

**M Hanson Advisors – Real Estate & Finance**  
***The Mortgage Pages - May 21<sup>st</sup> 2010***

**- April CA House Sales Disappoint...For the Third Time in Four Months**

*Our mission is to provide our clients a significant edge. This is done by turning the daily, market-moving real estate and mortgage news flow and events into old news by the time it makes headlines. - Mark Hanson*

**April House Sales**  
**First Timers Going Hog-Wild with Obama Coupons, Investors Make Way**

In April, 37,481 houses were sold in CA, only up 0.5% MoM and down 1.3% from last year when there was no tax stimulus and the wheels were coming off of the fabric of society itself. This stat in and of itself is remarkable.

First-timers are going hog-wild with their Obama and Uncle Arnold, CA-specific tax-credit coupons. The tax-stimulus and gorilla marketing by every real estate agent and mortgage loan officer to 'get in now or miss out forever' has done it's best to suck every ounce of demand out of the market going into July closings (national tax credit allows a closing by 6/30 for houses in contract by 4/30). A recent report by Campbell Surveys show first timers make up 50% of the market. Remember, first timers can turn it off on a dime and have before.

Because of the strong demand by Obama coupon waivers, investors have backed off considerably in the past few months. Since investors and first timers took control of the housing market a couple of years ago -- when organic buyers went away for good due to epidemic effective negative equity -- I have warned about these groups being highly volatile and a terrible foundation for a sustainable housing recovery. Investors simply will not bid aggressively in this market.

Luckily, Foreclosures and short-sales are continuing to rise, hitting a national record again in April, because come July -- when sales could be set for a cliff dive because the last of the tax credit closings will be behind us -- they will be needed to pick up the first-time buyer slack.

While a surge in Foreclosures and short-sales is a positive for sales volume, obviously the downside is that an increase in the distressed/organic sales mix will negatively impact pricing. Not to the extent we saw in 2007-2008, but prices will fall. My estimate is for the distressed market nationally to go from about 35% at present to over 50% by Q4 when the new Foreclosure run hits and HAFA is fully up to speed.

**Bottom Line** - Despite rates being at record lows and multiple forms of stimuli in place not present last year or at the end of the original tax credit in November 2009, sales are not picking to the degree that would indicate a sustainable post-stimuli recovery can be maintained.

**The stimulus driven market hand-off to a normal market has not occurred and to date the YoY comps have been easy.** Jan, Feb and April's lower YoY comps were just a taster of what we will see mid-year in CA and nationally.

**Simply put, we are running out of sellers and buyers quickly,** as aggressive mortgage mod programs have kept distressed inventory extremely low relative to year ago levels and **epidemic effective negative equity** (not enough equity to sell -- pay a Realtor and put a down payment on a new house -- and re-buy) has trapped 10s of millions in their houses across the nation. When calculating negative equity with respect to house sales in this manner, it affects far more households than the commonly reported 23%.

Additionally, **flip-resales** -- that have provided a boost in sales counts due to double-counting -- will diminish somewhat in 2010 due to the heavy handed foreclosure prevention in 2009 and stimulus that has pushed investors away in favor of first timers. This will provide a further drag that few are looking for.

**What now?** With foreclosures artificially depressed for the past year due to HAMP and other aggressive initiatives, houses that are most in demand have become scarce. It is negatively impacting sales counts as evidenced by CA ytd sales.

**The only way for the 2010 sales pace to keep up with the 2009 to Q1 2010 stimulus and distress driven market is for foreclosures and short sales to flood the market.** This is what the two primary buyer groups -- investors and first-timers -- want.

If foreclosures do not begin to soar past April's all-time highs right now -- or for some reason HAFA is not rolled out as it should be - house sales will disappoint for most months of 2010 just like you are seeing now, but worse as comps get tougher.

**In fact, sales could outright collapse** in July without abundant distressed inventory as investors and first timers do not make up a strong foundation and can literally turn it off overnight.

