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REAL ESTATE

Home sales take sharp tumble

The credit crunch stops would-be buyers. Analysts expect the downturn to intensify.

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A flurry of reports Tuesday signaled worsening conditions for the already distressed housing markets in California and the nation as a whole.

The supply of unsold homes rose in August as sales plunged 28% from the year before, the California Assn. of Realtors said. There were so many existing single-family homes for sale last month that it would take 11.8 months to sell them all if no additional houses came on the market -- double the 5.9-month supply of a year earlier, the state realty group said.

Furthermore, prices of existing homes plunged in many parts of the state, the Realtors said. The median price in the Central Valley tumbled 12%, as did Sacramento's median. In Southern California, the median price in Riverside and San Bernardino counties declined 7.4%. Los Angeles County bucked the trend, with the median price rising 2.6%. The median is the level at which half of all homes sold for more and half sold for less.

The numbers were as striking nationwide. The U.S. supply of unsold homes ballooned to an 18-year high in August as sales fell to a five-year low and prices were up just 0.2%, according to the National Assn. of Realtors.

"The good news is that the housing market did not collapse in August. Sales took a hit, and inventory increased, but houses, nonetheless, sold," said Patrick Newport, an economist with research firm Global Insight.

"The bad news," he added, "is that the worst may be just ahead. August's sales do not reflect the full impact of the credit crunch."

The national and state realty groups blamed the global credit crisis last month for the plunge in sales.

"The unusual disruptions in the mortgage market resulted in a fairly high number of postponed or canceled sales," said Lawrence Yun, chief economist for the national Realtor group.

Sales of existing homes fell 4.3% nationwide in August to an annual rate of 5.5 million units. That was down from 5.75 million in July and a 13% drop from the pace of sales in August 2006.

The number of homes sold is expected to continue to decrease, further weighing down prices as the effects of the credit crisis continue to play out, other analysts said. Mortgage rates rose in the last month and lenders have tightened their standards for qualifying borrowers, affecting the ability of even the most-creditworthy borrowers to obtain loans.

The supply of unsold existing homes nationwide is expected to grow, in large part because as more and more homeowners find themselves facing onerous monthly payments on their adjustable-rate mortgages, or ARMs, they will have to either sell their homes or fall into foreclosure.

"Unfortunately, we think inventory is likely to rise even higher in the coming months as the sales pace slows further and upcoming ARM resets add to the inventory," said Daniel Oppenheim, an analyst at Banc of America Securities.

As inventories swell, price declines are likely to follow, Oppenheim said. And another report Tuesday indicated that prices in key U.S. markets were falling at a faster rate than that reported by the Realtors. The closely watched S&P/Case-Shiller index, considered a leading measure of U.S. single-family home prices because it tracks price trends of similar homes, fell 3.9% in the 12 months ended in July, the biggest drop since 1991.

Prices were lower than a year earlier in 15 of the 20 cities, according to Case-Shiller. The biggest declines were in California, Florida and in the Rust Belt. Prices held up in the Pacific Northwest and in areas of the South.

As the housing downturn has intensified, home builders have been using deep discounts and lucrative incentives to woo buyers. On Tuesday, Lennar Corp., the nation's largest builder by revenue, reported a third-quarter loss that was bigger than expected -- the worst in the company's 53-year history.

"Heavy discounting by builders, and now the existing-home market as well, has continued to drive pricing downward," Chief Executive Stuart Miller said. The Miami-based builder took a huge write-down on its land holdings and said it would continue to trim its workforce to control costs.

Lennar reported a net loss of $513.9 million, or $3.25 a share, for the three months ended Aug. 31. A year earlier, the company earned $206.7 million, or $1.30 a share. Revenue sank 44%, orders for new homes fell 48% and one-third of the customers who had placed orders canceled.

"Consumer confidence in housing has remained low, while the mortgage market has continued to redefine itself, creating higher cancellation rates," Miller said.

Lennar's stock dropped 96 cents, or 4%, to $23.22. Other builder stocks also declined.

Most economists and other real estate watchers believe the housing slump will extend into 2008 and possibly 2009 as excess inventory of new and existing homes gets whittled down and prices decline to a point at which prospective buyers in California, Florida and other high-priced markets can afford to purchase using conventional financing.

But while many see a troubled housing market, some see opportunity.

Thomas Kunz, president of national real estate brokerage Century 21, said now was a good time to be active in the real estate market. For buyers, he said, there's a chance to negotiate a bargain price. For sellers, setting a price that is below market will generate a sale.

"This is a great time in a local market for the consumer to take a look at their situation," he said.

Kunz, who is based in New Jersey, is taking his own advice. He has decided that it's time to sell the house he's owned in Tustin Ranch since 1998 and roll the proceeds into a newer, bigger house closer to the ocean in Carlsbad. He figures he can buy a better house for not much more than what he can get in a sale in the next few months.

"This is an exceptional time," he said. "I know I'm probably the only one saying this, but these are the facts as I see them."

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