

*Bill Watkins
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The California Builders Association announced today that California's new home sales fell 46 percent in May over the previous year. This is a big decline from an already weak market. The question, of course, is what caused the decline.

The easy answer is the expiration of federal incentives on April 30th, but that is not enough. For one thing, sales in May were still buoyed by the stimulus. As long as the escrow was entered into before April 30, the sale could close in May.

Incentives do move sales forward. I have no doubt that the tax incentive moved sales from the Summer to Spring. Incentives also move sales to the future. I'm currently considering purchasing a rental unit, but I can promise you that I won't enter into a deal as long as I think another incentive is in the future. I do think one is in the future. I'm not shopping today. I expect to shop in August or September.

Fewer homes being built is also a contributor to the decline in new home sales. California building starts, reflecting previous overbuilding and very limited demand, fell through 2008 and have been flat since. At the same time, builders have slowly reducing inventory. So, part of the decline in new home sales reflects fewer new units for sale.

Finally, I note that real estate sales are far less sticky than real estate prices. Declines in sales, especially declines of this magnitude, often precede declines in prices. Maybe we haven't seen the bottom of California's real estate markets?