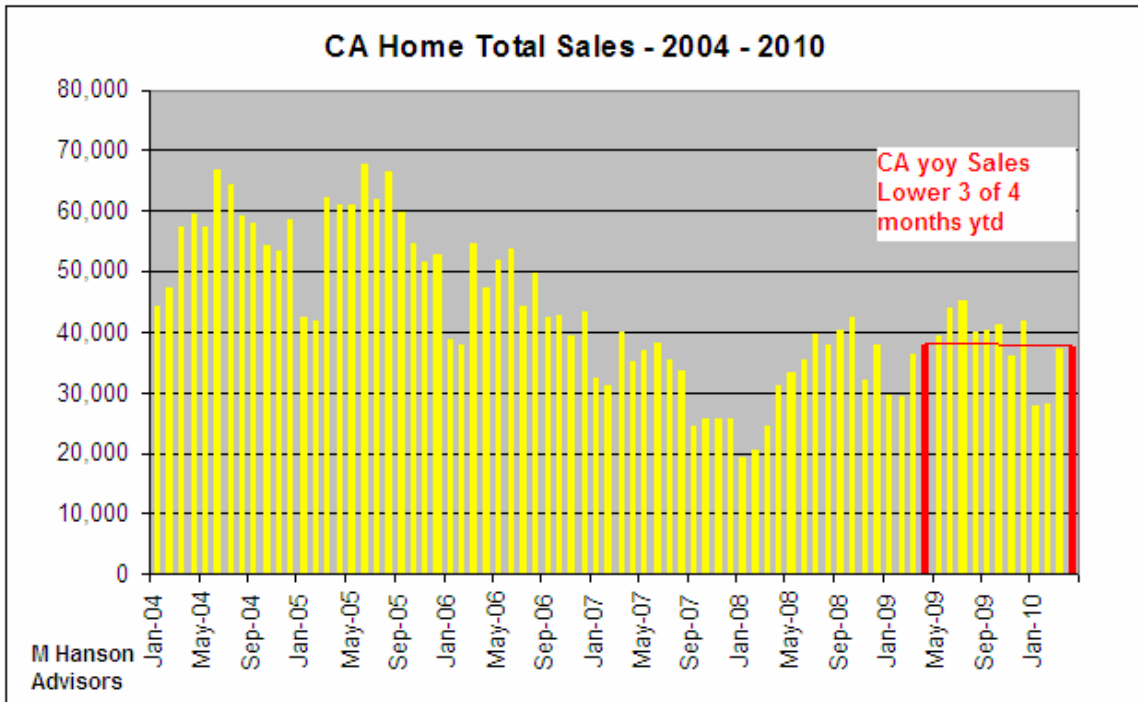
Yes, if distressed properties flood the market prices will be negatively effected but not like during 2007-2008. And prices are under pressure again anyway.

So, let's look at some CA and national house sales data.

