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Daniel Calano - Housing redux: The end is not in sight

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One month residential sales volume are up, but prices are down. The next month prices are up, but volume is down. The next week, both volume and price are down, except in a N.Y., D.C., Boston and San Francisco. Next month Miami, of all places is up.

Confused? Yes, and likely to stay that way for awhile. Assuming that all of these statements above are accurately reported, there are a lot of statistics seemingly in conflict. But really, they only seem in conflict at any given moment, because things have been changing rapidly in both positive and negative directions.

The Wall Street Journal has summarized it well this past week indicating that, in fact, there is a double dip recession in housing, with prices back to 2002 levels, erasing one decade of housing wealth growth. The facts are that housing values dropped from a peak in 2006 (depending upon location) to what was considered the low in 2009. The economic recession officially ended in June of 2009, two years ago. At that point, housing values appeared to move up from their lows, because of stimulus and housing credits, to prices where most people called it a rebound. However, reversing, prices have dropped consistently from there over the last 8 months back to 2009 levels, which essentially the same as 2002. For all the peaks and valleys, it is essentially a flat line representing zero growth in the last 10 years.

The problem is that it may continue downward from here, or stay flat for a long time, because of the following overhanging issues:

There is a shadow inventory of houses in actual default, technically default, or foreclosure. The clearing of this market has been delayed by banks forestalling, rather than foreclosing, sometimes because of well-intentioned forgiveness of debt, or sometimes due to unwillingness to write off too much too soon, or sometimes due to legal issues such as "robo" signing, fraudulent signatures and paperwork during the foreclosure process. As a result, there has been a mere four million foreclosures or short sales since 2007, with estimates ranging wildly from seven million to 18 million remaining to happen. While the range varies dramatically, all agree that there are many more to come versus those that have been finished. And, while many loans continue to be "modified" with the intent of avoiding foreclosure, the recidivism rate of second round default is approximately 70%.

One would think that, with the lowest interest rate in years, the lowest prices for a decade, and plenty of supply, buyers would be snapping up housing and thus reducing current and future potential inventory. Apparently not true. There is a group of buyers who have been burned, and a new generation who do not believe in the value appreciation of the past ever materializing again. Young people are questioning why to buy, when there is the potential for prices falling lower, or remaining flat with no appreciation for years. In addition, while loans are available at low rates, closing one is difficult, equity requirements are high, and the credit review process is rigorous, all for good reasons. However, the result is there are fewer than expected buyers.

So what's a person to do? As best stated in the Wall Street Journal, the trend is not your friend. For the most part, housing prices will remain flat or possibly decline, depending on the area. It is unlikely there will be any more housing credit to stimulate this market. Quantitative easing ends in this month, and there seemed to be no possibility for QE3. That might change, but based on history, will have little impact on the housing market. It will take substantial improvements in the economy, supported by low interest rates to move values back up the curve. Given history, it may be many years before we are back spending from our home equity lines.

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