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New home sales: Biggest drop ever

Weak December sales caps 2007's record slide, with prices for the month off sharply from a year earlier.

By Chris Isidore, CNNMoney.com senior writer

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NEW YORK (CNNMoney.com) -- New home sales posted the biggest drop on record in 2007, according to the government's latest look at the battered housing market, as a year that saw a meltdown in the mortgage market and a drop in home values ended with yet more signs of weakness.

December sales came in at an annual rate of 604,000, the Census Bureau report showed, down from 634,000 in November, which was also revised lower.

The reading was well below the consensus forecast of 645,000, according to economists surveyed by Briefing.com.

The weak December sales left full-year new home sales at 774,000, down 26 percent from the 1.05 million sales in 2006. That was the biggest drop since the government started tracking new home sales in 1963, surpassing the 23 percent decline posted in 1980.

No bottom yet Adam York, an economist with Wachovia, said the report confirms fears that the housing market won't bounce back anytime soon.

"We're expecting sales to decline into at least mid-2008," he said. "We think housing still has a long way to go."

The mortgage market woes were a major part of the problem for new home sales in 2007. Homes financed by conventional mortgages fell 27 percent, the biggest drop since the government started tracking financing in 1988.

But the weakness in prices made buyers reluctant to jump into the market, even if the availability of financing was not an issue. The number of new homes bought with cash fell nearly 24 percent, while mortgages guaranteed by federal agencies such as the Federal Housing Administration or the Veterans Administration fell 16 percent.

There are rising concerns among economists that the problems in housing could drag the overall economy into a recession, if it hasn't done so already.

Rate cuts may not help The Federal Reserve has cited problems in housing as one of the main reasons it has cut rates by 1.75 percentage points since September. Many economists are forecasting [further rate cuts](#) at the central bank's meeting on Wednesday.

But more rate cuts might not help housing recover in the next few months.

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Mike Larson, a real estate analyst with Weiss Research, expects further home price declines in the coming months due to the rising rate of unemployment.

"We've had the downturn in housing up until recently without any downturn in employment," he said. "Now if you layer on broad economic weakness on top of the glut of homes on the market, that's another reason I don't think the problem will be solved with Fed rate cuts."

Glut of home driving down prices The median price of a new home sold in December was \$219,200, down 10.4 percent from \$244,700 a year earlier. It was the sharpest year-over-year drop in monthly median home prices since 1970. .

This decline probably doesn't accurately capture the weakness in prices for new homes, as about three out of four builders have reported having to pay buyers' closing costs or offer other incentives such as expensive features for free in order to maintain sales.

Prices have been driven down by the glut of new homes on the market. The report showed a record 195,000 completed new homes available at the end of the period, bringing total inventory - including new homes under construction and not yet started - to 494,000, equal to a nearly 10-month supply.

Builders were finding it typically takes 6.3 months to sell a completed home in the current market, according to the report. That's the longest it's taken them to sell a complete home since March 1993.

The report is the latest sign of trouble in the overall housing market.

Last week, the National Realtors Association reported that 2007 saw the [biggest drop](#) in the pace of existing single-family homes in 27 years. It was also the first year on record that existing home prices fell. An earlier Census Bureau report showed [housing starts](#) posted their biggest drop in 27 years as well.

Homebuilders suffer The downturn in home sales has hammered the results of the nation's leading homebuilders, and experts see no hopes for a quick recovery.

Last week, Lennar ([LEN](#), [Fortune 500](#)), the nation's biggest homebuilder, reported a \$1.25 billion fourth-quarter loss, the largest in the company's history.

Earlier this month, KB Home ([KBH](#), [Fortune 500](#)), the nation's No. 5 builder by sales, reported a fiscal fourth quarter loss that was nearly 10 times worse than forecasts. CEO Jeff Mezger told investors during an earnings call that "as we enter 2008, we see no indication markets are stabilizing."

Analysts are also forecasting that No. 2 homebuilder Centex ([CTX](#), [Fortune 500](#)), No. 3 D.R. Horton ([DHI](#), [Fortune 500](#)) and No. 4 Pulte Homes ([PHM](#), [Fortune 500](#)) will all report continuing losses until at least their final quarters of this calendar year. Hovnanian Enterprises ([HOV](#), [Fortune 500](#)), the sixth-largest homebuilder, is expected to post losses in both fiscal 2008 and 2009.

The company forecast to see the quickest return to profitability is luxury home builder Toll Brothers ([TOL](#), [Fortune 500](#)), which is expected to post a narrow gain in the quarter ending in July. It reported its first loss as a public company in its most recent period, which ended in October. ■

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