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Residential Sales Volume and Prices Take Another Dip

More Mortgages Underwater

April 1, 2012 By William L. Pittenger, MAI, SRA

Despite widespread wishful thinking about housing having reached a bottom, most recent housing reports suggest otherwise. Even as some broader economic indicators look modestly stronger, house prices have continued to decline and sales volumes have remained flat for the last few months. That apparent inconsistency speaks volumes about the severity of last decade's housing collapse and the length of time it is likely to take to reach bottom and begin a sustainable recovery. While we may be closing in on a bottom, it is still too early to call.

According to the highly regarded and widely watched **S & P Case-Shiller Home Price Indices**, existing home prices declined again in the three months ending in January 2012 as compared to the same period last year. The 10 city composite index declined 3.9% and the 20 city composite dropped 3.8%, not seasonally adjusted. On a seasonally adjusted basis, the decline in both indices was about 0.8% and represents the fifth consecutive month of decline. Home prices fell in eight of the 10 cities measured in the 10 city composite and 17 of 20 cities in the 20 city composite. Indeed, prices reached new post-crash lows in January. Atlanta, Chicago, Cleveland, Las Vegas, New York, Portland, Seattle and Tampa all tested new lows. Only three cities registered gains. Phoenix inched up 0.9% while Washington climbed 0.7% and Miami rose 0.6%.

Existing home prices, as measured in the 10 city composite, have now fallen to May 2003 levels and the 20 city composite has fallen to a level last seen in December 2002. From the 2006 peak, prices have fallen on average around 35% throughout the U.S. Peak to trough declines were much more severe in sunbelt areas such as Las Vegas which has declined 61%. Miami has declined 50.7% and San Diego has fallen 40.6%.

While Case-Shiller tracks repeat sales, the **Federal Housing Finance Agency (FHFA)**, tracks purchases and refinance data from Fannie Mae and Freddie Mac; the two government sponsored enterprises it regulates. The index therefore tracks only a portion of the housing market and is not nearly as broad as others such as Case-Shiller and the National Association of Realtors. Nevertheless, the FHFA purchase only index lends support to the Case-Shiller findings. The index was virtually unchanged in January as compared to December and down 0.8% year over year. The index has gained no appreciable ground since hitting its bottom in March 2011.

The **National Association of Realtors (NAR)**, whose data are relied upon heavily as a measure of existing home sales volume reported that existing home sales volume slipped modestly (0.9% month over month) to 4.59 million (annualized) units. Investors purchased about 23% of the homes in February, mostly for cash. All told, cash sales represented about 33% of February's sale volume. Foreclosures accounted for about 20% of February sales while short sales accounted for 14%. Investors and first time purchasers are competing aggressively at the lower price points in the market. The U.S. median home price, according to NAR, was $156,600; fractionally higher than a month ago; equal to a year ago but significantly less than 2009, 2010 and 2011.

Sales are running about four percent faster in the three months ending in February than the previous three months ending last November. Inventory increased again to a 6.4 month supply (from 6.0) although new listings appear to have driven part of that gain. Realtors and their customers generally anticipate an improved spring selling season.

S & P Case-Shiller Indices

The Case-Shiller Indices are perhaps the most widely followed U.S. housing price trend indices largely because they are based on repeat sales over a lengthy period of time. The indices include a national index as well as 10 and 20 city indices.

Composite 10 Index

Greater Boston
Chicago Metro
Denver Metro
Las Vegas Metro
Greater Los Angeles
South Florida Metro
New York Metro
San Diego
San Francisco
Washington Metro

Composite 20 Index

Phoenix Metro
Greater Los Angeles
San Diego
San Francisco
Denver Metro
Washington Metro
South Florida Metro
Tampa Bay Metro
Atlanta Metro
Chicago Metro
Greater Boston
Detroit Metro
Minneapolis St. Paul
Charlotte Metro
Las Vegas Metro
New York Metro
Greater Cleveland
Portland (OR) Metro
Dallas Ft. Worth Metro
Seattle Metro

Cities shown in bold type are also on the Composite 10 Index.

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The last few seasons have been remarkably disappointing. The pace of sales, averaged over the last three months remains about 36% below the historically fast pace registered in 2005 and is about on par with the pace registered in 1997.

