Homebuilders losing confidence

BY ALAN ZIBEL
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WASHINGTON — Homebuilders are losing confidence in the housing market now that government incentives that spurred home sales have ended.

The National Association of Home Builders said Tuesday its housing market index fell to 17 in June, sinking five points after two straight months of increases. It was the lowest level since March.

Builders had been more optimistic earlier in the year when buyers could take advantage of tax credits of up to $8,000. Those incentives expired on April 30, although buyers with signed contracts have until June 30 to complete their purchases.

Experts anticipate home sales will slow in the second half of this year. In addition, high unemployment and tight mortgage lending continue to keep many buyers on the sidelines.

The drop in activity is "a wake-up call to the fact that the market will struggle to stand on its own two feet without the tax credit," wrote Paul Dales, an economist with Capital Economics. "The double-dip in both activity and prices that we have been expecting for some time appears to have begun."

New homes sales made up about 7 percent of the housing market last year. That's down from about 15 percent before the bust.

It's also bad news for the economy. Each new home built creates the equivalent of three jobs for a year and generates about $90,000 in taxes paid to local and federal authorities, according to the National Association of Home Builders. The impact is felt across multiple industries, from makers of faucets and dishwasher to lumber yards.

Thanks to the tax credits, sales of new homes rose nearly 15 percent in April. That followed a nearly 30 percent surge in March, the biggest monthly increase in 47 years.

But now that they are gone, "the reduction in consumer activity may have been more dramatic than some builders had anticipated," said Bob Jones, a builder from Bloomfield Hills, Mich. and the Washington-based trade group's chairman.

In a typical economic recovery, the construction sector provides much of the fuel. But developers are trying to sell a tremendous glut of homes built during the boom years and they are competing against foreclosed homes selling at deep discounts.

While home sales are not likely to return to the depressed levels of the housing bust, they are unlikely to return soon to those levels aided by the tax credit program, wrote Joshua Shapiro, chief U.S. economist at MFR Inc., an economic consulting firm in New York.

Another problem for the building industry is that lenders are reluctant to make construction loans to developers. The builders group is pressing for legislation that would require the Treasury Department to guarantee loans made to developers.

"We're encouraging banks to make prudent loans to projects that pencil out and are in markets that are ripe for recovery," Jerry Howard, the trade group's president, said in an interview.

The builders' trade group's index is made up of three components. The reading for current sales conditions fell one point to 16, while the index measuring expectations for the next six months fell two points to 26. The index measuring foot traffic from prospective buyers held steady at 13.

The report reflects a survey of 344 residential builders nationwide.

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In this June 3 photo, a piece of construction machinery waits to be unloaded in the foreground as a row of new homes are built in the background at a new development in Louisville, Ky. Homebuilders are losing confidence in the housing market now that government incentives that spurred home sales have ended.

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