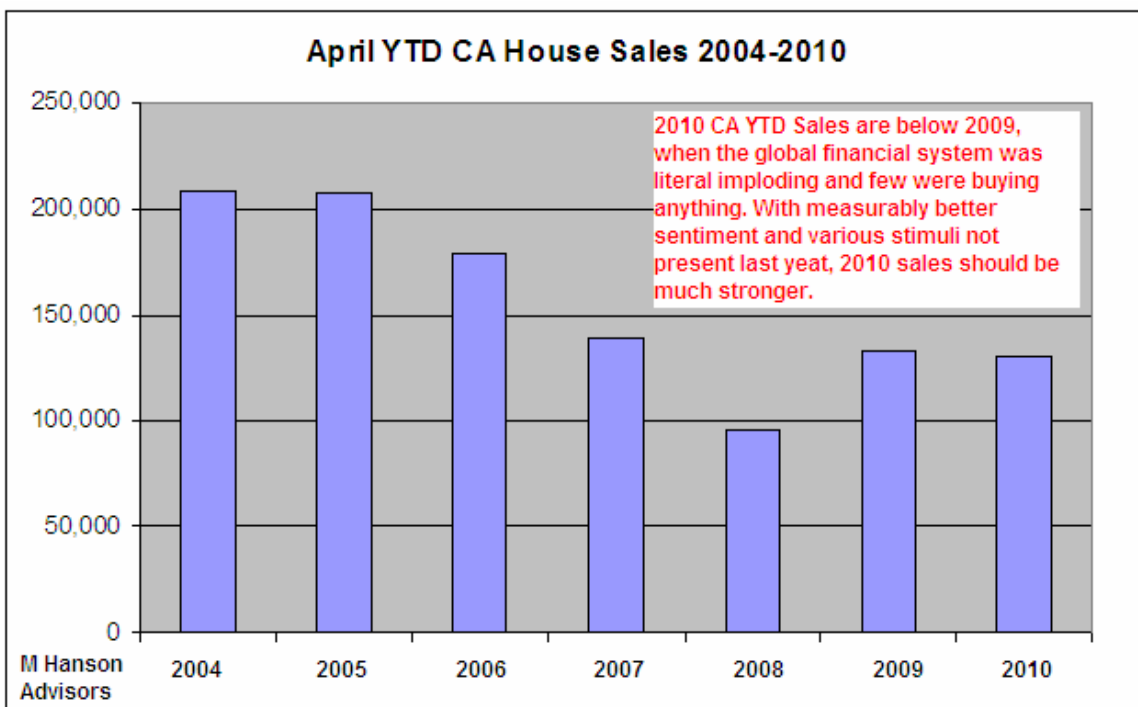
**1) CA Total Home Sales Worse YoY for a Third Time in Four Months -- with Tax-stimulus that was not present last year.**

CA sales in April were lower than last year when the global financial system was coming apart and American's weren't poking their heads out for much. This makes for the third month in four with lower comps even with stimuli on that was not present last year. In my book, this is what a double-dip looks like. It will get more pronounced as the summer wears on and comps get much tougher.

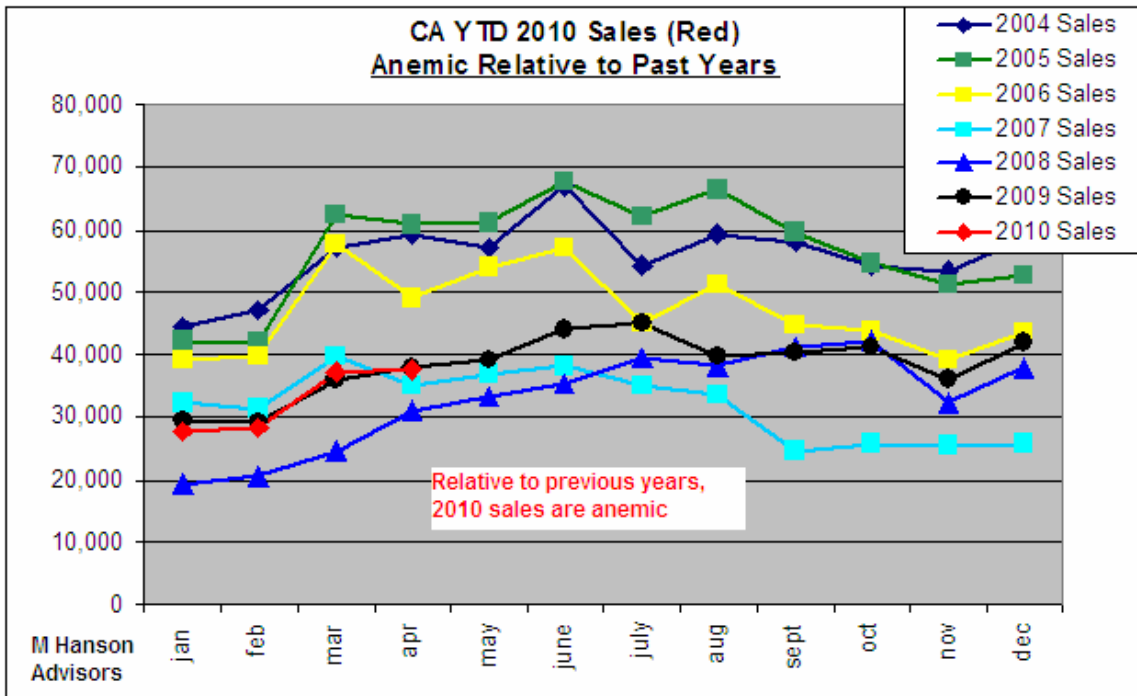
This surely does not look like a market that is ready to be on its own.



