

PENDING HOME SALES JUMP 3.2%

Buyers defy expectations with an increase in sales contracts signed during March.

By Les Christie - NEW YORK (CNNMoney.com) -
- Is the housing meltdown ending?

Pending home sales rose in March for the second consecutive month and are up year over year. The Pending Home Sales Index from the National Association of Realtors showed a 3.2% gain to 84.6 from February, when it was 82. The index stands 1.6% higher than a year ago.

The consensus forecast of industry experts polled by Briefing.com had predicted no increase in the index.

It may still take a while before the market gains enough momentum to firmly state that the downturn has been reversed, according to Lawrence Yun, NAR's chief economist. And, the upturn may have been boosted by the first-time homebuyers tax credit, a temporary measure that will lapse in December.

"We need several months of sustained growth to demonstrate a recovery in housing, which is necessary for the overall economy to turn around," said Yun. "This increase could be the leading edge of first-time buyers responding to very favorable affordability conditions and an \$8,000 tax credit, which increases buying power even more in areas where special programs allow buyers to use it as a down payment."

The index is understood to be a forward indicator of home sales trends since it measures contracts signed, not completed sales. The up-tick may indicate that home prices have fallen low enough for buyers to get off the fence.

Feeling for the bottom

Yun is not calling a bottom yet, however, because the index is still at a relatively low level. Instead, he's looking toward the summer selling season to determine what direction the market will take. Plus, he would like the number of homes on the market to drop to a more normal level of six to seven months of supply.

"If inventory goes down - it's at just under 10 months now - to below eight months, that would mean we're on the way to a sustainable recovery," Yun said.

Anecdotal evidence indicates that trend may be happening. Realtors and other industry insiders are seeing rising open house attendance and multiple bids on some particularly desirable properties. Plus, pricing has become sharper, according to Sherry Chris, the CEO of Better Homes and Gardens Real Estate.

"Overpricing seems to be ending," she said. "Properties are coming onto the market and selling quickly."

And buyers are feeling a little more urgency, she added. In many markets, buyers have not felt any pressure to make an offer. "They said to themselves, 'I don't have to act immediately. It will still be on the market two weeks from now,'" she said.

Today, buyers are more likely to bid because they perceive the market as at or near its bottom. An April Gallup Poll reported that 71% of Americans thought it was a good time to buy a house.

They don't, however, believe there will be price increases soon; three of four buyers think prices will stabilize or even decline in their areas over the next 12 months, according to Gallup.

Pat Newport, a real estate analyst for IHS Global Insight, is putting less emphasis on pending home sales than he once did for his housing market analyses. There has been a disconnect lately, he said, between the number of properties going into contract (pending home sales) and the number that actually close (existing home sales).

He speculates that this is because buyers are making offers and signing contracts but, because of financing problems, many deals are falling through.

Regional differences

The South saw the largest gain of any region, with pending home sales jumping 8.5%. Pending sales are 7.7% higher there compared with a year ago.

The Midwest gained 3.9% from February and 1.7% year-over-year. Northeast sales fell 5.7% and are off 24.1% compared with March 2008. The West dropped 1% for the month but are up 8.2% year-over-year.

Low home prices continued to help to drive sales, although NAR's affordability index actually fell 2.3% from February, when it hit a historic high. This index is based on family income, home prices and mortgage rates.

"Compared to a year ago, the typical family can pay much less in mortgage costs for the same home, or buy a better home without necessarily increasing their monthly payment," said NAR President Charles McMillan, in a prepared statement. "For buyers who've been on the sidelines and have good jobs, the market has never looked more favorable."