

Housing inventory in the US highest in 19 years – signs of a bubble

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WASHINGTON — The number of previously owned homes on the market rose last month to the highest level in more than 19 years, while sales fell for the second-consecutive month, raising concerns that a housing bubble might be about to burst.

But many economists said the increase in homes for sale was actually a sign that the housing market was gradually cooling rather than threatening to implode.

More than 2.9 million homes were on the market in the USA in November, the National Association of Realtors said.

That was up 14.3% from November 2004, and the highest level since April 1986.

At the current sales pace, it would take five months to sell the available houses, the longest period since June 2003. The NAR estimates that the number of buyers equals the number of sellers when it takes about six months to clear the backlog.

Some economists warned that the greater supply could signal a rapid end to the lofty home price increases seen in recent years and perhaps a decline in prices in some parts of the country. "The overhang is becoming a real threat," Joel Naroff, president of Naroff Economic Advisors said in a note to clients.

Naroff called the inventory figure for November a "real major warning flag for prices." But he noted that with mortgage rates still historically low, the softening in housing will likely be "orderly."

The average rate for a 30-year fixed mortgage was 6.26% last week, down from 6.33% in November, according to Freddie Mac. Although that is higher than the 5.75% seen a year earlier, rates exceeded 8% as recently as 2000.

NAR chief economist David Lereah welcomed the inventory gain: "Air is coming out of the balloon, slowly. That's very healthy."

Global Insight U.S. economist Brian Bethune said, "A potentially damaging 'housing bubble' event is less likely."

For home buyers, the slowing could mean the end to bidding wars and a greater ability to negotiate on price.

Phyllis Foster, 57, closed this month on a three-bedroom condominium near Detroit. She paid \$237,000 for the unit, which had been on the market for six months and originally listed at \$264,000.

Her own home sold, but only after recently spending heavily on renovations — money she did not recoup on the sale. "The market here is terrible," Foster says. "Nobody is buying."

Nationwide, the number of previously owned homes sold in November fell 1.7% from the prior month to a seasonally adjusted annual rate of 6.97 million, the NAR said.

Prices also declined. The median price for a home in the USA in November was \$215,000, down 1.4% from the prior month, but still up more than 13% from a year ago. The median is the point at which half the homes sold for more and half sold for less.

But prices in the West, the most expensive housing market in the USA, rose to a median \$328,000, a record high and up more than 19% from a year ago. Prices in the Northeast and the South fell in November and were flat in the Midwest.