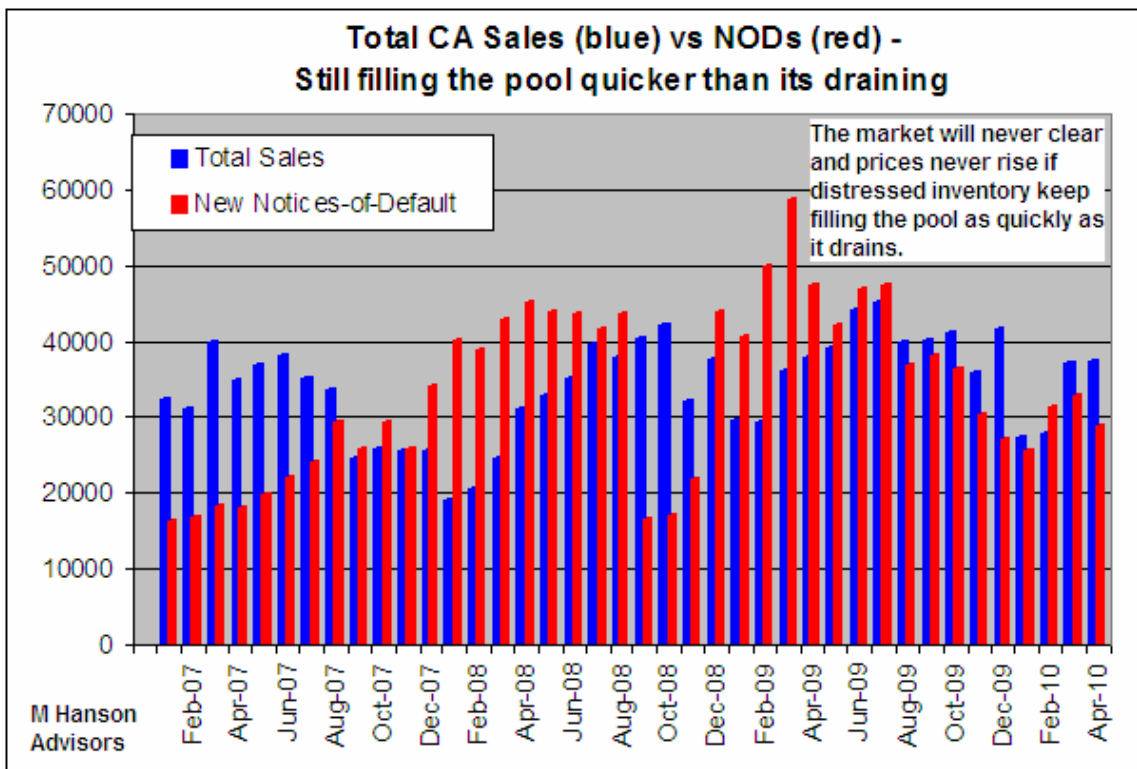
**2) CA April YTD Sales Lower than 2009 and the Second Lowest Start in Years other than 2008 when all exotic loan programs went away at once, defaults and Foreclosures first began to surge, and prices were closer to the peak than the bottom. Within a few months the volume double-dip will be much more pronounced.**



3) 2010 YoY CA Sales (red) are below any year other than 2008 when the wheels were coming off the housing and mortgage markets and prices were still closer to record highs than the lows. Again, even after unprecedented stimuli, this does not look like a market ready to have the training wheels taken off.

