



Written by [Bob Adelman](#) on February 2, 2012

Housing: Prices and Ownership Still Correcting

Just when CoreLogic, the California-based mortgage data provider, began to wax optimistic about the housing market, the Census Bureau and the S&P/Case-Shiller index doused their enthusiasm with some cold facts and daunting data.

CoreLogic noted in its January report that single-family permits and starts rose at a 15-percent annual rate over the six months ending November 2011. In addition, existing home sales appeared to be trending higher as well, increasing by about 12 percent from January to November. The tone in their note to clients was guardedly optimistic:



While we cannot say with a high degree of certainty what 2012 has in store for us, indications based on the latter part of 2011 are that both the broad economy and the housing market are moving toward positive growth in 2012.

And then, on January 31, the Census Bureau released its fourth-quarter report on home ownership: the rate was 66 percent, extending the decline from the 69 percent reached in 2005, just before the housing bubble burst, and rivaling the rate last seen in 1997, 14 years ago. Economist Mark Perry developed a [visually stunning graph](#) for his blog and concluded:

The political obsession with homeownership in the 1990s and early 2000s raised homeownership in the short run to an artificial and unsustainable level of 69% by 2004, but failed in the long run to create a homeownership rate that was sustainable. In the process, numerous government policies turned good renters into bad homeowners, created a housing bubble, waves of foreclosures, and a subsequent housing meltdown and financial crisis. In other words, the chart illustrates how government policies (monetary, mortgage market, GSEs, CRA, affordable housing, etc.) created an unsustainable “homeownership bubble” that is still deflating. It’s likely that the homeownership rate will continue to fall for at least several more years, until we eventually get back to the more sustainable 64-65% homeownership rate that prevailed from 1975-1995 before various government policies destabilized the U.S. housing market.

Markets tend to return to prior states after government interventions such as those mentioned by Perry, called “reversion to the mean.” By extension, such correction back to normal isn’t likely to take place any time before 2015. And that assumes no further government interference in the operation of the market.

The second blow to CoreLogic’s enthusiasm came from the S&P/Case-Shiller index which dropped in November by another 1.3 percent from October and down 3.7 percent from December 2010. Said David Blitzer, chairman of the index committee, “The trend is down, and there are few, if any, signs in the numbers that a turning point is close at hand.” For further proof, the index showed prices declining in 18 of the 20 cities the index tracks.



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The pressures on prices and homeownership are significant and increasing. With the bottleneck of foreclosures finally easing after the “robo-signing” scandal came to light last year, some of the invisible “shadow” inventory is finally coming to market only to find that potential buyers can’t meet the stringent lending requirements instituted following the housing bubble’s collapse. And now that the Federal Reserve has announced that it intends to keep interest rates low for at least another three years, any pressure to “buy now before prices go up” has been removed. Buyers now have no incentive to buy, and every incentive to wait.

Reversion to the mean in 2015 is predicated upon no further government interventions, but alas, President Obama, in his bid to appear to be doing something even if it means doing the same thing that hasn’t worked, just announced a [ramping back up](#) of his failed HARP (Home Affordable Refinance Program) which enticed fewer than one million homeowners to refinance, well short of his originally promised 4 to 5 million it was designed to help. Ever the interventionist, Obama refused to let the market right itself:

I’ll be honest — the programs we’ve put forward didn’t work as the scale we’d hoped. Not as many people have taken advantage of it as we wanted...

[But] it is wrong for anyone to suggest that the only option for struggling, responsible homeowners is to sit and wait for the housing market to hit bottom. I refuse to accept that...

And so, one more government program designed to reverse the tide and stem the flow of the free market will succeed in one thing only: delaying the inevitable return to normalcy, hurting the most those whom Obama allegedly wants to help. Despite being chastened by his past failures, President “[King Canute](#)” Obama continues to interfere with the continuing correction and the inevitable “reversion to the mean.”

His subjects wait in vain, it seems, for the great king to admit, finally, that “all men know how empty and worthless is the power of kings. For there is none worthy of the name but God, whom heaven, earth and sea obey.”



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