

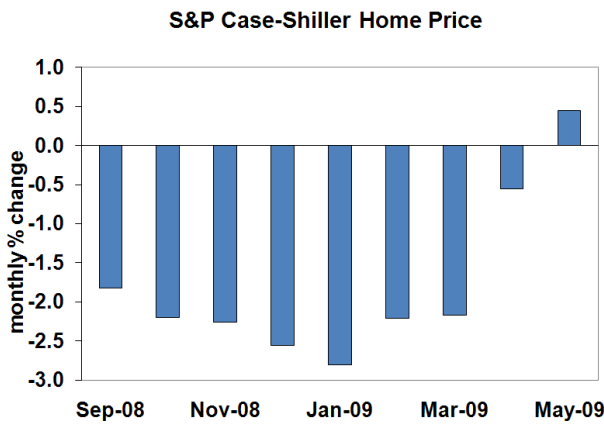
July 30, 2009

Is Housing Hitting Bottom?

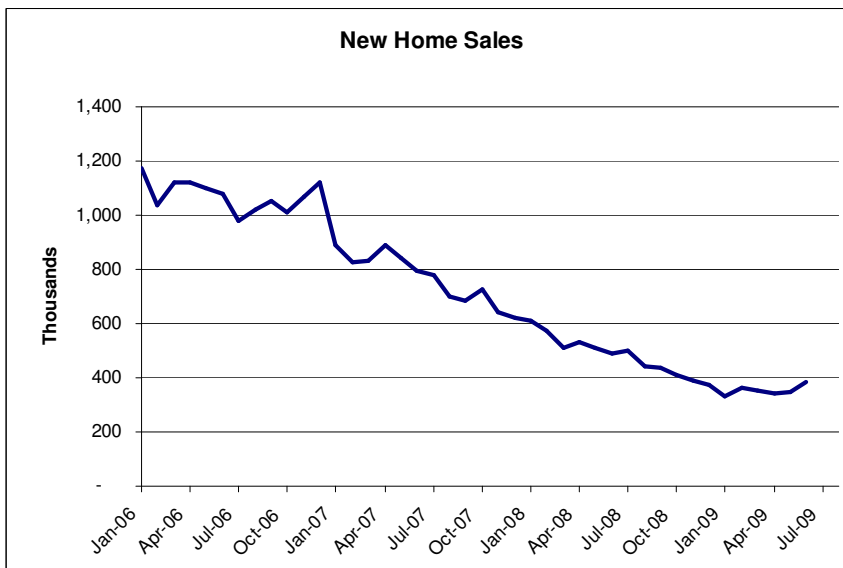
Some signs of life, but real estate will remain in the dog house for years

This week the Case/Shiller Index was published for May and it showed the first month-to-month increase in prices since 2006. Prices reflected in this index are down over 30% from the peak in '06 and no one expects them to bounce back quickly.

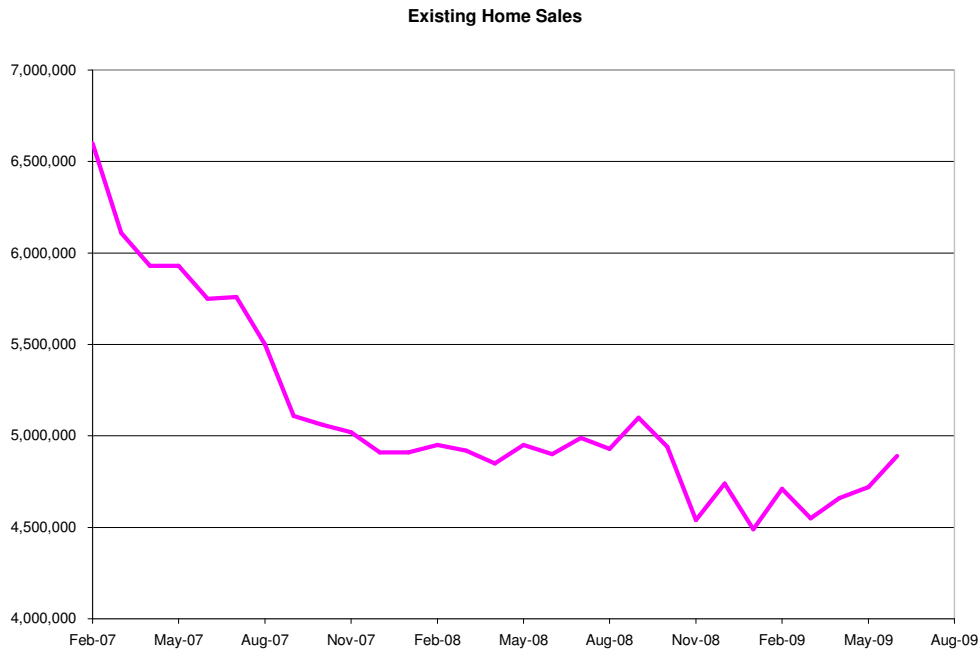
Still, prices need to stop falling before they can rise, so this might be the beginning of that process.



Sales activity is in better shape than prices. The June increase in New Home sales was the biggest in many years, at 11% and as the chart below shows, sales have stabilized since the beginning of the year. If this continues (stabilization, not increases) housing may not be a drag on the GDP numbers in the second half. New home construction has been subtracting from economic growth since 2005, so this could make a difference in 2010.



Meanwhile....



This chart shows that Existing Home Sales activity has also stopped falling.

Still, bad news for housing will continue for a long time. There is a big wave of foreclosures in the pipeline ready to hit, which will probably push prices down, or at least keep them down, for the next year or more. Then there's all that hidden inventory---homeowners who are doing well enough not to be forced into selling in this rotten market, but who plan to sell "once things get better."

The result will be a very long and drawn out bottom in residential real estate, long enough to kill off the idea that houses are good investments. Once "everyone" knows that, there's a chance that prices can rise again.

Strangely, this outcome could be good for stocks. Real estate provided very heavy competition for investment dollars in the early part of the decade. Once the shock of the bear market wears off, the mountain of cash sitting on the sidelines might go into stocks rather than houses.

Best regards,

Daniel A. Ogden