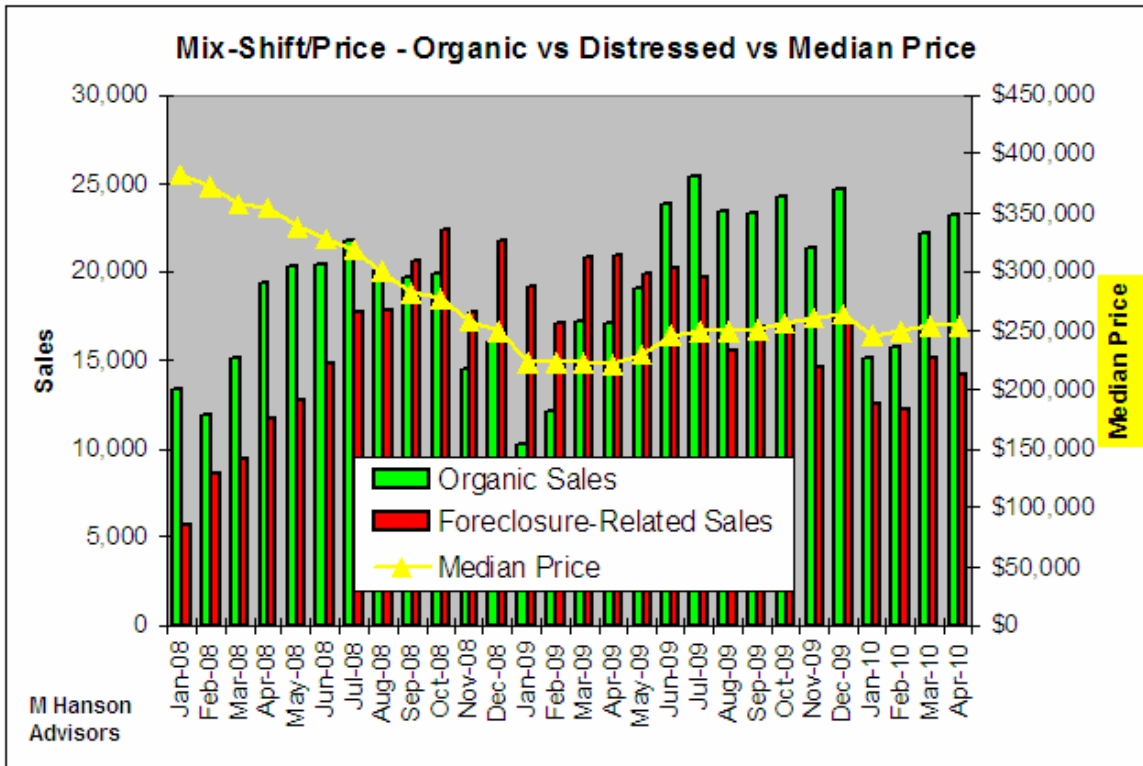


4) CA New Notice-of-Defaults Continue to Swamp Sales. The pool is being filled with future supply nearly as quickly as it drains each month.



5) Foreclosure-Resales Way Down, an intended consequence of foreclosure prevention initiatives, which has allowed reported and median house prices to stabilize at least temporarily.

