The u.s. housing market essay

The U.

S. housing market has had an extraordinary 15-year run in terms of prices, sales of existing homes, and new construction, especially on the East and West Coasts. Beginning in the spring of 2006, however, the housing market began to turn distinctly downward. The collapse of the subprime mortgage market in late 2006 set in motion a chain reaction of economic and financial adversity that has since spread to nearly all sectors of the economy, as well as to global financial markets, has created depression-like conditions in the housing market, and has led the American economy to the brink of recession.

In response, many in Congress and the executive ranch have proposed a number of new federal spending and credit programs that would greatly expand the role of government in the economy while doing little to alleviate the distress caused by the financial crisis. We know that 2005 was a good year and that 2006 has not been such a good year, and we see that 2007 has been tough. To help understand why the market has shifted from hot to, at a minimum, cool, this paper, briefs on housing, recaps some of the factors that contributed to this housing run and discusses some of the factors that will determine just how long and steep this reversal of housing fortune might be. MORTAGE AND WALL STREET JOURNAL In May 2007, we were told by U.

S. Treasury Secretary Hank Paulson that the housing market correction was contained and is “ largely behind us,” (see June 2007 Update). Then we saw home sales and home prices nose dive as foreclosures and inventory skyrocketed. According to the S&P Case-Shiller Home Price Index, house prices fell -4.

4% year-over-year in August, the largest decline in six years. “ The fall in home prices are showing no real signs of a slowdown or turnaround,” said Robert Shiller, chief economist at MacroMarkets LLC. “ There really is no positive news in today’s report. ” In October 2007, existing home sales were down 19% year-over-year, the worst decline since 1982. The inventory of unsold homes is now at 4. 4 million, up roughly 60% from inventory levels two years ago.

The housing market correction is not contained. In July 2007, we were told by the banks and brokers that the poor investments they made in subprime mortgages, CDOs and CLOs would not harm their balance sheets and would lead to, at most, minimal charges recognized in the second quarter (see September 2007 Update). Then we learned that the banks and brokers were valuing these securities at 97 cents on the dollar, even while the bonds held by these securities had lost more than half their value. These charges were justified via internal valuation models that clearly had no basis in reality. The sum of the parts did not equal the whole. Housing so far The current sea change in the housing market has actually been long anticipated, mainly because of the strength of the 1st two decades.

Consider just these facts: • A decade ago, household holdings of real estate in the United States were valued at just under $8 trillion, or about 40 percent as large as household financial assets. By the end of 2005, household real estate holdings had nearly tripled to more than $19 trillion, or 56 percent as large as household financial assets. • From 2000 to 2005, the total value of residential U. S.

real estate increased by nearly $10 trillion.