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Is Housing-Market Squeeze Tightening?

By Dawn Wotapka

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At the start of the year, home builders were cautiously optimistic about their prospects for 2011. Home prices were picking up, prompting some builders to buy additional land and start to plan new communities.

What a difference a few months can make. The spring buying season—typically the strongest season for home sales—ended with a thud. Builders are now backtracking on the land deals and some prices have started to fall again.

With the downturn in its fifth year, some building executives say they thought things would be better by now. After all, families with kids in elementary and middle school when the downturn hit now have teenagers on their hands, causing some entry-level family homes to bust at the seams. While some of those families are buying, many others are choosing to stay cramped up rather than move up.

"There have certainly been some bumps in the road," said Doug Yearley, chief executive of Toll Bros. Inc., the nation's largest luxury builder.

Mr. Yearley added that he, "and, I think, every other CEO in this business, are disappointed that we're just not further along."

Industry watchers will be paying close attention to a number of indicators and earnings due out this week. On Tuesday, the Census Bureau is scheduled to release sales of new homes for June. Economists generally expect sales to climb to an annual pace of 328,000. That would be up from May's extremely weak level of 319,000 sales, but far away from 2005 when sales peaked at 1.3 million.

Also out this week are earnings reports from major home builders including PulteGroup Inc., D.R. Horton Inc. and Meritage Homes Corp.

One analyst said not to expect much. "Builders are going to disappoint investors because they're going to continue to lose money," said Alex Barron, a founder and analyst with the Housing Research Center, an independent research firm in El Paso, Texas.

Now comes more troubling news: NVR Inc., long considered the industry darling because it managed to earn money during the downturn, reported a weak second quarter

on Thursday. Profit slid 46% from a year earlier, dragged down as home closings tumbled 34%.

Particularly concerning is what NVR's results might say about the Washington, D.C., market. That is NVR's home market, and it had been one of the nation's strongest performers. Unlike much of the rest of the nation, house prices in Washington and its suburban Virginia and Maryland neighbors were rising and foreclosures in many communities were relatively low.

But NVR, based in Reston, Va., said orders declined in the mid-Atlantic region, which includes Maryland. According to Raymond James Equity Research, the Washington area's existing-home sales slumped 19% from a year earlier in June, compared with 8.8% nationwide.

Industry watchers are now trying to figure out whether NVR's performance signals further pain ahead for housing, or if Washington-area buyers are simply nervous over the debt-ceiling debate and scared about the possibility of government layoffs.

Part of the problem is that the same head winds persist: Unemployment remains elevated, builders must compete with deeply discounted foreclosed properties for sales and tight bank lending standards are keeping plenty of would-be buyers out of the market.

"The new home-sales market will continue to be depressed" for at least another year, said **Bernard Baumohl**, chief global economist with the Economic Outlook Group.

Yes, but are things getting worse? That's really the question right now. Many industry watchers say the market has already hit bottom and up-and-down monthly and quarterly economic indicators are just the market bouncing along the bottom as recovery remains elusive.

To be sure, some markets are doing better than others. Sales remain weak in boom-to-bust Las Vegas and Phoenix, which are markets likely to be the slowest to recover. Miami, which saw rampant condominium construction during the boom, is slowly healing, helped by foreign buyers. The technology craze—with its cash-rich youngsters—is benefiting parts of California

Mr. Yearley said Toll has seen prices stabilize in many of its markets during recent months and it has increased some prices. Urban New York, which includes Manhattan and Hoboken, N.J., is a strong market, although it could soften should financial employers lay off staffers. Dallas and Detroit are also doing well, he said.

Charter Homes & Neighborhoods, a small private builder in central Pennsylvania, said sales are picking up after a slow spring season. The company has sold 98 homes so far this year and is optimistic it can meet or beat the 135 sold last year.

Still, confidence indexes report that most builders remain pessimistic. If Tuesday's new-home-sales report shows a gain, perhaps that could brighten their day.