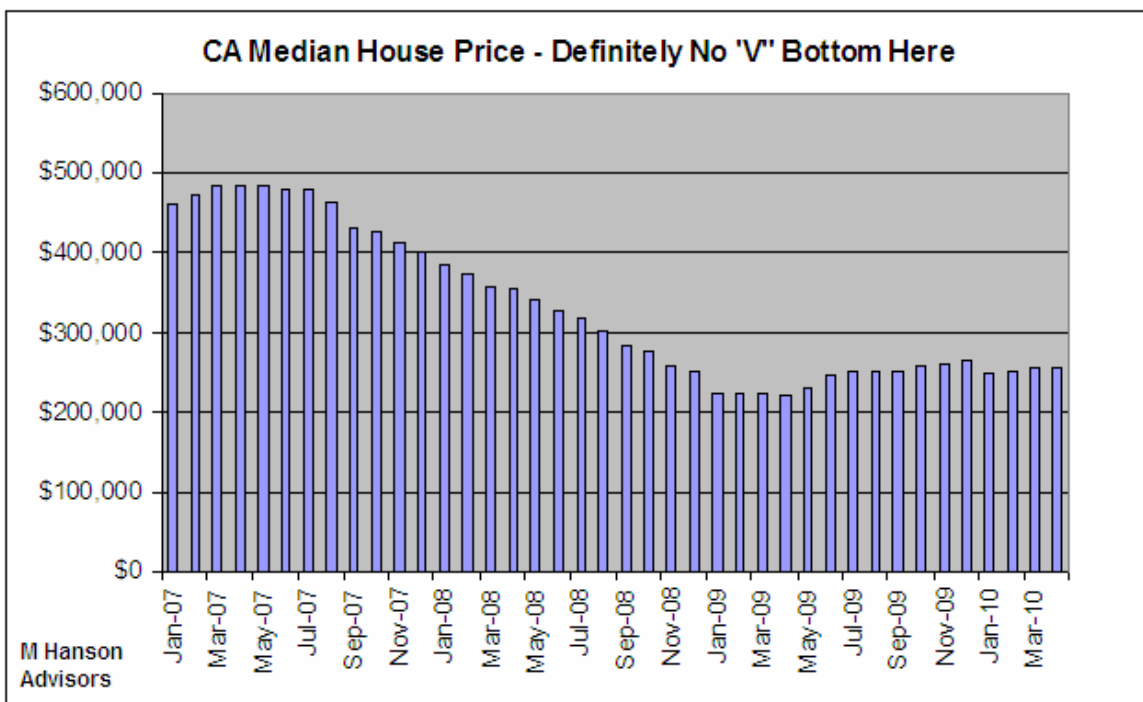
If Foreclosures and short-sales continue to climb as fast as they have been, the Dec 2009 peak median price point is the best we will see for a long time.



6) CA Median House Prices - No 'V' Bottom Here

Note - 'stabilization' and a 'v' bottom are two completely different things. This chart does not even look very stable. As in the chart above, when distressed sales begin to increase sharply as a percentage of total sales, which they will again this year with Foreclosures and short sales ramping sharply, prices will once again resume their slide.

However, with demand for low-to-low mid end foreclosures still strong, we will not see anything like 2007-2008. But 5-10% per year for the next few years at least is not out of the realm of possibility.



