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Research

Home Sales Have Shifted Toward Lower Price Segments Since 2006

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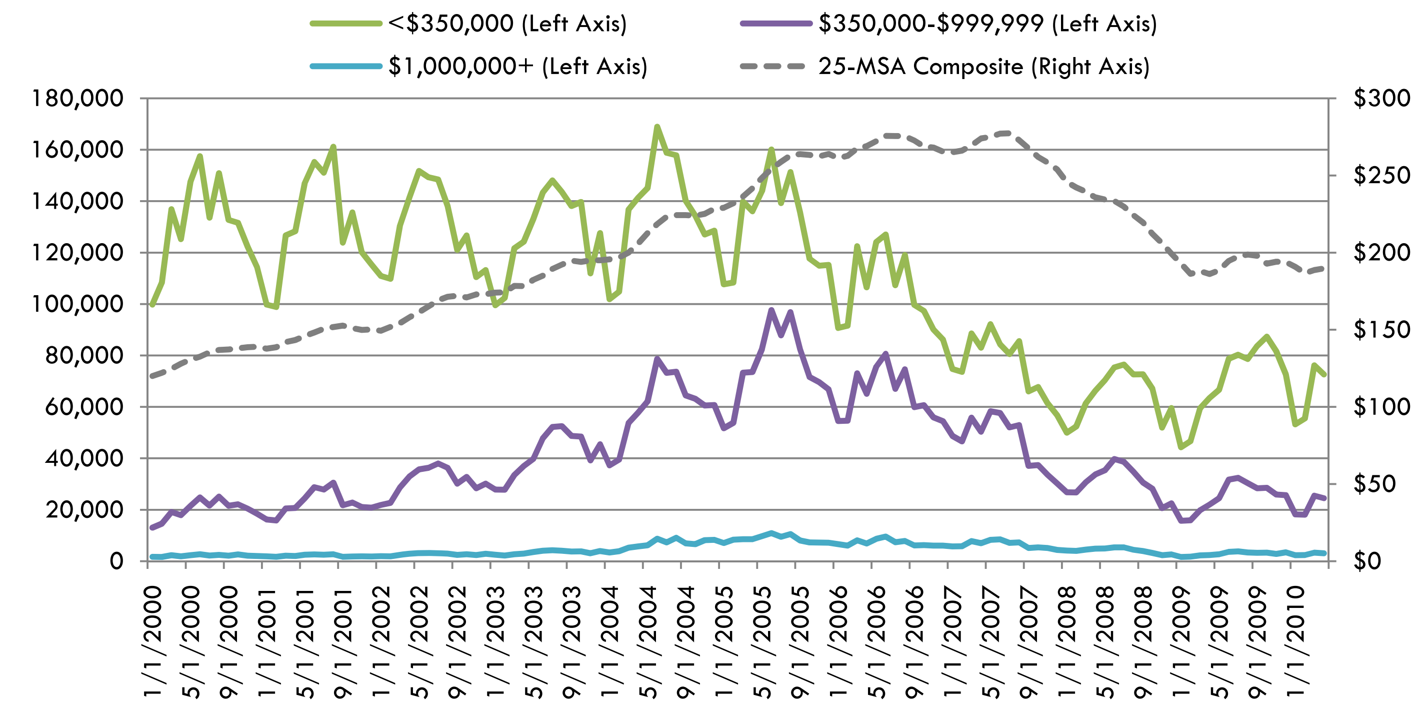
New York, NY – June 15, 2010 – In this research update we examine fluctuations in sales activity within and between three housing price segments – less than $350,000, $350,000 to $900,000 and over $900,000 – from January 2000 and April 2010.

During the housing boom from 2000 through 2005, sales of homes for less than $350,000 remained more or less constant on a year-over-year basis, while sales of homes in the $350,000-to-$900,000 range increased by 32% per year, on average. As a result, sales for less than $350,000 decreased from 87% of total sales in January 2000 to 60% of total sales in January 2006, while sales in the $350,000-to-$900,000 range increased from 11% of total sales to 36% of total sales.

The shift in sales into the $350,000-to-$900,000 range was facilitated by attractive interest rates, readily available financing, and the general economic strength at the time, which combined to inflate home prices throughout the market. As a result, many existing homes that had been, or would have been, sold for less than $350,000 in 2000 and 2001 sold for $350,000 or more in 2005 and 2006. The shift into the $350,000-to-$900,000 range was also facilitated by the boom in new-home construction during this period, much of which was targeted to meet demand in the middle and high-end of the housing market.

Monthly 25-MSA Transaction Counts by Price Segment, 2000-2010



In 2006, transaction counts in all price segments began to decline and growth in housing prices, as measured by the 25-MSA RPX Composite price, slowed and then came to a halt. Prices and transaction counts declined throughout 2007 and 2008 and then stabilized in early 2009. Transaction counts in the $350,000-to-$900,000 range declined by an average of 25% per year throughout the period, while sales of homes for less than $350,000 declined 22% per year, on average. Sales in the $350,000-to-$900,000 range decreased from 36% to 29% of total sales between January 2006 and January 2009, while sales for less than $350,000 increased from 60% of total sales to 68%.

In a reversal of the dynamics during the 2000-to-2005 period, the shift back toward sales of homes for less than $350,000 reflects a decline in home prices in all price segments as well as a decline in demand for expensive homes due to the economic downturn and the paucity of housing credit, particularly jumbo loans.

On average, home sales for less than $350,000 have increased 12% year-over-year during the months since January 2009, while home sales in the $350,000-to-$900,000 range have decreased 8%. Sales for less than $350,000 increased from 72% of home sales to 73%, while sales in the $350,000-to-$900,000 range decreased slightly from 25% of housing transactions to 24%.

Recent data from the National Association of Home Builders suggest that new construction, at least the relatively small amount that there is, has started to reflect smaller footprints. This is probably a result of targeting sale price and backing into what can be built. Clearly, the existing inventory of newly-constructed unsold homes and the increasing inventory of recently constructed, foreclosed homes suggest a real inventory issue for the housing markets that may take some time to resolve. That said, we remain more bullish on home prices than home builders as the reset of prices to 2003 levels has clearly attracted new demand. The big question is how much inventory is still lurking and how will the perception of that inventory effect buyers' appetites and prices.