantage of the tax credit.

The data reflects contracts and not closings, which normally occur with a lag time of one or two months. However, many closings have been delayed recently from a rush of buyers into the system and slow processing of short sales, in addition to the heavy volume and a more thorough loan underwriting process. As many as 180,000 buyers who signed contracts by April 30 may have missed the June 30 closing deadline for the tax credit. However, Congress passed legislation yesterday to extend the deadline for delayed contracts and President Obama is expected to sign.

NAR chief economist [Lawrence Yun](#) said, “Consumers are rational and they rushed to meet the tax credit eligibility deadline in April. The sharp decline in contract signings in May is a natural result with similar low levels of sales activity anticipated in June,” he said. “Surprisingly, though, some local markets such as Portland, Maine, and Jacksonville, Fla., actually experienced an increase in contract signings from a year ago without the tax credit.

“Existing-home sales that close in June will remain elevated, but we’ll then see a notable decline for July and August.”

Congress also reauthorized the National Flood Insurance Program. Many lenders were hesitant to approve mortgages on homes needing flood insurance without congressional action and numerous sales have been on hold. The action is retroactive to a temporary authorization that expired May 31, and also is expected to be signed by the president.

Yun noted the tax credit has broadly stabilized home prices. “Without the tax credit, there will be more aggressive price negotiations between buyers and sellers. The key test on whether the housing market can stand on its own without stimulus medicine will depend critically on private sector job creation in the second half of the year. We’ll also keep a close eye on market conditions on the Gulf Coast.”

Through May of this year 495,000 net private sector jobs have been created; NAR's forecast for employment growth is about 1 million additional net new jobs over the balance of the year and another 2 million in 2011.

"If jobs come back as expected, the pace of home sales should pick up later this year and reach a sustainable level of activity given very favorable affordability conditions," Yun said.

"In most areas of the country there will be no sharp snap back in home prices in the upcoming years, although some local markets have experienced double-digit gains this year," Yun said. NAR forecasts the national median home price to rise only 4 percent cumulatively over the next two years.

"One factor that could lead to price acceleration in upcoming years for some markets is if the very low levels of new home construction were to persist for another year or two," he added.

The PHSI in the Northeast fell 31.6 percent to 67.0 in May and is 14.8 percent lower than May 2009. In the Midwest the index dropped 32.1 percent to 70.8 and is 20.2 percent below a year ago. Pending home sales in the South fell 33.3 percent to an index of 82.5, and are 14.4 percent lower than May 2009. In the West the index declined 20.9 percent to 85.3 and is 15.1 percent below a year ago.

The National Association of Realtors®, "The Voice for Real Estate," is America's largest trade association, representing 1.1 million members involved in all aspects of the residential and commercial real estate industries.

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NOTE: References to local markets are from unpublished data. For more information, please contact the local association of Realtors®.

*The Pending Home Sales Index is a leading indicator for the housing sector, based on pending sales of existing homes. A sale is listed as pending when the contract has been signed but the transaction has not closed, though the sale usually is finalized within one or two months of signing.

The index is based on a large national sample, typically representing about 20 percent of transactions for existing-home sales. In developing the model for the index, it was demonstrated that the level of monthly sales-contract activity parallels the level of closed existing-home sales in the following two months. There is a closer relationship between annual index changes (from the same month a year earlier) and year-ago changes in sales performance than with month-to-month comparisons.

An index of 100 is equal to the average level of contract activity during 2001, which was the first year to be examined as well as the first of five consecutive record years for existing-home sales.

Existing-home sales for June will be reported July 22 and the next Pending Home Sales Index will be on August 3; release times are 10 a.m. EDT.

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