

Business Week

By Alex Kowalski

(Updates with economist's comment in fourth paragraph.)

June 29 (Bloomberg) -- More Americans than forecast signed contracts in May to buy previously owned homes, signaling the residential real estate market may be rebounding from a slump earlier in the year.

The index of pending home resales increased 8.2 percent from April after a revised 11 percent drop the prior month that was smaller than initially reported, the National Association of Realtors said today in Washington. Economists forecast a 3 percent increase, according to the median estimate in a Bloomberg News survey.

Falling home prices that make properties more affordable may be luring potential buyers into the market even as 9.1 percent unemployment and stringent loan terms hold back a fuller recovery for the industry. Final sales in May, which were at a six-month low, will probably be "the low point of the year," NAR Chief Economist Lawrence Yun said last week.

"We really haven't seen a recovery in home sales; we've just seen a bottoming out," said Michelle Meyer, a senior economist at Bank of America Merrill Lynch in New York who forecast sales would rise 8 percent. "The recovery in the economy has been slow, the healing in the labor market has been gradual and demand for homes remains soft."

Economist Estimates

Estimates for pending home sales ranged from a drop of 4.8 percent to an increase of 15 percent, according to 36 forecasts in the Bloomberg survey. Pending sales rose 16 percent from May 2010.

Stocks rose after the Greek parliament approved austerity measures. The Standard & Poor's 500 Index climbed 0.4 percent to 1,301.29 at 10:25 a.m. in New York. Treasuries fell, pushing up the yield on the benchmark 10-year note to 3.06 percent from 3.03 percent late yesterday.

A separate NAR report on June 21 showed sales of previously owned homes, which make up about 96 percent of the market, dropped in May to the lowest level in six months. Purchases decreased 3.8 percent to a 4.81 million annual rate. The median price fell 4.6 percent from a year earlier.

Pending home sales are considered a leading indicator because they track contract signings. Purchases of existing homes are tabulated when a sale closes, typically a month or two later.

Following the June 21 report, NAR's Yun told reporters that home sales should begin to rebound in coming months and that pending sales, based on not-yet-complete data, looked to be up around 15 percent for May.

Index Level

Today's report showed an 88.8 index level for pending home sales on a seasonally adjusted basis. A reading of 100 is consistent with the average level of contracts in 2001, when record-keeping began, and coincides with "historically healthy" home-buying traffic, according to the NAR. The index last rose above 100 in April 2010 before falling two months later to the lowest level since the real estate agents' group created the index.

The NAR said the May increase was the biggest monthly gain since November.

All four regions showed an increase in contract signings from a month earlier, led by a 13 percent gain in the western U.S.

Lennar Corp. Chief Executive Officer Stuart Miller said last week he sees the first signs of "repair" in the market. The third-largest U.S. homebuilder by revenue reported second-quarter profit that beat analysts' estimates on higher house prices and earnings at its distressed-investing unit.

'Worst Days'

"While it's now well-documented that the expected spring selling season of 2011 simply did not materialize, it is beginning to feel like the worst days of the housing market are getting behind us," Miller said during a June 23 call with analysts.

Housing, nonetheless, is having trouble gaining strength. The S&P/Case-Shiller index of home values in 20 cities fell 4 percent in April from a year earlier, the most in 17 months, the group said yesterday. From March to April, prices dropped 0.1 percent on a seasonally adjusted basis.

Federal Reserve Chairman Ben S. Bernanke said June 22 that "uncertainty" surrounding employment and the broader economy is "affecting people's willingness to make the commitment to buy a house."

New-home purchases declined in May for the first time in three months and prices also dropped, a Commerce Department report showed last week. Sales decreased 2.1 percent to a 319,000 annual pace. The median price fell 3.4 percent from the same month in 2010, the biggest 12-month drop since October.

--Editors: Scott Lanman, Vince Golle