PRICES KEEP HOUSING STAGNANT

Recovery wobbles as many would-be buyers feel pinch

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A housing recovery that was expected to accelerate this year is instead sputtering. And no, you can't just blame the weather.

Sharp increases in home prices in much of the USA, along with higher mortgage rates, have discouraged many house hunters. Home inventories are at historically low levels. First-time home buyers, who traditionally drive home sales, remain saddled with student debt and face still-stringent lending standards.

After bouncing back smartly in 2012 and most of 2013 following the 2006-09 real estate crash, the housing market began slowing last fall. Although an unusually cold and snowy winter hindered activity early this year, home sales and starts were disappointing again in March, even in the West and South.

First-time buyers Bill and Lauren Mensinger, who rent a one-bedroom loft in Hanover, Mass., have been looking for a three-bedroom house for about a year — a mission made more urgent by the recent birth of their daughter. With homes for sale in short supply in the Boston area, they've been outbid several times, Bill says, even for houses that needed extensive repairs.

"It's draining," says Bill, 37, an architect.

Thirty-year fixed mortgage rates have risen from 3.4% to 4.33% since the Mensingers began looking. That's forced them to drop their price limit to $315,000 from $330,000. They've also grudgingly agreed to widen their search beyond the reach of Boston's commuter rail line.

Others aren't even looking. First-time home buyers accounted for 30% of existing home sales in March, vs. a normal 40%, according to the National Association of Realtors. With student-loan debt topping $1 trillion and wages stagnant, many adults in their 20s and 30s live with parents or roommates. Only 423,000 households were formed in the past 12 months, the Census Bureau said Tuesday, less than half the typical 1 million.

Lending standards, despite some easing in recent months, remain tough, especially for "people who don't have good credit scores," says economist Patrick Newport of IHS Global Insight.

Economists still expect the housing market to gain momentum this year as job and wage growth lead to more new households, credit conditions continue to ease, and builders ramp up production. Pending home sales increased in March for the first time in nine months, and real estate brokers in several regions say sales have been picking up.

But many analysts now say the housing recovery will take longer than they had projected. "It hasn't come back as quickly," Newport says.

He expects housing starts to finally reach 1 million this year for the first time since 2007 — almost double 2009's level. But he doesn't forecast a return to a normal annual rate of 1.5 million until the fourth quarter of 2015, several months later than he had estimated.

Meanwhile, 4.9 million existing homes are expected to be sold this year, about 3% fewer than last year, says Lawrence Yun, chief economist of the National Association of Realtors.

One big reason is rising prices. In February, home prices in 20 large cities were up an average 13% from a year earlier, according to the Standard & Poor's Case-Shiller 20-city Index. In metro areas hammered in the housing crash, such as Las Vegas and Los Angeles, prices have soared nearly 20% or more from a year ago.

The pace of price increases has slowed recently, and U.S. home prices are still 20% below their summer 2006 peak. But combined, higher prices and mortgage rates have made home-buying 20% more expensive than a year ago, dampening sales, says Jed Kolko, chief economist of Trulia, a real estate website.

In California cities such as San Francisco and San Jose, about 35% of household income is devoted to mortgage payments — more than the historical average of a third, says Stan Humphries, chief economist of real estate firm Zillow.

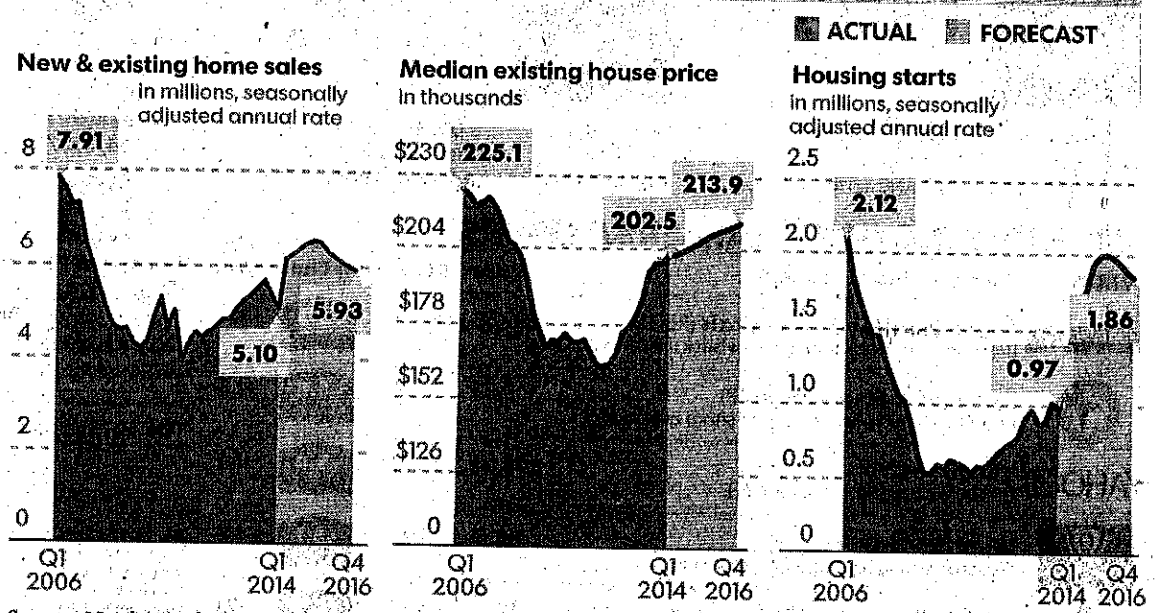
"Affordability looks on par or worse than it has historically in a lot of markets," Humphries says.

