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- THE WALL STREET JOURNAL. WSJ.com
  - JULY 28, 2009, 1:31 P.M. ET

Home Prices Post Monthly Increase

Data Are Latest to Signal a Bottom in the Property Market

By KELLY EVANS

Home prices in major U.S. cities rose in May for the first time in almost three years, the latest data to indicate a bottom could be forming in the housing market—and the broader economy.

Yet rising unemployment and wary consumers make it unlikely the stabilization will blossom into a full-blown recovery anytime soon. Indeed, such worries weighed on markets, as the Dow Jones Industrial Average bucked a three-day winning streak to stand down 0.8% at midday Tuesday.

The Case-Shiller index of home prices in 20 metropolitan areas, produced by Standard & Poor's, rose 0.5% in May from the month before, the first increase after 34 straight months of decline. Price gains were strongest in Cleveland, up 4.1% from April; Dallas, up 1.9%; and Boston, up 1.6%. Compared with a year ago, however, prices on average were down about 17%.

Robert Shiller, the Yale University economist who helped create the Case-Shiller indexes, said he was surprised by the month-on-month gains in May.

The "change in momentum here is very significant," he said. Last month, Mr. Shiller was forecasting sustained home-price declines well into the next few years. That forecast now looked less plausible, he said.

Still, while the housing market may have bottomed, he said, he doesn't think prices will rise at a fast pace. He expects home prices to remain near current levels for the next five years.

U.S. home prices have fallen by about a third since their peak in the second quarter of 2006, according to S&P, and are roughly back at 2003 levels.

And even as some markets are now showing stabilization, others—particularly overbuilt cities in the U.S. South and Southwest—continue to see sharp declines.

Prices in Las Vegas, for example, declined 2.6% in May from April and were down 32% from a year ago, according to S&P. Phoenix prices declined 0.9% from April and were down 34% from May 2008. San Francisco, Miami and Detroit also continued to see year-on-year declines of about 25%.

"While we are optimistic that home prices could be leveling off, we absolutely do not expect a vigorous rebound," said Stephen Stanley, chief economist with RBS Securities.

While the sharp decline in home prices has been painful for millions of homeowners, economists credit it with helping to ignite home sales and begin clearing the backlog of unsold homes leftover from the building boom. Meanwhile, low interest rates and the Obama administration's $8,000 tax credit for first-time homebuyers have also helped spur activity, property agents said.

Sales of both new and existing homes have risen for three consecutive months through June, although they remain well below their peaks. Inventories of unsold new homes are at 8.8 months' supply, the lowest since October 2007. The vacancy rate of all U.S. homes, which hit 2.9% last year compared with its 1.5% historical average, declined in the second quarter to 2.5%. Homebuilders even are beginning to show some confidence in the market: An index of builder sentiment rose to 17 in July, its highest since September.

The improvement in housing likely gave a small boost to U.S. gross domestic product in the second quarter, economists said. After data showed construction of new homes was stronger than expected in June and was revised higher in April and May, Macroeconomic Advisers, a St. Louis-based forecasting group, ratcheted up its estimate of second-quarter economic growth. It now sees output shrinking at just a 0.5% annual rate in the second quarter, compared with declines of 6.3% and 5.5% in the previous two quarters.

The government will report its official estimate of second-quarter growth on Friday.

But the outlook for a recovery in housing and the broader U.S. economy is clouded by the increasing wariness of U.S. consumers about the outlook for jobs, income and economic growth.

Consumer confidence declined in July for the second straight month, the Conference Board, a New York-based business research group, said Tuesday. **Its index fell to 46.6 in July after surging to 54.8 in May as the percentage of those saying jobs are "hard to get" increased.** Fewer than 10% of consumers said they expect their incomes to rise over the next six months.

Additionally, only 2.1% of consumers plan to buy a home over the next six months, according to the survey, the fewest since November. Buying plans for autos and major appliances also declined.

"Many of the recent economic statistics show that the economy is beginning to turn, but individuals continue to sense a weak environment," said Michael Moran, an economist with Daiwa Securities America.

Courtesy of JB Goodwin