

# Weak home sales in May show it wasn't the weather



A Credit Suisse survey of real estate agents is proving that something other than snow is impacting home sales. May was another tepid month.

The national numbers aren't in yet for May, but major local markets are already reporting a serious spring slump in housing. The expected sales bump never materialized in a meaningful way and that has analysts rethinking their earlier theories.

"After much finger-pointing at the weather through a challenging winter, commentary from agents shows that confidence among buyers has taken a step backward," wrote Credit Suisse analysts in their monthly survey of real estate agents. "The deteriorating sentiment is being driven by worsening affordability as prices have continued to move higher and a lack of quality inventory at multiple price points."

Buyer traffic fell dramatically in May from April, according to the survey, and is now well below the traffic seen in May 2013. Sticking out like a sore thumb is Texas, where home sales had been surging and prices hitting record highs.

Houston saw its first home sales decline in three years in May, both versus April and year-over-year.

"It was just a matter of time before our depleted supply of inventory caught up with us," said Houston Association of Realtors Chair Chaille Ralph. "This is economics 101: Supply and demand. Until more homes are listed for sale and new housing is built, it's a safe bet that there will be further sales declines and more demand for rental properties."

Low inventory has been plaguing the nation for nearly a year, as builders are still operating at around half their historical volumes. There are also too few move-up buyers, and the reason for that is manifold: Millions still owe more on their mortgages than their homes are worth, and millions more don't have enough equity in their homes to afford the cost of moving up or even down to another home. Others may not want to give up the record low mortgage rates they

currently have and still more don't have enough confidence in the economy and their own employment to risk taking on a larger investment.

"I think that what's holding people back from buying is this virtuous circle that's never materialized for housing, a virtuous circle where job creation means people buying and selling and changing location which leads to more job creation, which leads to more buying and selling and moving, that hasn't occurred yet," said Nela Richardson, chief economist at Redfin, a real estate brokerage.

In a survey of 20 major metro markets, Redfin found sales down 10 percent in May from a year ago, despite inventory up 9 percent. Prices are still above last year's levels, but the gains are slowing.

"There was way too much credence given to the polar vortex, and the winter slowing down housing markets, and that's why the slowdown in the spring is taking a lot of people by surprise; it was never to me a winter weather story. It was always an economic fundamental story, where we as an economy lack the jobs to support a vibrant housing market," added Richardson.

Look no farther than Southern California, where there was no polar vortex. May home sales volume was down 2.3 percent from April, and down 15.1 percent from May of last year, according to San Diego-based DataQuick.

"We expected rising prices to unlock more inventory this spring, and that has happened. But the supply of homes for sale still falls short of demand in many markets, contributing to a rise in prices and a below-average sales pace," wrote Andrew LePage, a DataQuick analyst in a release.

Investors, who fueled the market in 2013, are also moving out. They bought 25 percent of Southern California homes in May, still more than their historical average of 19 percent, but down from nearly 30 percent a year ago. Regular owner-occupant, mortgage-dependent buyers are simply not picking up the slack.