

New home sales fall a surprising 3.6 percent

September new US home sales post surprise drop as benefit of first-time buyer tax credit wanes

- By Alan Zibel, AP Real Estate Writer
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- - WASHINGTON (AP) -- Sales of new U.S. homes dropped unexpectedly last month as the effects of a temporary tax credit for first-time owners started to wane.

The Commerce Department said Wednesday that sales fell 3.6 percent to a seasonally adjusted annual rate of 402,000 from a downwardly revised 417,000 in August. Economists surveyed by Thomson Reuters had expected a pace of 440,000.

It was the first decline since March. Sales in September were off 7.8 percent from a year ago. Despite the surprising decline, the market is up 22 percent from the bottom in January, though down more than 70 percent from the peak in July 2005.

The median sales price of \$204,800 was off 9.1 percent from \$225,200 a year earlier, but up 2.5 percent from August's \$199,900.

The drop in sales was driven by a nearly 11 percent decline in the West and a 10 percent drop in the South. Sales rose 35 percent in the Midwest and were unchanged in the Northeast.

The report reflects contracts to buy homes, not completed sales. It has been taking longer to close a transaction this year because it's taking longer to get approved for a mortgage and to have a property appraised.

Those time lags could make buyers nervous they won't be able to complete the deal before the Nov. 30 deadline to take advantage of a tax credit of up to \$8,000 for first-time buyers.

The report "demonstrates the power of the first-time homebuyers tax credit," said Bernard Markstein, senior economist with the National Association of Home Builders, which has been lobbying Congress to extend and expand the tax incentive. "We just haven't gotten the economy back to the point where we can step back and say the housing market doesn't need any more support."

Congress is considering extending the tax credit through March 31 and gradually phasing it out over the rest of next year. "If they don't extend it, then I think the pullback could be quite significant," said Brad Hunter, chief economist with Metrostudy, a real estate research firm.

Critics, however, say many buyers would have entered the market anyway and call the credit an unnecessary subsidy for people who don't need it.

Low mortgage rates, the tax credit and more affordably priced homes have provided a big lift to the housing market this year. Sales of previously occupied homes, for example, jumped more than 9 percent in September. That report measures completed sales rather than sales agreements.

There were 251,000 new homes for sale at the end of September, down almost 4 percent from August and the lowest inventory in nearly 27 years. At the current sales pace, that represents 7.5 months of supply.

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