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Home Prices Continue to Sink

By Mitch Siegler, senior managing partner, Pathfinder Partners LLC

Notwithstanding the ebullience of stock-market bulls and this past April's 244,000 job gains, the economic ship still has one gaping hole in its hull: housing.

This past May, real estate valuation website Zillow announced that 28 percent of American homeowners with a mortgage — more than 7.5 million — were underwater this past first quarter. This is an increase from 27 percent in the fourth quarter of 2010 and from 22 percent the previous year — a direct result of the 8.2 percent decline in average home values in the past year, according to Zillow.

This chart — derived from data compiled by Yale University professor of economics Robert Shiller of Case-Shiller Home Price Index fame and updated by Steve Barry for Barry Ritholtz' The Big Picture blog — shows home-value trends dating back to the late 19th century (adjusted for inflation). The chart illustrates the fallout from the recent über-bubble in housing, which peaked in July 2006 and has been deflating precipitously since.

Looking at a few cities, the situation is better than the national average in San Diego, where the underwater rate is 26 percent (up from 22.3 percent in the same period in 2010 but still below California's 32 percent level).

Zillow gives the gold medal in this dubious category to Phoenix at 68.4 percent with Tampa, Fla., taking silver at 59.8 percent and Atlanta bringing home the bronze at 55.7 percent.

According to Stan Humphries, Zillow's chief economist:

"With accelerating declines during the first quarter, it is unreasonable to expect home values to return to stability by the end of 2011 … underlying demand, post-tax credit, as well as rising foreclosures and high negative equity rates make it almost certain that we won't see a bottom in home values until 2012 or later."

Bloomberg reports that there were 3.87 million previously owned homes listed for sale this past April and another 2 million homes in foreclosure or in some stage of default. With the robosigning scandal behind them, banks are now steaming ahead to foreclose. Add it all up and the total inventory, including shadow inventory overhanging the housing market, likely is in the 7.5 million to 8 million range.

By all accounts, banks and loan servicers are slashing asking prices to move through the inventory. We have moved out of the peak spring selling season into the summer and fall doldrums. We've been seeing lower traffic counts at for-sale projects in the past couple of months, and various data points suggest a weaker-than-usual summer home-selling season.

Zillow expects prices nationwide to fall by another 8 percent by year end. As the chart shows, it could be worse. We remain 40 percent above the long-term trend line — a level to (or below) which prices have a nasty habit of reverting following a bubble.

Guest blogger Mitch Siegler is senior managing director of Pathfinder Partners LLC. Prior to co-founding Pathfinder in 2006, he founded and served as CEO of several companies and was a partner with an investment-banking and venture-capital firm. Reach him at msiegler@pathfinderfunds.com.