## 7) CA Sales (Total vs Distress vs Organic vs Flip-Adjusted) and Loan Defaults - Loan Defaults Lead Pack

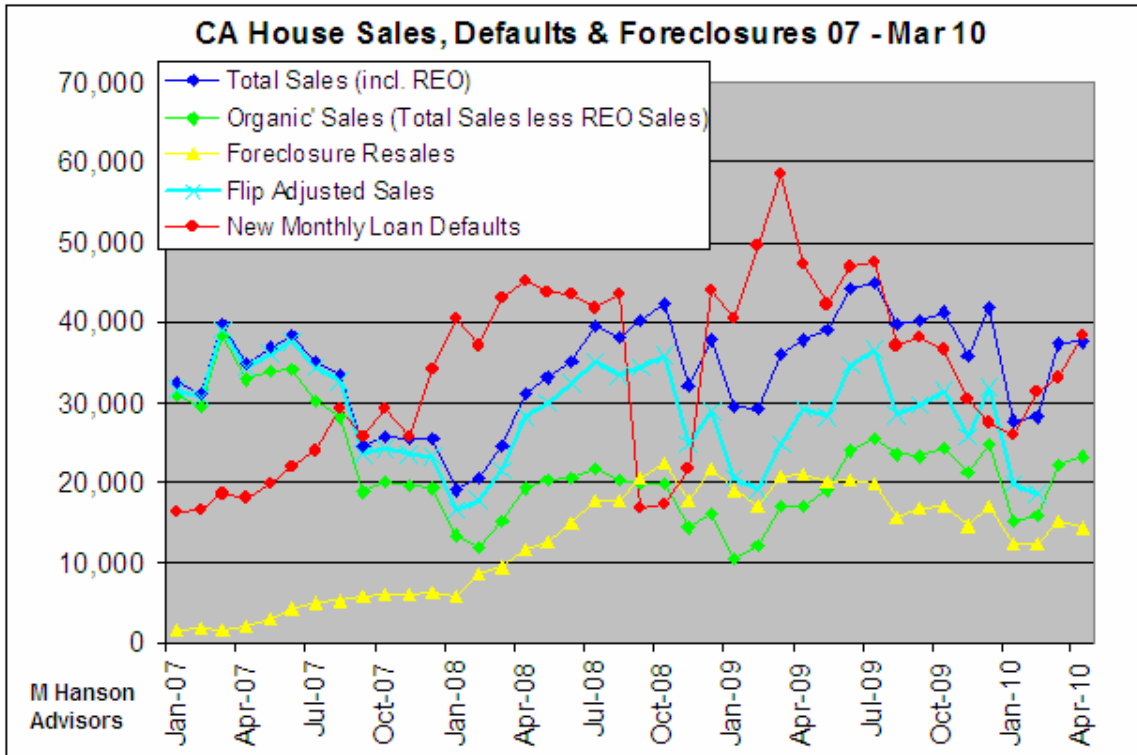
1) **Total CA home sales** (blue) through April are very weak and below year-ago levels when the global markets were imploding, QE was new, prices were still tumbling, and sentiment was terrible. In March they finally beat due to unprecedented stimulus listed on page 1, paragraph 2.

2) **Organic sales** (green) holding steady at **low levels** emphasizing the epidemic **effective negative equity** that prevents the majority from selling and re-buying

3) **Foreclosure resales** (yellow) are languishing due to continued meddling. **The lack of distress supply, which is most in demand, is the primary threat to house sales in 2010 and beyond.**

4) **Flip-Adjusted Sales:** When adjusting for **flip-resales (light-blue)**, which make for **double-counting** in the monthly house sales results, CA house sales are bouncing off lows not seen in decades. **It is important to note** that flip-resales, which provided much of the 2009 boost in sales counts due to double-counting, will diminish sharply into 2010 due to the lack of foreclosures in 2009 caused by all of the foreclosure prevention initiatives. This is something nobody is looking for.

5) **NODs:** (red) Despite being artificially lower due to heavy handed mod initiatives of which at least half will fail, **new loan defaults** (red) are leading the pack meaning the supply pool is filling quicker than it's draining.

