Open House: Rising December sales volume bodes well for 2007

by Jim Woodard

The volume of home sales are edging upward, signaling an improving prognosis for the home selling market in 2007.

This is good news for home sellers and buyers and, of course, for real estate brokers and sales personnel. It also bodes well with mortgage lenders and brokers, after experiencing tight times during the past year. In fact, our total economy will benefit from this positive trend.

Pending home sales were up by 4.9 percent in December as compared with the previous month. The sales volume is still down by 4.4 percent from a year ago, but we're definitely on a growth track.

The monthly gain was the biggest increase since March 2004. A steady narrowing from year-ago readings has been observed since last July, when the level of unsold housing inventory peaked at an all-time high.

"Some of the most recent gain may be weather-related, but it appears buyers are becoming more comfortable, sensing the timing is good and that their local market has bottomed out," said David Lereah, chief economist for the National Association of Realtors. "I expect modest sales gains throughout this year, with what I believe are sustainable levels of activity. This year will probably be the fourth-best year on record."

A home sale is listed as pending when the purchase contract has been signed but the transaction has not yet closed. The sale is usually finalized within one or two months after the contract signing.

The recent upturn in home sales is broad-based, with all regions showing an increase to various degrees. In the Northeast, sales jumped by 8 percent. In the West, sales rose by 5.3 percent, while the South increased by 4.3 percent. In the Midwest, sales are up by 3.2 percent.

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An interesting study has just been concluded by the National Association of Home Builders that identifies how various features in a home impact the property's value. The association's Housing Economics Department created a house price estimator, based on data from the American Housing Survey, a nationally representative survey of about 60,000 housing units conducted by the U.S. Census Bureau in odd-numbered years.

Waterfront locations have the most significant positive effect on home values, the study determined. This applies to homes in every census region and in every type of setting.

For example, being on the waterfront raises the value of a standard home in a Midwestern suburb by an average of 43 percent, and in nonmetro areas in the South by 44 percent. In the central city of a large California metro area, being on or near water raises the value of a home by 41 percent.

The characteristic with the largest negative effect on home values is the presence of abandoned buildings within a half-block or about 300 feet of the home. Bothersome trash, industrial buildings, inadequate shopping and bad roads also have a significant negative effect on the price of a home.

For more information about the house price estimator, check out the model online at www.nahb.org/estimator.

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The American Institute of Architects, in its recently released semiannual report, sees the 2006-2007 period as the best two years for the construction industry since the late 1990s. They expect a significant increase in nonresidential construction this year - about 7 percent, they predict. This industry niche grew by about 6 percent last year.

"Unless there is a significant downturn in the overall economy, the prospects for nonresidential construction activity are very favorable," said Kermit Baker, AIA's chief economist. "The high level of projected activity will help offset some of the effects of the slumping residential market in past months."

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Q: To what extent are today's refinance mortgages designed to produce cash?

A: A huge proportion of today's refinance mortgage applications are structured to generate cash while refinancing an existing mortgage. About 84 percent of refi applications are for cash-out mortgages.

That's down from the cash-out proportion during the third quarter of last year, when it reached 87 percent, but it's still very high.

"With interest rates averaging about 6.2 percent for 30-year fixed-rate mortgages, many families find that it's cost-effective to cash-out equity through a new first mortgage, even though it raised their interest rate," said Amy Crews Cutts, deputy chief economist for Freddie Mac, a major buyer of existing home mortgages. "With the prime rate at 8.25 percent, a home equity loan or line of credit based on that rate may not make sense if the financing need is large, like a major home improvement project or college tuition payments, and will be paid back over several years.

"This quarter, we'll be seeing about $70.7 billion cashed out, down from a revised $80.2 billion cashed out in the third quarter of last year. Cash-out refinance volume is expected to decline over this year, due to lower expected refinance shares overall and lower mortgage origination activity than last year."

The large number of homeowners with second liens that adjust each month depending on changes in the prime rate have a big incentive to apply for a cash-out refi mortgage. Many homeowners facing payment increases this year will refinance prior to their payment adjustment.

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