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Good News from Housing

Consumers will feel better if they stop losing money on their homes

The financial disasters of 2008 were triggered by the housing bust of 2007. A recovery in the general economy can only be sustained if housing joins the upturn.

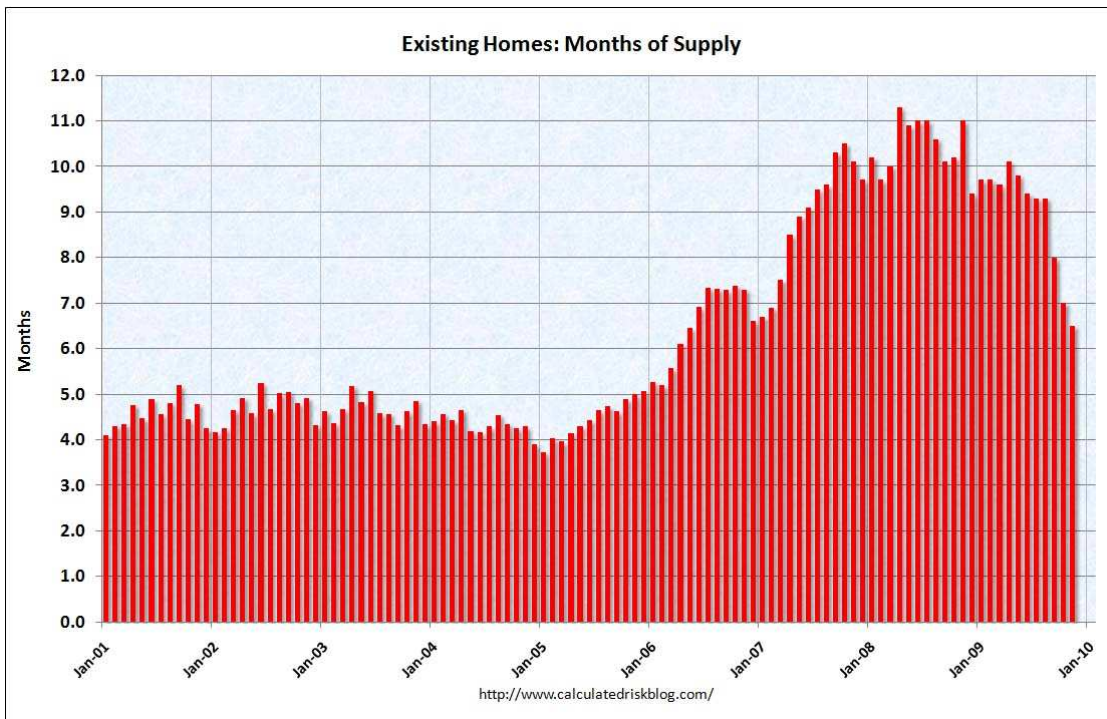
Here are some charts that strongly suggest that the worst might be over. First, activity is way up, especially for existing home sales:



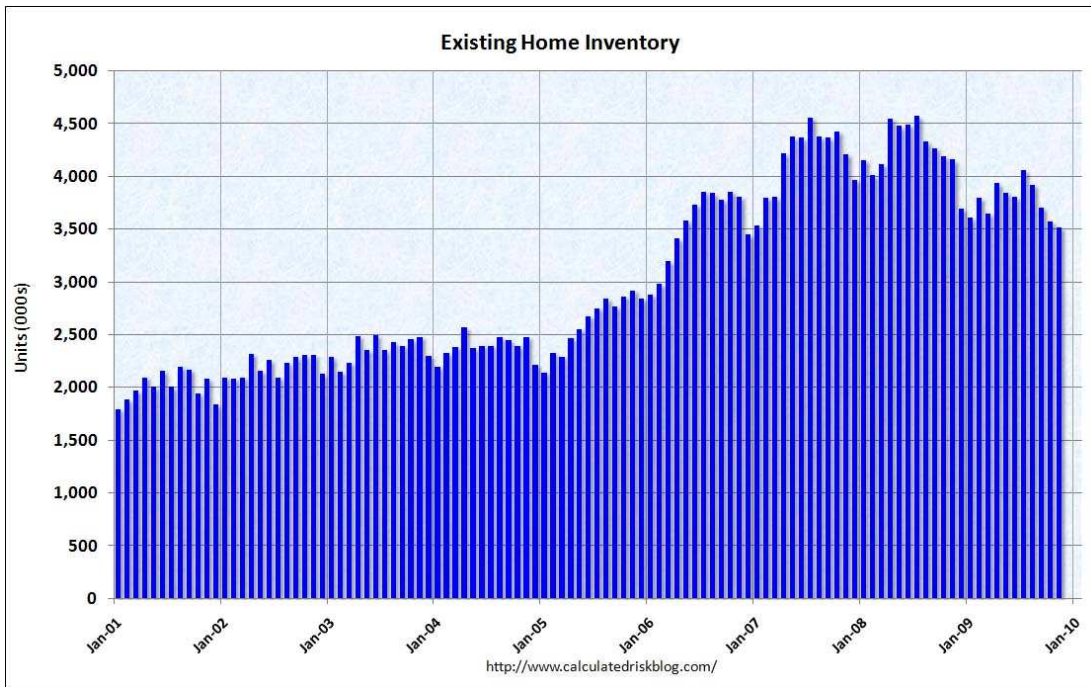
Existing sales are doing better because of the Tax Credit, but also because this is where distressed sales are recorded. "Distressed" includes banks selling foreclosed homes, auction sales, and other forced transactions. Distressed sellers never get the best price.

New Home sales have stabilized at a very low level, but at least this industry is no longer subtracting from economic growth as it did for three years. New homes account for only 5% of all homes sold.

Next, inventories are way down:



The “months of supply” chart is helped by increased sales activity. The chart below shows the actual inventory of unsold houses---still down 1 million homes from the peak.



The worst appears to be over for housing; however, current sellers tend to be those in a weak financial position. There is a “shadow” inventory of homes for sale, those owned by owners who have the ability to wait for better prices. Over the next few years, listings from these strong sellers will keep a lid on prices in most markets.

So while the days of making big profits in real estate are not set to return, the corrosive effects of falling real estate values may be behind us. If so, consumer spending will be helped as everyone feels a little better about the world.

DOCK STREET ASSET MANAGEMENT

Here's hoping we all feel a little better in 2010.

Best regards,

A handwritten signature in blue ink, appearing to read 'D. Ogden', with a stylized flourish at the end.

Daniel A. Ogden

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