Home Starts Tumble and Mortgage Delinquencies Rise, Casting Cloud Over Recovery

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The U.S. housing market is sputtering again, adding to doubts about the vigor of the economic recovery.

Just a few months after housing showed signs of leveling off, bad weather and uncertainty over the extension of a home-buyer tax credit sent new-home starts in October tumbling 10.6% from the previous month. They fell to the lowest level since April, the Commerce Department said Wednesday. Starts of single-family houses fell 6.8%.

Earlier this month, Congress expanded the tax credit and extended it through April, so building should improve. Still, the latest data portend poorly for the economy overall, and for fourth-quarter growth.

On Wednesday Pulte Homes Inc., the nation's largest home builder, warned investors of a grim outlook. "As we look out to 2010, we are expecting difficult conditions to continue," said chief executive Richard Dugas.

Meanwhile, more Americans who bought homes during the boom are falling into mortgage limbo. About 3.4% of U.S. households -- or about 1.9 million homeowners -- are 120 days or more overdue on their payments, but not yet in foreclosure, according to LPS Applied Analytics, a research firm in Denver. That is up from 1.5% a year earlier.

Many of these people are likely to lose their homes over the next few years. That means more bank-owned homes will hit a market already suffering from oversupply.

The housing-supply picture is tricky to read. The number of homes listed for sale was 3.63 million in September, down 15% from a year earlier, according to the National Association of Realtors. That is enough to last about eight months at the current rate of sales. Anything above about six months is considered a buyer's market, in which prices may come under downward pressure.

But those numbers don't reflect the millions of homes expected to go through foreclosure over the next few years, adding to supply. Amherst Securities Group in September estimated seven million homes are headed for foreclosure in the next few years -- more than a year's home sales at the current rate.

"Housing faces important problems, including continuing high foreclosure rates," Federal Reserve Chairman Ben Bernanke said in a speech Monday. "But residential investment should become a small positive for growth next year rather than a significant drag, as has been the case for the past several years."

For borrowers with strong credit records, 30-year home mortgages are available for fixed rates of just under 5%, near the lowest levels in 50 years. That is helping demand, but many people can't get such loans because they have too much debt or are unemployed.

One measure of the role of housing in the economy earlier this decade: During the boom, residential investment peaked to make up 6.3% of gross domestic product. That number fell to 2.5% in the third quarter, according to Macroeconomic Advisers.

The average U.S. home price nearly doubled between January 2000 and April 2006, according to the First American LoanPerformance index. Since then, the average has dropped about 30%. In most parts of the U.S., prices are still down from year-ago levels, but prices in some markets, including San Diego and Orange County, Calif., have leveled off, at least temporarily.

Wednesday's data prompted some economists to revise their fourth-quarter forecasts down slightly. Macroeconomic Advisers moved its GDP estimate down to 3% from 3.2% and Nomura Securities is predicting 3.4% growth, down from 3.6%. The data adds to the suggestion "that the recovery is a little bit rickety," said Zach Pandl, a Nomura economist.

Eventually, the steep drop in construction of new homes should help reduce the number of unsold vacant homes to the point where builders need to step up production. But the latest data highlight the fragility of the housing market, which has been propped up by the tax credit and the Fed's efforts to push down mortgage rates.

With the tax credit set to expire in April and the Fed scheduled to wind down its purchases of mortgage-backed securities by the end of March, housing faces a test of its ability to sustain a recovery without as much government aid.

Potential homebuyers are frustrated by the complications of a market dominated by distressed sellers. Tim Kolstad, a financial consultant renting in Scottsdale, Ariz., has been trying to buy a home for more than a year. But the homes he likes are all either foreclosed or being offered for less than the loan balance due -- which means any offer from a potential buyer must be cleared by the lender, and lenders often are slow to respond.

"The offers just sit out there forever," Mr. Kolstad said.

Credit standards are "definitely tighter than they were" in previous years, said Bryan Mitchell, an agent Re/Max Associates in Las Vegas. At least two years of job history, low debt and a good credit score are essential to securing a loan. "You have to have all three, you can't be missing one," he said.

But some economists see signs of better demand ahead. "I think that there's been a lot of doubling up in this recession," said Patrick Newport, an IHS Global Insight economist. "People lose their jobs so they move in with relatives. Your kid graduates from college, he can't get a job, so he stays at home. That's going to start going the other way."

Single family home-building is still 10.9% below year-ago levels. New homebuilding fell to a seasonally adjusted annual rate of 529,000 units, the lowest since April. And apartment-complex construction fell as high vacancy rates, declining rents and borrowing difficulties have deterred builders. Building permits, a sign of future construction, also decreased 4%.

The number of people awaiting foreclosure action has ballooned partly because the government has prodded lenders to consider reducing payments for many distressed borrowers in an effort to avert foreclosures. At the same time, loan-servicing companies, the firms that collect mortgage payments and handle foreclosures, are overwhelmed by the millions of distressed borrowers. "There is only so much volume that can be processed by the servicers each month," said Herb Blecher, a vice president at LPS.

Overall, about 12.4% of American households with mortgages in October were 30 days or more overdue or in the foreclosure process, according to LPS. That's up from 12.3% in September and 8.6% in October 2008. In the latest month, about 6.9 million households fell into this category.

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