Home Sales Drop to Two-Year Low

Americans have invested in homes in many ways for a long time. During the frontier days of the West, families would homestead property and so through grit and endless work transform a patch of prairie into a home, a barn, a farm, and an investment. Federal policies have gutted much of that wealth. Environmental regulations have interfered with the sensible activities of farmers (as if Big Government had a greater long term interest in the preservation of the land than those who lived and worked on it). Farm subsidies, beginning with the disastrous New Deal, contorted rational economic decision-making by farmers and induced them instead to enter the Never-Never Land of government subsidies, so that in Iowa — a politically potent state because of its early role in the primaries — the wasteful use of corn to produce ethanol is still sacrosanct. Federal estate taxes, too, have forced families to sell farms which their grandfathers intended to remain in the family forever.

Stocks and bonds have historically been another long-term investment for millions of Americans. Long before the Roaring Twenties, middle-class Americans saw the virtue of creating a portfolio of stocks and bonds. Innovators such as Edison and Bell, geniuses of management such as Carnegie and Ford, and people with just great business ideas, such as Sears, created vast amounts of commercial wealth and then converted that potential wealth into usable cash by liquidating their stock holdings and selling them on the market. Although socialists like to pretend that ordinary Americans were “wage slaves,” many excellent businesses, grasping that value of motivated, productive and happy employees, instituted plans such as stock-sharing with any employee who wanted to participate. So women who worked as servers in office cafeterias, clerical and sales staff in department stores, and telephone company operators and phone installers —through prudent investment and simple patience — were able to build large nest eggs that provided a comfortable retirement long before Social Security.

The suburban home, also, has long been both a comfortable residence that helps retain a sense of neighborhood friendliness and private cooperation, but also a long-term investment which parents, after children have flown the coop, can use for their retirement. It was long an economic given than the value of homes in these quiet suburban neighborhoods would continue to grow in value more or less indefinitely.

This sort of housing came under assault by social planners in federal bureaucracies long ago. The practice of court-ordered school busing that began five decades ago drove lower-income suburban families into housing away from the out-of-control, coercively "integrated" school systems, which often required young school children to travel for hours on school buses to distant schools rife with gangs, drugs, and promiscuity. The destruction of the neighborhood school dramatically reduced the influence that concerned parents in a neighborhood could have on the operation of these schools. So families often flew out of these parts of cities, ultimately driving down the value of the homes they left.

Federal threatening and bribing of financial institutions to make loans to home buyers who were bad risks artificially boosted the price of homes. After all, there were now more "buyers" in the market than sound lending practices would have required, and so the demand for housing grew. But when the bubble burst — as it was certain to burst — the housing market collapsed, taking with it not only those foolishly-given mortgages that homeowners could not afford, but also all those families who had made their mortgage payments on time and who had counted on rising values to help provide a long-term investment for their retirement years.

The latest statistics are, unsurprisingly, grim. The sale of new homes in August declined to the lowest level in two years, mainly because a large percentage of homes on the market are now "distressed properties" (i.e., foreclosures, and "short sales" agreed to by lenders at less than the full balance of the mortgages) that are less expensive than new homes, seriously cutting into sales of the latter. Celia Chin at Moody's Analytics notes, "Sales are very weak, and there will be very little improvement over the next couple of months. We expect a step up in distressed home sales, which will put more downward pressure on prices. It'll be a very slow return to normal." John Ryding of RDQ Economics observes, "There is unlikely to be any meaningful recovery in sales until the excess backlog of vacant housing is reduced." David Semmens at Standard Chartered asserted, "We still need to see strength from the consumer before we can begin to feel optimistic about the housing market."

The sale prices of homes in three of the four regions of the nation dropped. The supply of homes rose almost 7 percent and the sales of distressed properties rose almost 8 percent. The median price of homes for sale dropped over 5 percent from August of last year. New home sales are particularly hard hit because the owners of existing homes are so motivated to sell, especially the large number of financial institutions who now own residential property because of foreclosures.

Home building has historically been a key factor in economic recovery, and yet today it is almost impossible to see how the home building industry can help generate growth in the economy. Stewart Miller, CEO of Lennar, the third-largest home builder in America, called the current market "challenging" and noted that potential buyers are "already skittish customers." Mortgage rates are incredibly low — near record levels — so the cost of principal and interest on new homes is not the problem. The price of homes, for buyers, is better than in years, perhaps in decades.

Beyond that, American families are desperate for something that they can look to as a long-term investment. The stock market is ailing. The European market is in even worse shape. The value of the dollar is dropping and the prices of essential goods, such as food, are rising more quickly than incomes. Yet few today can buy a home and fewer still can see a home in America as the safe investment that for so long it was.