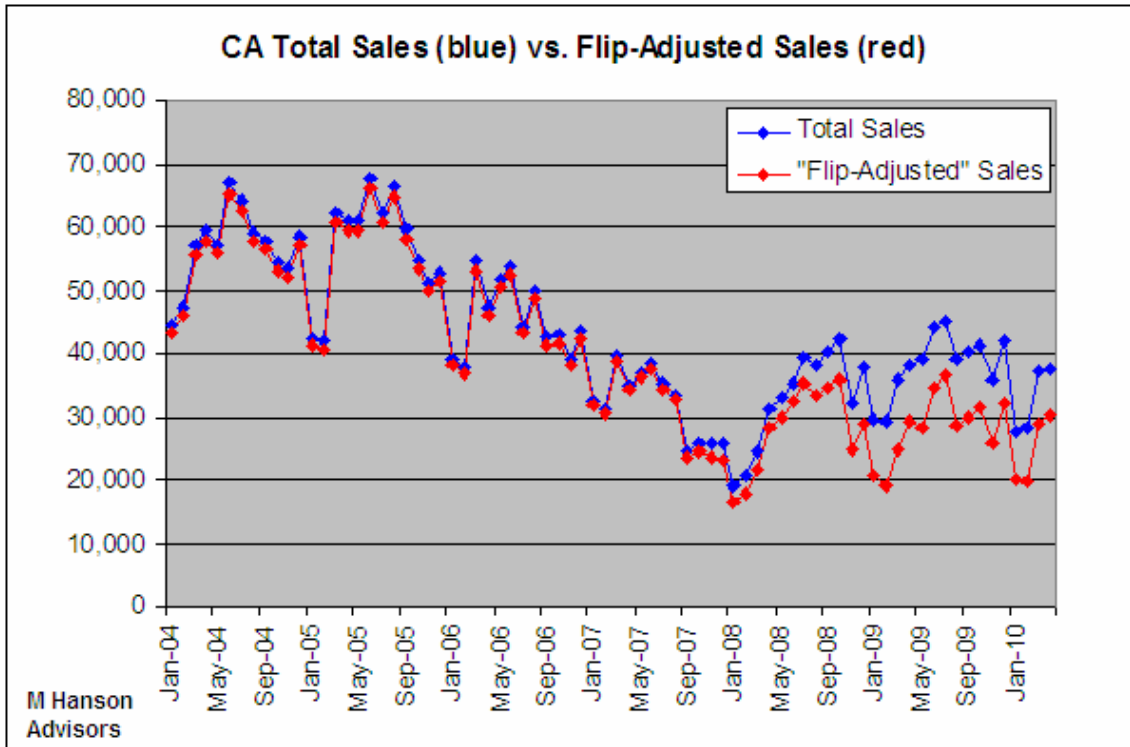


## 8) Flip-Adjusted CA Sales Tell Even Another Story

When adjusting for **flip-resales**, which are hot and make for **double-counting** in more recent monthly house sales results highlighted by the divergence below, CA house sales are bouncing off incredibly low numbers with no fundamental demand evident.

**It is important to note** that flip-resales, which provided much of the 2009 boost in sales counts due to double-counting, will diminish sharply into 2010 due to the lack of foreclosures in 2009 caused by the heavy-handed foreclosure prevention initiatives and the time to buy, rehab and sell.

**This will be only a marginal decrease but on a national basis, Existing Home Sales were only marginally better in 2009 YoY (5.2%).** This is something few are looking for



## The 'Lack of Inventory' Myth, 'Effective' Negative Equity and Significantly Increased Distress Supply

Yes, "**listed**" inventory is way down from year ago levels. Pundits use this metric as leading evidence that the housing market has nowhere to go but higher. Obviously, they will not mention the 8.4mm houses barreling down the foreclosure pipe -- and the approx 100k - 120k that enter the pipe every month via an NOD -- of which the vast majority will end up as inventory through foreclosure, deed-in-lieu or short sale.

But aside from the shadow inventory, the **lack of organic inventory (natural sellers) is not a positive rather it speaks to the epidemic negative equity preventing most from selling and re-buying. Homeowners are trapped.**

**\*\*Remember, effective negative equity does not begin at the point in which somebody owes more on their house than what it's worth. It begins at the point at which they can't pay the Realtor and put a down payment on the new prop.**

In the Jumbo market this could be 75% LTV (sales proceeds less 6% Realtor fee and 20% down payment). When calculating neg-equity like this, the figures are vastly greater than the popular reports suggest.

Also, this speaks to how strong foreclosure prevention has been with respect to keeping in-demand foreclosures off the market. This is why allowing more distress supply into the market via significantly increased foreclosures and the new **HAFAs program (short sales and DILs) is beneficial to the housing market and will continue happen.** At this point, holding back distress inventory is detrimental to the housing market.

**Best Regards,**  
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**\*Data for this report provided by M Hanson. NAR and DataQuick**