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## Home sales: Bad and worse than they seem

**Census Bureau says the pace of new home sales was weaker in September and revises August's numbers to an 11-year low.**

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NEW YORK (CNNMoney.com) -- The latest reading on the state of the battered market for new homes was pretty bad. Experts say it's even worse than it appears.

New home sales in September came in at an annual pace of 770,000, according to the Census Bureau report Thursday. That's up from the revised 735,000 rate in August, but it's down from the original August reading and just below the forecast of economists surveyed by Briefing.com, who had been looking for sales to slow to a pace of 775,000 in the month.

But the report showed more weakness than the narrow miss of the forecast would indicate. Both the pace in July and the pace in August were revised lower. The previous reading of an 835,000 sales pace in July was cut to 798,000, while the original August reading of 795,000 was cut 8 percent to an 11-year low.

The September reading is also down 24 percent from year-earlier levels.

Late July and much of August saw a meltdown in mortgage securities, which made it very difficult for buyers to get financing. The problem in the mortgage market was a key reason that economists speaking at a National Association of Home Builders construction forecast conference on Wednesday said they don't expect sales to [hit bottom](#) until spring 2008 at the earliest.

David Seiders, chief economist for the builders' trade group, said Thursday that the latest report has some questionable readings, including a 38 percent rise in sales in the West, which he expects will be revised significantly lower in subsequent months. Without that reported increase, sales would have fallen from the already weak revised level in August.

Seiders also pointed out that the report does not capture cancellations by buyers who were unable to get financing or had to pull out of sales because they couldn't sell their homes.

"We saw an upsurge in cancellations in August and September, according to all the builders," he said. "The net sales, if we could get that number, would clearly be weaker than this. It's too early to get hopes up on this report."

The report did show some slight narrowing of the glut of new homes on the market, as the supply narrowed to an 8.3-month supply from a nine-month supply in August. But that was due to a reduction in homes not yet started or under construction



that were on the market. The supply of completed homes reached a record 185,000 in September, while the median number of months it takes a builder to sell a completed new home rose to 5.9 months from 5.8 months in August.

The one sign of some strength in the report is that the median price of new home sales was up about 5 percent from year-ago levels to \$238,000.

But that reading does not take into account the incentives builders are offering buyers, such as picking up closing costs or adding extra features for free. The sales price in the report is not adjusted for the value of those incentives. The price reading can also be affected by the shift in sales geographically, such as the questionable pick-up in sales in the West, where prices are more expensive than in some other markets.

"These price numbers are just about useless," said Seiders. "Price cuts are widening and deepening. We know that."

Other economists agreed that Thursday's report also suggest the market has yet to hit bottom, despite the slight uptick.

"Dream on," said Bill Hampel, chief economist for the Credit Union National Association, when asked if the narrow improvement in sales could be the early sign of an improvement in housing. "This is not the turnaround. New home sales are just more than half of where they were at the peak, and we're 25 to 30 percent below what would be considered a normal market." He said it would take two or three years to return to that point.

The downturn in housing has hammered the results of the nation's largest builders.

On Wednesday, [Pulte Homes \(Charts, Fortune 500\)](#) reported a much bigger than expected loss in the most recent quarter. [Ryland Homes \(Charts, Fortune 500\)](#) also [reported a loss](#), while rival Centex disclosed that it had [cut prices](#) on some homes by 15 to 20 percent in order to try to maintain sales, as well as cutting staff by more than 40 percent. The day before [Centex \(Charts, Fortune 500\)](#) had reported a large second quarter loss.

In addition, leading home builder [D.R. Horton \(Charts, Fortune 500\)](#) reported last week that its fiscal fourth-quarter orders fell 39 percent, while the value of those orders plunged 48 percent. Credit rating agency Moody's downgraded the debt of Pulte, Centex and [Lennar \(Charts, Fortune 500\)](#), the nation's No. 1 builder in terms of revenue, into junk bond status earlier this month. ■

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