July pending home sales rise to 2-year high

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Associated Press

WASHINGTON — A gauge of future U.S. home sales rose more than expected in July to the highest level in over two years as first-time buyers rushed to take advantage of a tax credit that expires this fall.

The report showed the housing market is rebounding faster than expected from its historic bust. Low prices and the looming expiration on Nov. 30 of a first-time homebuyers' tax credit of up to $8,000 have spurred sales. Prices in much of the country have begun to rise from the depths of the slump.

"The overall trend toward stabilization is undeniable at this point," wrote Mike Larson, real estate analyst at Weiss Research.

The National Association of Realtors said Tuesday its seasonally adjusted index of sales contracts signed in July for previously occupied homes rose 3.2 percent to 97.6. It was the sixth straight increase, and 12 percent higher the same month last year.

Economists surveyed by Thomson Reuters had expected the index to edge up to only 96.5.

The index of pending home sales indicates how sales completed this month and next will turn out. Typically, there is a one- to two-month lag between a contract and a final deal. But delays in getting mortgages approved and appraisals completed have recently lengthened the time it takes to close a deal in many cases.

Analysts predict sales will drop off when the tax credit expires, or if mortgage rates rise from near-record lows. Foreclosures also continue to rise, and banks are forced to sell those properties at deep discounts, pushing prices down.

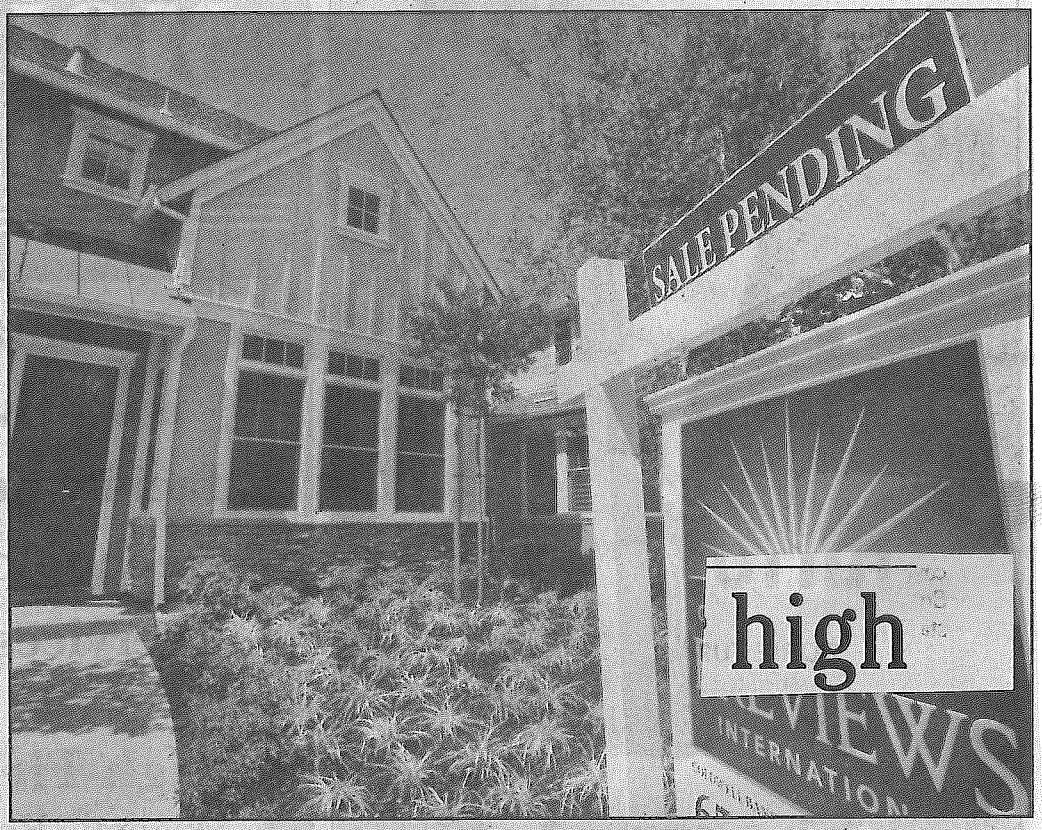
A 12 percent jump in sales contracts in the West and a 3 percent increase in the South drove July's overall increase. Sales fell in the Northeast and Midwest.

The Realtors group projects that around 2 million first-time buyers will take advantage of the credit this year, and says it is spurring 350,000 additional sales that wouldn't have happened otherwise.

Nationally, home prices in the second quarter posted their first quarterly increase in three years, according to the Standard & Poor's/Case-Shiller national index released last week. Prices are growing in some parts of the country, but "beware a rise in supply as frustrated would-be sellers see their chance," wrote Ian Shepherdson, chief U.S. economist at High Frequency Economics.

While home prices are still 30 percent below the mid-2006 peak, their new direction should bring relief to lenders, homeowners and buyers alike.

Falling property values have wiped out $4 trillion in homeowners' equity, and thousands have walked away from homes that are worth far less than their mortgage balance. But now, with prices stabilizing, many buyers who had been staying out of the market are coming off the sidelines.



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