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NOTES ON THE MARKET

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Existing Home Sales: September 2008

Existing home sales in September unexpectedly increased 5.5% on the back of an increase in the purchase of distressed residential real estate assets in the West. The purchase of homes in the West increased 18.4%. Sales of single family homes increased 6.2%, whereas the purchase of condos/coops were flat for the month. The median price of a home declined to 191K and the stock of existing homes on the market declined to 9.9 months vs. the 10.6 previously recorded.

The sharp decline in prices and the purchase of foreclosed homes were the primary catalyst behind the sale of existing homes reaching a one-year high. According to the National Association of Realtors, the purchases of foreclosures were responsible for 35-40% of the monthly tally. The strong move in sales in the West can be linked to the sharp decline in prices over the past six months, which as seen the price of a median home drop -18.5% year over year.

The end of the traditional buying season saw a strong move to the upside primarily due to the price action in California. If credit conditions had remained stable, the market would be singing the praises of a possible bottom in the market. However, given the seizing up of credit markets and the recent increase in the 30 year fixed mortgage rate, we do expect the October reporting period to be a very difficult one. Looking out over the horizon, given the expected increase in the rate of unemployment and probable decline in income, it will be difficult for the housing sector to sustain the current pace necessary to burn off the existing inventory of homes at existing prices. Thus, prices will have to adjust accordingly before the market completely stabilizes, which has turned into a necessary, but not sufficient condition for the current downward trend in the economy to be stemmed.