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03/01/2006 - Updated 12:22 AM ET

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Real estate continues to cool January sales fall for fifth month in a row

By Noelle Knox
USA TODAY

After five adrenaline-pumping years of real estate sales, 2006 is already fulfilling predictions of a weaker market.

Sales of existing homes fell in January for the fifth month in a row, the National Association of Realtors (NAR) said Tuesday. The same month, new-home sales slid 5%, the government said Monday. Builders are seeing more orders canceled. Meanwhile, the number of homeowners who are late paying their mortgages has been creeping up.

Even so, prices are expected to rise about 5% this year despite the cooler market.

"January's weak existing- and new-home sales numbers are the strongest evidence yet that after five remarkable, record-setting years, the housing market is in decline," says Patrick Newport, the U.S. economist for Global Insight.

The drop in home sales defied unseasonably warm weather and cash and give-away incentives from builders that had raised hopes for a brighter showing.

"Imagine if the weather had been terrible," said Phillip Neuhart, economic analyst for Wachovia.

No one needs to tell that to Fran Floyd. She took her Houston townhome off the market Saturday after nearly six months — even though she was willing to sell it for \$3,400 less than she paid in 2002.

"It's just sad," said Floyd, 81. "I've got to sell. I don't know what I'm going to do. What I'm thinking about and praying about is renting it for a year, hoping the real estate market gets better."

Unfortunately for her, the NAR projects a 5% decline in existing-home sales this year, to what would still be historically high levels.

In January, existing-home sales dipped 2.8%, to a seasonally adjusted annual pace of 6.56 million, down 5.2% from January last year. At the same time, the number of single-family homes for sale rose to the highest since 1986 — and 34% higher than a year ago, according to Insight Economics. That's a sign would-be buyers aren't so quick now to take the plunge.

"We've just got tons of inventory," and prices are coming down in Grand Rapids, Mich., said Pat Vredevoogd of AJS Realty.

One in five builders said they are seeing more cancellations of new-home orders than they did six months ago, according to the National Association of Home Builders, with 4% saying the problem is significant. To entice home shoppers, many builders are offering free TVs, swimming pools, landscaping and other incentives.

That's good news for buyers. But it's bad news for sellers such as Kent Anderson. Kimball Hill, the developer of his Las Vegas community, is now offering home buyers so many incentives — including free granite countertops and stainless steel kitchen appliances — that Anderson had to cut his asking price on the home he bought from Kimball Hill less than a year ago.

"As builders close out a community, those last homes are pure profit" for them, says Bruce Hiatt, Anderson's Realtor. "It really changes the comparable sales in the area."

Regionally, the only bright spot in January was in the South. Sales there rose 2.6% from December's pace. Home sales suffered most in the Northeast, falling 10%. That was followed by a 7.7% drop in the Midwest and a 3.5% dip in the West. January's declines are even sharper when compared with January of last year.

One key reason fewer people are buying: They can't afford to. The median price — half cost more, half less — was unchanged from December at \$211,000 but was 11.6% higher than in January 2005.

It's clear that some homeowners are having trouble paying their mortgages. The number of homeowners who are 90 days or more behind on their primary mortgages rose to 3.6% in December, up from 3% last March, according to Loan Performance.

For subprime borrowers — those with impaired credit who carry higher-interest loans — the number of delinquent loans has jumped to nearly 10%.

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