The National Association of Realtors also publishes a **Pending Home Sales Index (PHS).** The PHS index is based on a large national sample of contract signings reported by local and state Realtor associations. Since it is based on contracts and not yet closed transactions, it is forward looking and is reasonably representative of closed existing home sales one to three months into the future. An index of 100 is equal to the average level of contract activity in 2001; the first year of the survey.

The index was down in February, retreating 0.5% to 96.5. Nevertheless, it is still significantly higher than a year ago when it was 88.4, some 8.4% lower. The South and West United States delivered the highest readings (at or near 100) although both were down from year ago levels. The Northeast U.S. slipped fractionally but is still 18% higher than a year ago. Similarly, the Midwest regional index climbed modestly and is about 19% higher than a year ago. While the PHS index has been erratic, the general pattern is up. The PHS index together with other leading indicators seem to suggest that existing home sales volume is likely to remain flat for the next few months and very likely throughout the year.

The mediocre news in the existing housing sector was followed by similarly mediocre news in the new home sector. According to a joint report by the U.S. Census Bureau and the Department of Housing and Urban Development, new home sales were at a seasonally adjusted annual rate of just 313,000. This is marginally less than the revised January level but is significantly (11.4%) above the year ago level.

The median price at the end of February was $233,700 and the inventory of new homes offered for sale was about 150,000 for a 5.8 month supply at the current sales pace. Builders continue to have a difficult time competing with much lower priced existing homes where the median price was $156,600. New housing development is generally not economically feasible today meaning that sales prices are often less that the cost to build. Until that metric changes and development becomes economically feasible, new home development and sales will bounce along at near record low rates.

Foreclosures continue to play adversely into housing recovery. According to real estate analytics firm, **CoreLogic**, 22.8% of all residential properties encumbered by a mortgage were worth less than the mortgage amount. That is fourth quarter 2011 (most recent) data and represents some 11.1 million properties. That number is up from 10.7 million a quarter earlier. Another 2.5 million properties are at what CoreLogic refers to as *near negative equity*.


House Under Water

These borrowers have less than five percent equity and it would take very little to push them into negative territory. All told, negative and near negative equity totals some 27.8% of all mortgages for a dollar total of $2.8 trillion. That figure is alarming as it is back to the same level as it was in the third quarter of 2009.

At the state level, Nevada posted the worst negative equity rate at 61% followed by Arizona at 48% and Florida at 44%. Low end homes in all areas fared the worst. The 10 states with the most underwater mortgages (ranked worst to best) are: Nevada, Arizona, Florida, Michigan, Georgia, California, Idaho, Maryland, Ohio and Virginia.

Underwater Metrics—Select States

	Nevada	Arizona	Florida	Michigan	Georgia
Percent Underwater	61.1%	48.3%	44.2%	34.7%	33.0%
Property Value	$96.57 Billion	$243.02 billion	$809.95 billion	$198.05 billion	$306.59 billion
Mortgage Debt	$109.94 Billion	$226.22 billion	$706.00 billion	$165.45 billion	$252.81 billion
Value Chg From Peak	-60%	-47.9%	-44.8%	-30.1%	-26%
In Foreclosure*	13.4%	7.1%	17.4%	6.5%	8.0%

= In foreclosure or > 90 days delinquent

SOURCE: CoreLogic

The Office of Comptroller of the Currency (OCC) issues a quarterly Mortgage Metrics Report which describes the performance of residential first mortgages serviced by large national and federal savings banks. The fourth quarter 2011 survey covers 31.4 million first lien loans worth $5.4 trillion. That is about 60% of all U.S. first lien loans. The fourth quarter report was issued in late March and showed that overall mortgage performance remained relatively stable. There was also measurable improvement on a year ago basis. Still, there is a very large number of residential loans wending their way through the loss mitigation process. At year end 2011, nearly 27.6 million mortgages or almost 88% of the loans covered by the survey were current and performing.

Outlook. At a time when many broader economic indicators are improving modestly, it is unusual to see housing struggling so severely. Robert Shiller, of Case-Shiller fame recently opined that the U.S. could experience a Japanese-style housing slump that could last for years. "*I'm worried that home prices have been declining now for about five years. There's a lot of downward momentum*" with year over year and even month over month declines.