

## Existing Home Sales Stuck Near Record Low and Inventory Stuck Near Record High

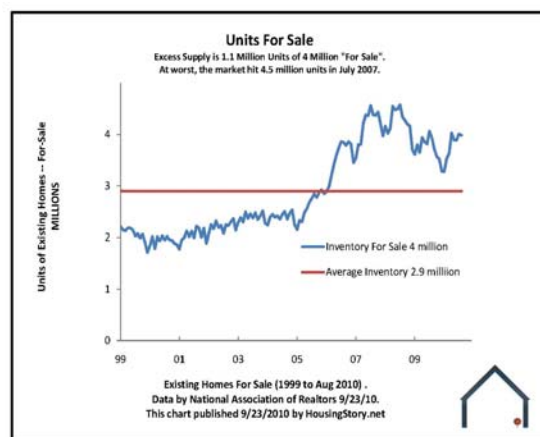
Sales remain deeply depressed with 11.6 months of inventory available for purchase and an estimated 1.1 million excess units actively in the market after an uptick in August sales of 7.6 percent.

The median price fell 1.9% in August. Units of inventory fell slightly to 3.98 million. The NAR reported 414,000 sales closed, but 28% of those sales were all cash closings. That's three times the norm, and an obvious sign of distress. One of three sales are distressed sales. Stress contributes to falling prices with foreclosures selling for a discount of approximately 25%.

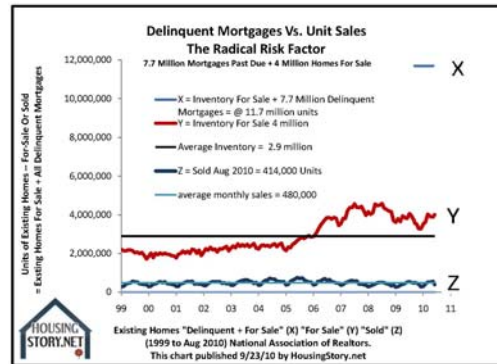


The rate of sales is the second worst on record according to Bloomberg and Marketwatch. Months-of-supply is also the second worst on records going back to 1999 (Please see the chart above of months-of-inventory). Last month's readings registered extreme lows for both months-of-inventory and the sales rate.

“Double digit supply and the low sales rate are the key stories,” said Bill McBride, editor of Calculated Risk, who described 11.6 months of supply as far above normal. “Sales were very weak in August ... and will continue to be weak for some time.”



Today's stats are the second release of existing-home-sales data that gives us a view of buyer demand with much less of the free-down-payment prop. Please note that inventory in units fell 25,000 (Please see inventory of units for sale above.). We estimate the excess of units on the market as 1.1 million of the 4 million for sale. The crash high inventory was 4.5 million in July 2007.



Buyers of residential real estate act inside of the context of a deluge of negative risk factors. One in seven borrowers is delinquent. Nearly five percent are in foreclosure. The cure rate on delinquent mortgages is effectively zero once the loan goes to 60-days late. Approximately 13 million homeowners have no equity or negative equity. Almost five million homeowners have negative equity greater than 125% loan-to-value (Please see the chart above comparing monthly unit sales, total inventory, and the number of delinquent mortgages.). Strategic default is a viable option in the mix coming out of the worst recession since the Great Depression.

About 2.5 million homes have been lost to foreclosure since the recession started in December 2007 according to RealtyTrac. Another 3.3 million homes could be lost to foreclosure or distressed sales over the next four years according to Moody's Analytics (msn.com).

Current real estate bulls point to values which have fallen 29% from their peak, interest rates which are at record lows, and a federal government which has devoted all weapons large and small to support prices including unlimited capital for government mortgage lenders.



Yet unit sales remain generally weak in the last four years when compared to bubble sales (Please check the historical chart of unit sales immediately above.) and we are just a hop skip and a jump away from starting a new crash if it hasn't already begun.

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"August Home Sales Were Actually Terrible" Sy Harding, Great Speculations

"We got run over by a beer delivery truck." Dirk van Dijk, Zacks.com

"The hurdle was just so low that you almost had to beat it (last month's reading)." Mark Tepper, Strategic Wealth Partners

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