Builder Stocks Gain On Case-Shiller Data

By Dawn Wotapka
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News that U.S. home prices rose in the second quarter for the first time in three years - and logged a second-straight monthly increase in June - gave builder stocks a boost Tuesday, though the usual skepticism remains.

For the second quarter, the S&P Case-Shiller U.S. National Home Price Index posted a 14.9% drop from a year earlier, an improvement over the first quarter's record 19.1% drop. The closely watched index climbed 2.9% sequentially.

David M. Blitzer, chairman of S&P's index committee, said he's seeing some positive signs for the second month in a row and sees "hints of an upward turn from a bottom."

That is another good sign for housing. Sales of both new and existing homes are increasing as a federal tax credit of up to $8,000 lures first-time buyers off the sidelines. Price declines - national prices are at levels similar to early 2003 - have made ownership affordable for many who couldn't afford to buy during the boom. The National Association of Realtors recently reported that existing-home sales jumped to their highest level in nearly two years last month.

"All housing recovery fundamentals are now aligned," said Steve Hagenbuckle, managing principal of TerraCap Partners, a Florida-based distressed real-estate private equity fund. "Now it's just a matter of time."

Builders' optimism is growing - some have even increased construction and are looking to snap up bargain-priced land lots. That's helped builder stocks: The Dow Jones US Home Construction Index has surged 37% in the last three months. Tuesday, the index was up more than 3.3%, led by Hovnanian Enterprises' (HOV) 5.6% gain. Lennar Corp. (LEN) climbed 4%, while Meritage Homes Corp. (MTH) added 4.5%. No major builder saw a loss.

"While we think the worst of home price declines are behind us, we would caution investors to take today's data with a grain of salt," warned Citi analyst Josh Levin. Indeed, housing continues to face numerous headwinds. The boosted sales counts could fall following the traditional spring selling season and the Dec. 1 end of the tax credit.

There's fear the credit is pulling deals forward, "resulting in a soft year for housing in 2010," according to John Burns, head of John Burns Real Estate Consulting.

Unemployment, meanwhile, remains elevated and foreclosures, which can sell for steep discounts, continue mounting. Last week, the Mortgage Bankers Association reported the percentage of mortgages in delinquency or foreclosure reached an all-time high, Citi pointed out, while Fitch Monday reported that the cure rate among delinquent mortgages has declined precipitously.

"These two empirical data points suggest that the pipeline of distressed home sales continues to build," Levin pointed out. "Unless foreclosure moratoriums are made permanent, these distressed homes will ultimately come to market and put downward pressure on home prices."

According to S&P, at the end of the second quarter, average national home prices have tumbled 30% from their peak in the second quarter of 2006. The monthly numbers showed 15 of 20 major metropolitan areas posted price declines of more than 10% from a year earlier, with the Sun Belt continuing to be hit the hardest.

Prices in both 10 and 20 major metropolitan areas fell 15% in June from a year earlier and rose 1.4% from May. Eighteen regions reported a slight price increase in June from a month earlier. Month-to-month gainers were again led by Cleveland, which posted a 4.2% gain, and San Francisco, which rose 3.8%. Las Vegas again fared worse, dropping 2%.

For the 15th straight month, no region was able to avoid a year-over-year decline. Las Vegas edged out Phoenix as the worst performer. The two desert cities - a duo of the nation's worst-hit boom-to-bust markets - posted drops of 32.4% and 31.6%, respectively. Detroit, hurt by the auto industry's troubles, followed with a 25% fall.

The best year-over-year performer was Dallas, which saw a 2.2% decline.