Double [Dip] or Nothing?

California home sales have been leveling out, the median price of homes has pulled back from the $300,000 threshold that was crossed in late 2009, along with reports on weakness in the national numbers and the large numbers of distressed sales across the board, the front and center question is: ***Are we headed for a double dip?***

Signs Say Not So Fast…

Looking at the sales picture, the pace of sales in California has been above the 500,000 mark for a year and a half, which is consistent with pre-peak levels of activity. The seasonally adjusted annualized rate of 528,930 existing detached home sales in February 2010 was down 11.7 percent from year ago levels and down 2.2 percent in month-to-month terms. Despite the recent declines, the February rate of sales was well above the trough of 254,650 homes that occurred in October 2007. Given the high levels of affordability compared to peak years, a drop off in sales to trough levels of 255,000 homes seems very unlikely.

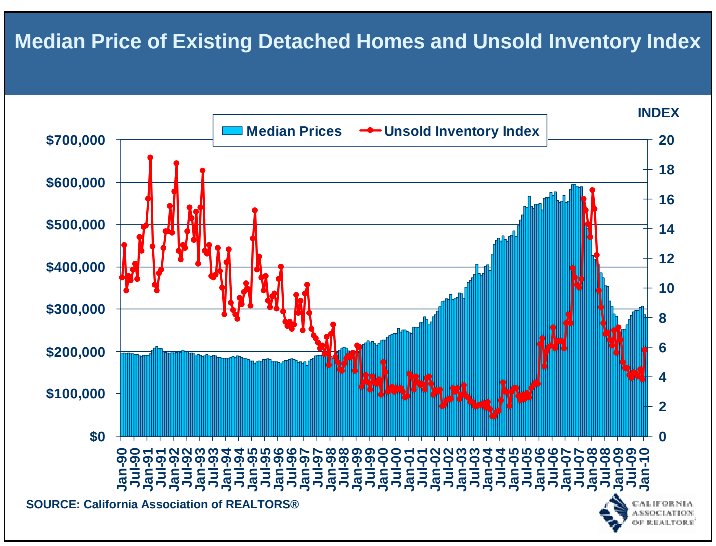
As far as prices are concerned, California's median price was $279,840 in February 2010, 14.1 percent above the year ago median of $245,230, which was also the monthly trough for this cycle. While a 14 percent increase from the low point is welcome, the median actually declined over the last two months, causing concerns about a double dip in the median price. The possibility of a return to the $245,000 range seems remote for the following reasons:

- First, even at current prices, affordability is more than double the levels of two and three years ago. This should continue to drive demand and prevent a significant decline in home prices.

- Second, despite recent increases in inventory levels (6.3 months in February, compared an average of 4.1 months in the second half of 2009), inventory in California was still below the long-run average of 7 months. Historically, inventory levels below that threshold have fueled year-to-year price gains.

This would suggest that as long as inventory remains relatively low, prices should remain stable over the coming months, all else being equal.

…But Still Some Uncertainty Lies Ahead



Collectively, these observations imply that the market should see prices stabilize or edge up over the foreseeable future, yet there is still a lot of uncertainty about the rest of the year. For one thing, it remains to be seen how the housing market will sustain itself once the federal Homebuyer Tax Credits end on June 30th. Moreover, there are long-standing concerns about a second wave of foreclosures and how it will impact housing market values. Recent changes to the HAMP loan modification program, including principal forgiveness, and similar changes to the loan modification programs of major banks, along with growing evidence that the California market has shown improvement in recent months, the likelihood the housing market will experience a double dip is small.