

## Strong rebound in pending home sales

WASHINGTON – Dec. 2, 2010 – Pending home sales jumped 10.4 percent in October, showing another positive uptrend since bottoming in June, according to the National Association of Realtors®.

The Pending Home Sales Index (PHSI), a forward-looking indicator, rose to 89.3 based on contracts signed in October from 80.9 in September. The index remains 20.5 percent below a surge to a cyclical peak of 112.4 in October 2009, which was the highest level since May 2006 when it hit 112.6.

The latest surge also reflects market strength, since buyers had an additional push to close quickly in October 2009 to qualify for one version of the first-time homebuyer tax credit that expired in November. The data reflects contracts and not closings, which normally occur with a lag time of one or two months.

The data also surprised economists who had expected a decline in pending home sales given current troubles within the housing market. However, Lawrence Yun, NAR chief economist, says excellent housing affordability conditions drew in more homebuyers.

“It is welcoming to see a solid double-digit percentage gain, but activity needs to improve further to reach healthy, sustainable levels,” Yun says. “The housing market clearly is in a recovery phase and will be uneven at times, but the improving job market and consequential boost to household formation will help the recovery process going into 2011. More importantly, a return to more normal loan underwriting standards and removal of unnecessary underwriting fees for very low risk borrowers is needed and could quickly help in the housing and economic recovery.”

Recent loan performance data from Fannie Mae and Freddie Mac clearly demonstrates very low default rates on recently originated mortgages – much lower than the vintages of 2002 and 2003 before the housing boom.

The PHSI in the Northeast jumped 19.6 percent to 71.3 in October but is 27.3 percent below the tax credit peak in October 2009. In the Midwest, the index surged 27.3 percent in October to 81.7 but is 24.8 percent below a year ago.

Pending home sales in the South rose 7.1 percent to an index of 93.8 but are 18.4 percent below October 2009. In the West, the index slipped 0.4 percent to 104.3 and is 15.6 percent below a year ago.

Near term, Yun expects home sales to continue climbing from their cyclical low this past summer.

“Even so, we now have some consumer concerns regarding the mortgage interest deduction, an important component in housing affordability,” Yun says.