

U.S. Structured Finance Newsletter

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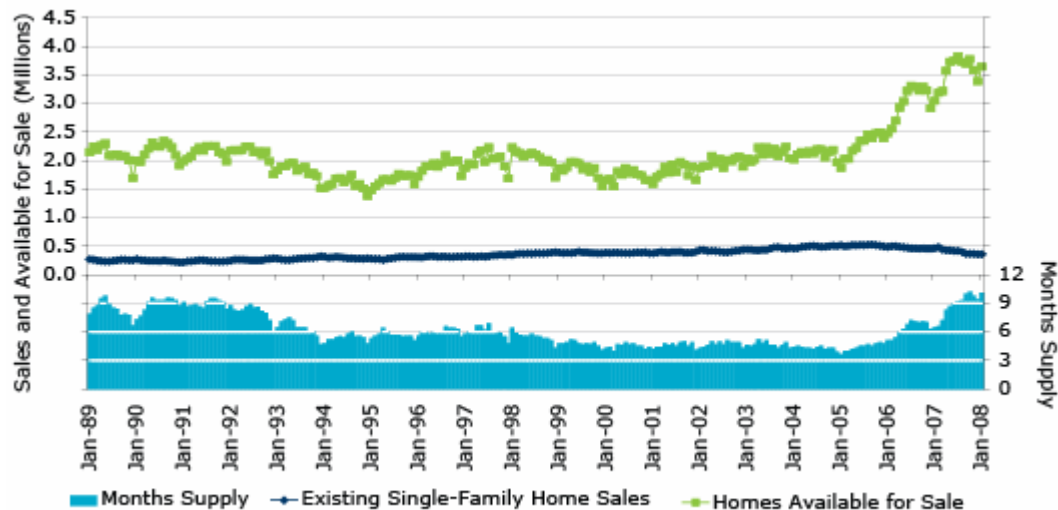
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EXISTING HOME SALES – ANOTHER SIGNPOST TO WATCH

Given the historically high overhang of unsold homes, the 2008 house-buying season is a critical one for U.S. housing markets, mortgage portfolios and the economy. While an increase in housing sales would not necessarily halt home price declines, it would ease some of the burden of weak housing markets on struggling homeowners. An upturn in housing sales would also suggest sellers may have a more realistic opinion of the value of their homes compared with their expectations in the past. Without some recovery in home buying, however, it is less likely that housing markets will stabilize and more likely that house price declines will be exacerbated.

Sales of existing single-family homes on a seasonally adjusted annual rate (SAAR) basis have declined from the annual pace of 5.0 million in August 2007 to 4.3 million in January 2008, according to the National Association of Realtors (NAR).

U.S. Existing Single-Family Homes: Sales, Available for Sale and Months Supply



Note: Figures are not seasonally adjusted.
Source: DBRS and NAR via Economy.com.

Slower sales, increased financial stress on homeowners as their adjustable-rate mortgages reset higher and the apparent willingness of some mortgagors to simply walk away from properties that have fallen in value are contributing to the inventory of unsold homes. In turn, the inventory of unsold homes continues to pressure home prices.

In January 2008, there were 3.65 million single-family homes for sale in the United States, representing 10.1 months of supply at the current SAAR. That was 260,000 more homes than the relatively low number of 3.39 million that were available in December 2007. Perhaps more homeowners put their houses on the market to take advantage of the new home-buying season and the expectation that more buyers would be coming to the market. Carrying costs and even fears of future declines could also spur some to make a deal quickly.

However, not until late spring will there be a good reading of whether housing market activity is recovering. Better flows of mortgage financing and lower interest rates may help, especially for adjustable-rate mortgages.

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