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New Home Sales Are Strong, But They Are Beginning To Slow

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Across the nation sales of new homes jumped 9.4 percent in February – the largest monthly gain in four years – to a total of 1,226,000 on an annual basis. Part of the February gain reverses January's weather-induced weakness. Although housing sales are very strong, homebuilding is even stronger. As a result housing inventories climbed to 440,000 in February. However, the month's supply of homes edged downward to 4.4 from January's 4.6 and remains well below the average of 5.5 months over the last twenty years.

Looking forward, the pace of home sales will slow. Mortgage rates are rising, and I predict that they will continue to do so. As expected the Federal Reserve increased the funds rate to 2.75 percent last week. The yield on the ten-year Treasury bond has increased sharply over the last few weeks, and it is now trading above 4.6 percent. This is important because mortgage rates are priced off of the ten-year bond rate. As a result of the rising tide of rates, mortgages are now edging towards 6 percent.

The effects are being felt here in Florida. While the level of housing sales remain very strong across the state, sales volume is no longer rising. In fact, for most Florida markets the peak in sales volume came last spring. For example, in Orange County sales of new homes totaled 876 units in January, a great total but well off the peak of 918 sales posted in the spring of 2004. Similarly, sales of existing homes peaked at a whopping 2,499 units in July, 2004, but these sales dwindled to 1,824 in January.

Now 1,824 closings of existing homes in one month is very strong, but my point is that closing volumes are already down from their 2004 peaks. The condominium market exhibits similar trends, for both new and existing units. Sales are strong, but not as buoyant as before.

The rest of the central Florida markets display similar patterns. Only Osceola County is currently enjoying sales volumes as high as at the peak in 2004. But with interest rates rising, sales volumes will decline all across central Florida in 2005.

With closing volumes declining, price appreciation has also slowed down sharply over the last few months. Sure, prices are 10-20 percent ahead of last year, but most of those gains were made in first half of 2004. Since then prices have increased at a more pedestrian pace of 3-6 percent, depending upon market and location. Now, I do not expect there will be any absolute decline in pricing – no bubbles bursting. But I do think that this is not the time to be speculating in real estate by purchasing multiple homes, condos, or subdivision lots with the idea that you can flip them and make an easy profit. Those times are history... especially with interest rates rising.

This is Hank Fishkind for 90.7 FM, WMFE News.

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