Pending home sales down, housing affordability at record

by Bend_Weekly_News_Sources

Pending home sales declined on the heels of a weakening economy and with some buyers waiting for clarity on housing stimulus provisions, according to the National Association of Realtors.

The Pending Home Sales Index,1 a forward-looking indicator based on contracts signed in January, fell 7.7 percent to 80.4 from a downwardly revised reading of 87.1 in December, and is 6.4 percent below January 2008 when it was 85.9. The index is at the lowest level since tracking began in 2001, when the index value was set at 100.

Lawrence Yun, NAR chief economist, said the downturn in the economy also weighed heavily on the data. â€œEven with many serious potential home buyers on the sidelines waiting for passage of the stimulus bill, job losses and weak consumer confidence were a natural drag on home sales,â€• he said. â€œWe expect similarly soft home sales in the near term, but buyers are expected to respond to much improved affordability conditions and from the $8,000 first-time buyer tax credit.â€•

The PHSI in the Northeast dropped 12.7 percent to 57.8 in January and is 19.7 percent below a year ago. In the Midwest the index declined 9.2 percent to 72.6 and is 13.8 percent below January 2008. The index in the South fell 11.9 percent to 82.2 in January and is 9.1 percent below a year ago. In the West the index rose 2.4 percent to 103.6 and is 13.5 percent higher than January 2008.

NAR President Charles McMillan, a broker with Coldwell Banker Residential Brokerage in Dallas-Fort Worth, said itâ€™s ironic with the weak housing market that affordability conditions have improved dramatically. â€œHousing affordability is at a record high â€“ the buying power of a typical family has risen significantly,â€• he said. â€œWith the drop in interest rates, a median-income family can afford a home costing $20,000 more than a year ago for the same monthly mortgage payment. With the strong housing stimulus, we are hopeful inventory will get trimmed and which will help prices stabilize in many areas by the end of this year.â€•

NARâ€™s Housing Affordability Index rose 13.6 percentage points in January to 166.8, a new record high.2 The HAI, a broad index of affordability using consistent values and assumptions over time, shows that the relationship between home prices, mortgage interest rates and family income is the most favorable since tracking began in 1970.

The HAI indicates a median-income family, earning $59,800, could afford a home costing $283,400 in January with a 20 percent downpayment, assuming 25 percent of gross income is devoted to mortgage principal and interest; affordability conditions for first-time buyers with the same income and small downpayments are roughly 80 percent of that amount. A year ago, the typical family could afford a home costing $263,300.

Yun added, â€œConditions have been aligning very favorably for home buyers with the exception of consumer confidence. But I am hopeful that sales will turn around by late spring and early summer because history suggests that home sales can rise even in times of job losses when housing affordability rises.â€•

1The 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 from 2001 through 2004 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.

Each March, NAR Research conducts a review of PHSI seasonal adjustment factors and fine-tunes data for the past three years.

2The Housing Affordability Index is a relative index where a value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced existing single-family home, taking into account the relationship between median home price, average effective interest rate for loans closed on existing homes, and median family income. The higher the index, the better housing affordability is for buyers.

The calculation assumes a downpayment of 20 percent and a qualifying ratio of 25 percent of gross income for mortgage principle and interest payments. The index is a general gauge with conditions varying widely around the country. Affordability conditions are lower for first-time buyers with smaller downpayments and less income.

Monthly publication of the index began in 1981 with annual data calculated back to 1970.

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