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Prediction: More pain for homeowners

A glut of almost 1 million homes sitting vacant may mean another downturn in the housing market, analysts say.

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CHICAGO (Reuters) -- A glut of vacant homes suggests that the U.S. housing market has not yet stabilized and may be poised for another downturn, Merrill Lynch said in a research note released Monday.

"Now that oil prices and mortgage rates have stopped falling, we will be back lamenting the downturn in the housing market and its spreading effects on the economy in the second quarter, much as we were in the summer and fall 2006," Merrill Lynch economist David Rosenberg wrote.

"Looking at the inventory backlog and still-stretched affordability levels, this story is far from over."

The Federal Reserve's policy-setting Federal Open Market Committee cited "tentative signs of stabilization" in the housing market last week when it voted unanimously to keep interest rates on hold.

Pending home sales jumped a stronger-than-expected 4.9 percent in December, the biggest gain since March 2004, supporting ideas that the worst was over and the housing slowdown would not tank the broader economy.

But Rosenberg called the home sales data "more of a weather report than any serious commentary on the real estate market," pointing to unseasonably warm weather in December - typically a slow period for home sales - that likely spurred demand.

Instead, he focused on a Commerce Department report showing the homeowner vacancy rate rose to 2.7 percent in the fourth quarter, well above the year-earlier level of 2 percent.

That suggests a glut of almost 1 million homes sitting vacant, which will likely pressure selling prices for an extended period, Rosenberg said.

Goldman Sachs analyst Jan Hatzius noted that the vacancy rate had fluctuated between about 1 percent and 2 percent for the past 50 years.

"By itself, this would point to a fairly enormous supply overhang and little prospect of a bottom any time soon," Hatzius wrote in a research note.

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