

Punched Out At The Plate, Real Estate Is Slumping Again

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The U.S. real estate market stepped up to the plate this week and struck out, again. Completely whiffed on three pitches, in fact.

Strike one came on Monday, when the Treasury released its latest numbers on the Home Affordable Modification Program. The background: 1.24 million borrowers have enrolled in the program, which was launched with the hope of helping 4 million. Of those 1.24 million, more than one-third have now failed their "trial modifications." In fact, more people have blown their trial modifications than have succeeded in converting to a permanent one.

This is because "until recently, loan servicers weren't required to verify borrowers' eligibility before starting them on trials," according to *The Wall Street Journal*. In other words, when the government launched the program last year, it was all about "joking the stats," crowing about how many people were being "helped." Now comes the whirlwind.

The people who are "success stories," who have a permanent modification? On average, their monthly debt payments, including mortgage, credit cards, auto loan and paying back friends come to 64% of pretax income. Oy!

Strike two came Tuesday, another one of those "unexpected" numbers that keep whacking the stock market of late. In this case, existing home sales fell 2.2% in May.

Yes, the home buyer tax credit expired at the end of April, but that simply meant the buyer had to have a home under contract. Presumably, that's a lot of homes that haven't gotten to closing yet, and closings are what the National Association of Realtors uses to come up with the numbers. So much for presumption.

Dig deeper into the numbers and the picture is even uglier. For the second month in a row, inventory is actually higher than it was a year ago. Not good when there's still a historically high 8.3 months of supply on the market.

Strike three came a half-hour after the opening bell Wednesday, with new home sales. They plunged 33% from April to May. In fact, sales were the lowest since record keeping began in 1963. In fairness, even the "experts" were expecting a big drop here. Unlike existing home sales, new home sales count as soon as a contract is signed. So any glow from the tax credit has already worn off. Still, the consensus expected a drop of maybe 20%. 33% is a gut punch.

So where from here? It's now inescapable: The tax credit had the effect of taking a whole bunch of home sales that were going to take place anyway during 2010 and pulling them into the first four months.

Even mainstream economists polled by the firm MacroMarkets are conceding this. Last month, 40% of them expected home prices to fall this year. Now, it's 56%. By the end of 2014, they reckon home prices will be back to late-2008 levels. Which, by the way, are also mid-2004 levels.

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