



“Home prices hit post-bust lows in most big cities”

-Associated Press, February 22, 2011

-Derek Kravitz, February 22, 2011

While the economy continues to modestly improve, the housing bust is regrettably far from over. One popular private-sector indicator—the Case-Shiller 20-City U.S. Home Price Index—has fallen to its lowest levels since the onset of the mortgage crisis. But perhaps most disturbing is the broad nature of the weakness. The index is not being dragged down by a handful of troubled areas like Miami, Las Vegas, or Phoenix. Sure, these areas saw the biggest gains during the boom and have consequently suffered the most in the bust that followed. The pain, unfortunately, is spread much wider: *Prices declined in fully 19 of the 20 cities that make up the index!*

The only metro area to see prices rise was Washington D.C.—so much for the new commitment by Congress to shrink the size of government.

Picking through the Case-Shiller data, we do see a few points for cautious optimism. While 19 of 20 cities saw declines in the last month of 2010, not all of these were new post-crash lows. Some cities had seen modest recoveries in the preceding months, and it’s not wise to read too deeply into one month’s worth of data.

Still, eleven of the twenty markets hit their lowest point since the beginning of the housing bust: Atlanta, Charlotte, Chicago, Detroit, Las Vegas, Miami, New York, Phoenix, Portland, Seattle and Tampa.

In another example of the muddled condition of the housing market, the National Association of Realtors reported that more people bought previously occupied homes in January, but the increase in sales was due to a surge of foreclosures and all-cash deals and *not* first-time home-buyers.

Foreclosures represented 37 percent of sales in January. All-cash transactions accounted for 32 percent of sales, and in particularly hard-hit places like Las Vegas and Miami cash deals represent *half* of all sales!

The high number of these distressed sales is, of course, a major reason for the falling prices seen in the Case-Shiller Indices.

It is good to see these houses being snapped up for cash, of course. An investor who is able to pay cash for a house is one that is unlikely to sell again at distressed prices. This is good for the long-term health of the markets affected. But on the other hand, one of the reasons that cash purchases are so high is that mortgage lending standards are much stricter than in the past. Less mortgage credit means that fewer people will be able to bid for houses, which means that a real recovery in prices is likely to be many years away. In some areas, prices may never recover.

How are we to interpret all these mixed data? To start, you have to look past the noise and find the trends that really matter—like demographics. Demographic trends do suggest that demand for starter houses and rentals should be relatively strong in the years ahead once the current supply glut is worked off. Depending on the area, this might take a while. But if you buy judiciously, demographic trends are on your side.

The same cannot be said of trade-up “McMansions.” Demographic trends in this segment are terrible, for lack of gentler word. The Boomers will be net sellers for the foreseeable future, and there are no obvious sources of buyers in most areas.

The news is not all bad. We just have to know how to interpret what we see reported, keeping an eye on the big picture.

Sincerely,

Jeremy E. Portnoff

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Sources:

Kravitz, Derek. “Home prices hit post-bust lows in most big cities.” Associated Press, February 22, 2011

Kravitz, Derek. “Foreclosures, cash deals lifted January home sales.” Associated Press, February 23, 2011