



Signs of a slowdown emerge in US housing market

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By Marty Graham and Jim Christie

SAN DIEGO/SAN FRANCISCO (Reuters) - On a rolling San Diego street, where home prices have doubled in three years, real estate agent Shawn Ommid kept a quiet vigil, chocolate chip cookies at the ready, waiting for buyers.

By Sunday afternoon, the cookies remained plentiful and prospects were scarce, with few turning up to tour a two-story tract house in a neighborhood known for its striking canyon views and equally stunning home prices of around \$800,000.

"It's a shame because it's better to be a buyer now," said Ommid, citing a rise in San Diego home listings.

It is a scene that is playing out across some of the hottest property markets from California to Florida.

Inventories of unsold homes are rising, buyers are turning cautious, and, in some cases, prices are slipping after a period of explosive gains, analysts and real estate agents said.

That could be a sign that the broader U.S. housing market, which has been an engine of economic expansion, is beginning to sputter. The slowdown could dampen consumer spending and ripple through financial markets.

Other danger signs include the pinch buyers are facing from rising interest rates and record home prices, said economist Alan Gin of the **Burnham-Moores Center for Real Estate at the University of San Diego**.

"With fewer people able to afford homes, the market will be smaller, slowing sales and home price appreciation," said Gin, adding that San Diego's housing market, one of the nation's frothiest in recent years, was already "correcting."

THE AFFORDABILITY CRUNCH

Analysts expect markets elsewhere, like the sizzling Miami property market, to follow.

In Broward County, Florida the median price of a single-family home fell 2 percent in September from August and the backlog of homes for sale jumped 18 percent, according to the Realtor Association of Greater Fort Lauderdale.

The National Association of Realtors' national measure of home affordability fell in August to its lowest level since late 1991, when home buyers were locked out of the market by double-digit interest rates on fixed-rate mortgages.

In California's torrid housing market, affordability has matched record low levels because low mortgage rates have lured buyers into the market, helping home prices more than double since late 2001.

Eighty-six percent of California households could not afford to buy a typical home with a traditional down-payment in August, when the state's median-home price stood at \$568,890, according to the California Association of Realtors.

California residents are taking on risky variable-rate mortgages and dedicating more than 30 percent of their income for home payments -- a share of take-home pay that may have to increase to match rising interest rates.

INTEREST RATES UP, SALES DOWN

Rising mortgage rates also point to slowing home sales.

"People are stretched pretty far and so when interest rates go up there is not much more people can stretch," said Cynthia Kroll, an economist at the Fisher Center for Real Estate and Urban Economics at the University of California, Berkeley.

The stretching effect is starting to show in the supply of homes for sale, measured in months.

It stood at a 4.7-month supply in August, up from a record low 3.8-months in January, according to the National Association of Realtors. A six-month supply reflects a market in balance between sellers and buyers, according to the group.

The group forecasts 6.80 million existing homes will sell next year, compared with a projected record of 7.02 million this year, and that 1.22 million new homes will sell next year, compared with a projected record of 1.28 million this year.

Sales agents see a slowdown playing itself out in buyers' behavior. They no longer bid for a house on the spot or feel compelled to bid above asking prices or plead with sellers in letters, said Sue Erkinen an agent at Coleman Realtors in Providence, Rhode Island.

"It is a lot more work to sell a house now than it was a few years ago," she said. "Rather than collecting offers at an open house we'll have to have five or six open houses now to get any offers."

(Additional reporting by Svea Herbst-Bayliss and Jason Szep in Boston; Jim Loney in Miami)