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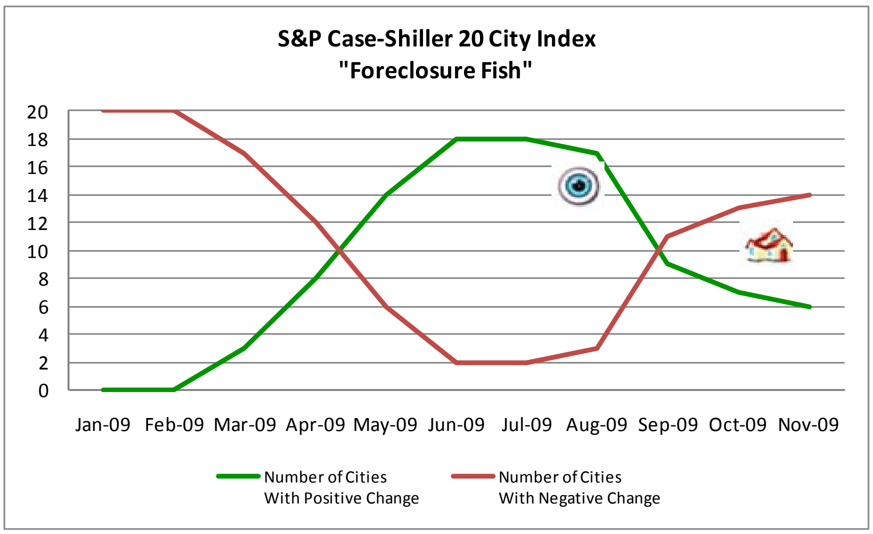
Home Prices' Final Ride Down:
November's S&P/Case-Shiller Index Results

Earlier this month, we illustrated the impact of the ongoing final leg of housing price adjustment through a graphic we call the "Foreclosure Fish." As predicted, today's S&P/Case-Shiller 20-City Index numbers show the fish having opened its mouth wider in November, with 14 of the 20 cities reporting price declines from October to November[1], and the overall index for all 20 cities having declined by 0.2%, unadjusted. While the seasonally adjusted numbers for the 20-City index show a rise in prices by 0.2%, we do not feel that the seasonal adjustment formulae used in the index accounts adequately for the time-shifting we saw in housing market behavior during 2009[2].



We reaffirm our forecast, made earlier this month, in our report entitled "Foreclosures, Fish Food and the Final Fall in Home Prices", that the housing price index will continue to decline until prices stabilize about 8% to 10% lower than the prior low that the index saw last April. This would equate to a 38.0 to 39.5% decline from the 20-City Index's peak level of 206.53 in July of 2006 to around 125 to 128.

A few additional points:

- In our earlier report we forecast accelerating declines for the metropolitan areas that had seen prices fall least through October, and slowing declines or improvements in the areas that had declined more than 35% from peak. While other analysts forecasted the opposite, as we predicted four out of the five cities

[1] One city, Dallas, showed a statistically insignificant increase of only 1/100th of 1%, but we have nevertheless included it in the plus column as we have included Miami, which declined by the same amount, in the minus column.
[2] We believe there was far more buyer activity in the fall of 2009 than would normally be the case, thus pressuring prices and skewing the adjustments.

showing price improvement from October to November were areas that had declined in excess of 40% peak-to-trough (Los Angeles, Phoenix, San Diego and San Francisco) with Miami, another of the over-40 set, showing little decline. By contrast nearly all of the current declines are in cities that are “catching up” to the price declines in areas that had succumbed earlier and hardest.

- The slowing pace of existing and new home sales in December presages weaker price numbers in future monthly S&P Case Shiller HPI reports. As we noted in our report of January 12th, we also expect that an increasing shadow supply of more than 1.7 million homes in the foreclosure pipeline nationally will add to downward pricing pressure.

- In the National Association of Realtors’ announcement of existing home sales yesterday, the association reported a 1.5% year over year increase in median home prices. We view this as a statistically irrelevant figure as it merely reflects (as the association itself pointed out) the sale (including foreclosure liquidations) of more homes in the middle to upper tier of sizes and prices. One of the contributors to this is the fact that more prime and near-prime mortgages are now going into default and foreclosure than was the case earlier in the course of the housing, and resulting unemployment, crises. Owners of more expensive houses tend to be prime and near-prime borrowers.

- There is much made, in the S&P Indices press release today and in the media, of a slowing of the rate of decline in home prices year over year. Given the massive rate of decline in earlier periods, that is to be expected. Nevertheless, we do not expect the trend to continue into 2010 data for the reasons set forth above.

Daniel Alpert is a Managing Partner and Founder of the New York investment bank Westwood Capital, LLC, and its affiliates. He is a frequent commentator on the housing and credit crises on the CNBC, FoxBusiness and Bloomberg networks, as well as in leading newspapers, periodicals and websites.