Prices have been driven up by a

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HOUSING'S RECOVERY SHOWS SAG

Home sales have slowed since late last year as prices have risen and the supply of homes for sale has stayed tight in many markets. Housing starts remain low compared with pre-housing bust peaks.



Sources Moody's Analytics, Equifax, NAR, Census
KRIS KINKADE, USA TODAY

5 reasons why the housing recovery is stalling:

1. HOME PRICES have risen more than 20% in the past two years, driven by the strong '12 and '13 real estate market. They're still about 20% below their 2006 peaks in many places.

2. HIGHER MORTGAGE RATES, which rose almost a full percentage point last spring and summer. They're now higher than a year ago, but remain near historic lows.

3. THERE'S A LOW SUPPLY OF HOMES for sale, which is contributing to higher prices. That's holding back some buyers who can't find homes at prices they want to pay.

4. A new generation of potential first-time home buyers is shouldering **MORE STUDENT LOAN DEBT** than any previous generation, making it hard for them to qualify for mortgages with today's tougher lending standards.

5. High unemployment, **A SLOW HIRING PACE** and modest economic growth are holding back the creation of new households and keeping people from buying and selling homes as they move for new jobs.

Higher prices, mortgage rates scaring potential buyers

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housing inventory that remains skimpy despite moderately improved demand and more jobs. Thirty-seven percent of homeowners can't sell their houses either because they're worth less than what they owe on their mortgages or they don't have enough equity to buy another house, says Zillow's Humphries.

Also limiting supplies and pushing up prices are fewer distressed properties. Foreclosures and short sales made up 14% of existing home sales in March, vs. nearly 30% two years years ago, Yun says. Investors who snapped up many troubled properties are playing a smaller role.

Meanwhile, new-home supplies are rising but are still near 50-year lows, says economist Robert Dietz of the National Association of Home Builders.

The nation's largest home builders have raised prices sharply after enduring thin profit margins after the crash. In a conference call with analysts last week, Richard Dugas, CEO of Pulte Homes, said the company's average $317,000 sale price in the first quarter is up 10% over last year.

Small builders, which make up 75% of the market, have been hindered by tight credit, labor shortages, limited lot availability and rising construction costs, Dietz says.

Ed Grady, owner of Brady Homes in Bloomington, Ill., built 150 houses a year before the downturn but now puts up 10 to 15. He says he'd like to turn out about 25 but can't get loans for more than five "speculative" houses, or units sold after they're built.

A shortage of construction workers means it takes Grady up to five months to build a house, vs. three months normally.

Tight supplies are falling short of rising demand in Massachusetts, where a thriving tech sector has fueled job gains. "Buyers are wanting to lock in at very low interest rates and be done with it, because (rates) are creeping up," says Ryan Wilson, a Realtor at Keller Williams in Watertown, Mass.

Adverse winter weather discouraged some sellers from putting their homes on the market, says Peter Ruffini, president of the Massachusetts Association of Realtors. A bigger problem, he says, is that many homeowners

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are reluctant to sell because they fear they'll be unable to find a new home. Through March, existing home sales in Massachusetts are down 4.5% vs. a year ago, while median prices are up 10%.

The Phoenix area, hit hard by the housing crash, is grappling with the opposite problem. Housing supplies are ample, in part because builders have rushed into the retirement mecca since 2012. But with prices up 14% in the past year, buyers got nervous "that a new bubble might be forming, says broker Ray Sullivan of Keller Williams in Scottsdale. "People took a step back."

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