



# U.S. Housing Market Conditions

August 2006

## SUMMARY

Economic growth in the second quarter of 2006 fell again after a spike in the first quarter. The labor situation in the second quarter saw continued job growth and low unemployment. Mortgage interest rates started to creep upward, eroding housing affordability in the quarter. Housing market performance was reduced, with production rates and sales declining. Single-family starts and completions both fell from last quarter's records. Sales of new homes increased, but sales of existing homes declined slightly. Some concern was expressed about inventories of new homes available for sale being at record high levels. Likewise, the inventories of existing homes have increased nearly 40 percent in the past year. The homeownership rate increased to 68.7 percent in the second quarter of 2006, after declining in the previous quarter.

## Housing Production

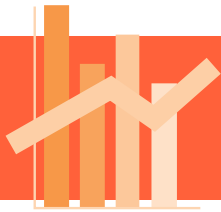
Housing production was strong in the second quarter of 2006. Building permits, starts, and completions each totaled more than 1.8 million units at a seasonally adjusted annual rate (SAAR), although they were lower than their first quarter values. Single-family production remained strong but decreased from the records set in the first quarter. Shipments of manufactured homes declined in the second quarter.

- In the second quarter of 2006, builders took out permits for 1,929,000 (SAAR) new housing units. The number of permits is 10 percent below the first quarter of 2006 and 11 percent below the second quarter of 2005. Single-family permits were issued for 1,436,000 (SAAR) housing units, down 9 percent from the first quarter and down 9 percent from the second quarter of 2005.

- Construction was started on 1,878,000 (SAAR) new housing units in the second quarter of 2006, down 12 percent from the first quarter and down 9 percent from the second quarter of 2005. Single-family starts equaled 1,533,000 (SAAR) units, down 12 percent from the first quarter and down 10 percent from the second quarter of 2005.
- In the second quarter of 2006, construction was completed on 1,985,000 (SAAR) new homes, down 5 percent from the first quarter and down 1 percent from the second quarter of 2005. Single-family completions were 1,690,000, down 3 percent from the first quarter but unchanged from the second quarter of a year earlier.
- Manufacturers shipped 122,000 (SAAR) new manufactured homes in the second quarter of 2006, down 17 percent from the first quarter of 2006 and down 4 percent from the second quarter of 2005. Shipments are now well below the levels before Hurricane Katrina hit the gulf coast in August 2005.

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## Housing Marketing

Sales of new homes increased but sales of existing homes declined in the second quarter of 2006.

Prices were mixed. New home prices declined, but existing home prices increased from the first quarter; however, both new and existing home prices increased from the second quarter of 2005. Inventories have increased, with the inventory of new homes available for sale increasing 24 percent from a year earlier, setting a new record, and the inventory of existing homes available for sale increasing 39 percent from a year earlier. Builders, who were less optimistic in the second quarter, expressed their concern across current sales, future sales expectations, and prospective buyer traffic.

- During the second quarter of 2006, builders sold 1,152,000 (SAAR) new single-family homes, up 4 percent from the first quarter but down 10 percent from the second quarter of 2005.
- REALTORS® sold 6,693,000 (SAAR) existing homes in the second quarter of 2006, down 1 percent from the first quarter and down 7 percent from the second quarter of 2005.
- The median price for new homes sold in the second quarter of 2006 was \$241,100, down 3 percent from the first quarter but up 3 percent from the second quarter of 2005. The average sales price declined 2 percent from the first quarter but increased 4 percent from the second quarter of 2005 to \$299,500. The price of a constant-quality new home was estimated to be \$267,100, up 2 percent from the first quarter and up 4 percent from the second quarter of 2005.
- Existing homes sold during the second quarter of 2006 had a median price of \$227,300, up 4 percent from the first quarter and up 3 percent from the second quarter of 2005. The average price was \$273,300, up 3 percent from the first quarter and up 2 percent from the second quarter of 2005.
- The inventory of new homes available for sale at the end of the second quarter of 2006 was 566,000, up 2 percent from the first quarter and up 24 percent from the second quarter of 2005. This inventory, the highest since the series began in 1963, would support 6.1 months of sales at the current sales pace, unchanged from the end of the first quarter but up 1.8 months from the end of the second quarter of 2005. The inventory of

existing homes available for sale was 3,725,000, up 16 percent from the first quarter and up 39 percent from the second quarter of 2005. This inventory, the highest ever reported, would support 6.8 months of sales at the current sales pace, up 1.2 months from the first quarter of 2006 and up 2.4 months from the second quarter of 2005.

