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## IN FOCUS *Real Estate & Economic Commentary*

### Home Sales Results Mixed In June

#### *Existing & New Home Sales Decline | Prices Mixed*

July 28, 2012 by William L. Pittenger, MAI, SRA

According to the National Association of Realtors, **existing home sales** in June fell 5.4 % to a seasonally adjusted annual rate of 4.37 million units. That is down from an upwardly revised total of 4.62 million a month earlier but still 4.5% higher than the year ago level of 4.18 million units. Total sales include all residential property types including single family detached, town house, condominium unit and co-op. The median existing home price for all property types was \$189,400 which is an increase of 7.9% from a year ago. The increase marks the fourth consecutive monthly price increase and the strongest price gain since the median rose 8.7% year over year in February 2006; a month which marked the beginning of the end of the housing bubble.

Distressed sales (foreclosures and short sales) accounted for 25% of all June sales. Foreclosures sold at an average calculated discount of 18% and short sales at a 15% discount. That is according to the National Association of Realtors (NAR) and is in comparison with transactions that did not have similar elements of distress. NAR also reported strong potential buyer interest in comparison to prior periods but activity may be constrained by declining inventories. In June, total unsold inventory declined 3.2% to 2.39 million units. That represents a 6.6 month supply at the current sales pace and is up from 6.4 months a month earlier. Last year at this time, inventory stood at 9.1 months.

First time homebuyers accounted for 32% of all purchases while all cash sales, driven by investors, edged up to 29%. The investor component was 19%. Investors appear to be purchasing a large share of moderately priced homes for cash thus edging out first time home buyers and creating the tight inventory in the lower price ranges.

Single family detached residences dominated residential sales activity although the sector declined 5.1% to a seasonally adjusted annual rate of 3.90 million units. The median price was \$190,100.

Regionally, sales activity was mixed. Total sales in the Northeast declined 11.5% on a median price of \$253,700. That is down 1.8% from a year ago. In the Midwest, sales slipped 1.9% but the median price rose 14.6% to \$157,600. In the South, sales declined 4.4% but the median price rose 6.6% to \$165,000 year over year. Finally, sales fell 6.9% in the West but the median price was a strong \$233,300.

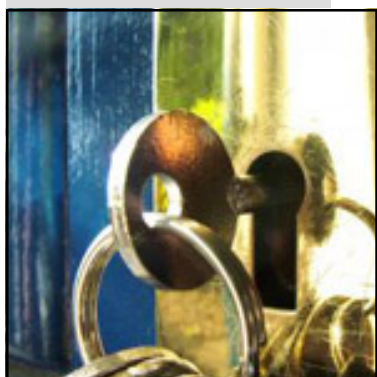
**New Home Sales.** The Census Bureau and Commerce Department jointly reported new home sales figures for June. Sales declined 8.4% to 350,000 annualized units month over month. That is a five month low. At the same time, the May total was revised up to 382,000. On a quarterly basis, sales were up 13%.

Although 350,000 sales is paltry compared to more robust economic times, it is the strongest performance since April 2010. New home sales are still near their historic low of 250,000 in late 2011. Sales double the current month's annualized performance, or say, 700,000, would be at or near the long term average. The peak was set in November 2006 with nearly 1.4 million annualized sales.

Inventories have been declining for both new and existing homes and that has been pushing both price and volume up. There are currently about 144,000 new homes for sale suggesting a 4.9 month supply at the current sales pace. Inventories are generally tight especially in the lower price range.

The median single family home sales price was \$234,500 in June. Pricing is weak and the median price is down 3.3% year over year. Given the lower priced existing home competition, it remains difficult for builders to compete.

**The price gap** between a new single family home (\$234,500) and an existing home (\$190,100) is significant and is driven by several factors such as depreciation and distress characteristics in the existing home sector but also by *economic feasibility*. One can still buy an existing home for less than it would cost to build one (replacement cost) and that fact too is helping keep a lid on new home price increases. It is likely to continue to do so for the foreseeable future.



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