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February existing home sales increase 5.1 percent

Written by By Alan Zibel, AP Writer
Monday, 23 March 2009

(AP) – Sales of previously occupied homes jumped unexpectedly in February by the largest amount in nearly six years as first-time buyers took advantage of deep discounts on foreclosures and other distressed properties.

Economists said sales, while still at levels not seen since 1997, may finally be coming back to life after declining sharply following the stock market plunge last autumn.

Prices, however, are expected to keep falling well into the year. Tens of thousands of homes remain tied up in the foreclosure process and are not yet for sale. Plus, as the recession deepens and job losses mount, many buyers are likely to stay on the sidelines.

"The four-letter word in the housing market is 'jobs,'" said Nicolas Retsinas, director of Harvard University's Joint Center for Housing Studies. "If you're worried about having a job tomorrow, you're not likely to buy a home now."

The National Association of Realtors said Monday that sales of existing homes grew 5.1 percent to an annual rate of 4.72 million last month, from 4.49 million units in January.

It was the largest monthly sales jump since July 2003, with first-time buyers accounting for about half of all transactions. Sales had been expected to dip to an annual pace of 4.45 million units, according to Thomson Reuters. The results, which came after a steep decline in January, mean that sales activity has returned to December's levels, but still remains lower than most of last year.

"If January was a disaster for housing, February may be the rebound month," wrote Joel Naroff, president of Naroff Economic Advisors.

The sales figures don't yet reflect the new \$8,000 tax credit designed to lure even more first-time buyers into the market. That should juice up early summer sales, but how much will depend on the overall condition of the U.S. economy.

"If the economy stabilizes around midyear and financial conditions improve, then sales will probably begin to slowly increase as buyers step back into the market," wrote JPMorgan Chase analyst Abiel Reinhart. "An important reason for this is that affordability has already increased sharply, both as a result of lower prices and lower mortgage rates."

The median sales price plunged to \$165,400, down 15.5 percent from \$195,800 a year earlier. That was the second-largest drop on record and prices are now off 28 percent from their peak in July 2006.

However, in a positive sign, seller asking prices are starting to rise in places like San Diego and Orange County, Calif., where declines have been severe, said Lawrence Yun, chief economist for the Realtors. That could be an early indication that prices are stabilizing in the most distressed parts of the country.

Meanwhile, in contrast with the housing boom, when buyers took out ever-riskier loans and maxed out their home equity lines, "homebuyers are not over stretching" Yun said. "They want to stay within their budget."

The number of unsold homes on the market last month rose 5.2 percent to 3.8 million, a typical increase for the winter months. At February's sales pace, it would take 9.7 months to rid the market of all of those properties.

"Inventories are still high relative to sales rates, and would probably be even more so if all those wishing to sell their home actually had the house on the market instead of pulling it off in the face of rapidly eroding prices," wrote Joshua Shapiro, chief U.S. economist at MFR Inc.

Sellers don't want to compete with foreclosures that have swamped the market, especially in California, Florida, Nevada and Arizona.

About 45 percent of sales nationwide are foreclosures or other distressed property sales, which typically sell at a 20 percent discount, according to the Realtors group.

4.51% APY

* Annual Percentage Yield (APY) accurate as of March 3, 2009. Minimum to open account is \$50. Visit SierraRewardChecking.com for minimum monthly qualifications and further details.
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