- Home builders were less optimistic in the second quarter of 2006 than they were in the first quarter, according to the National Association of Home Builders/Wells Fargo Housing Market Index. The index was 46 in the second quarter, down 10 points from the first quarter of 2006 and down 24 points from the second quarter of 2005. All three components of the composite index declined—current sales were down 10 points, future sales expectations were down 9 points, and prospective buyer traffic was down 6 points.

## Affordability and Interest Rates

In the second quarter of 2006, the interest rate for 30-year, fixed-rate mortgages averaged 6.60 percent, up 36 basis points from the first quarter and up 88 basis points from the second quarter of 2005. Housing affordability declined from the first quarter of 2006 and from the second quarter of 2005, according to the index published by the NATIONAL ASSOCIATION OF REALTORS®. The composite index indicates that in the second quarter of 2006 the family earning the median income (\$59,212) had 105.8 percent of the income needed to purchase the median-priced (\$227,533) existing home using standard lending guidelines. This value is down 6.3 points from the first quarter of 2006 and down 9.1 points from the second quarter of 2005. This decline is attributable to a 4-percent increase in the median house price and a 24 basis-point increase in the interest rate, more than offsetting the 1.0 percent increase in the median family income. The decline from the second quarter of 2005 resulted from a 4-percent increase in the median house price and an 80-basis-point increase in the mortgage interest rate, offsetting the 4.0-percent increase in the median family income. Despite this decline in affordability, the national homeownership rate in the second quarter of 2006 was 68.7 percent, up 0.2 percentage point from the first quarter of 2006 and up 0.1 percentage point from the second quarter of 2005.



## Multifamily Housing

During the second quarter of 2006, the multifamily (5+ units) sector reversed the signs of recovery seen in the previous quarter. All production indicators were negative, absorption of new rental units fell, and the quarterly vacancy rate rose. The only positive indicator was a decline in the vacancy rate compared with a year earlier.

- In the second quarter of 2006, builders took out permits for 392,000 (SAAR) new multifamily units, down 10 percent from the first quarter of 2006 and down 2 percent from the second quarter of 2005.
- Builders started construction on 292,000 (SAAR) new multifamily units in the second quarter of 2006, down 15 percent from the first quarter and down 7 percent from the second quarter of 2005.
- Builders completed 266,000 (SAAR) new multifamily units in the second quarter of 2006, down 8 percent from the first quarter and down 3 percent from the second quarter of 2005.
- The rental vacancy rate in the second quarter of 2006 was 9.6 percent, up 0.1 percentage point from the first quarter but down 0.2 percentage point from the second quarter of 2005.
- Market absorption of new rental apartments fell by 2 percentage points in the second quarter of 2006, although the rate was unchanged from a year earlier. Of new apartments completed in the first quarter, 61 percent were leased or absorbed in the first 3 months following completion.

# HOUSING IN AMERICA: 2005 AMERICAN HOUSING SURVEY RESULTS

Field representatives from the Census Bureau conduct the national American Housing Survey (AHS) in every odd-numbered year. Every 2 years they also independently survey selected metropolitan areas on a 6-year cycle. The AHS has been a joint effort of the U.S. Department of Housing and Urban Development (HUD) and the Census Bureau since 1973. AHS national surveys provide information about U.S. housing during the 10-year span between the decennial censuses. Data from the AHS are more current and are collected more frequently than data from the decennial census. In addition, the AHS collects more information. The AHS is a representative sample of housing units in the United States and includes data on renters and homeowners, household composition and income, housing conditions and structural characteristics, neighborhoods, financing and housing costs, monthly housing expenses, and the overall availability of affordable housing. The Census Bureau conducts the national survey through personal visits to or telephone interviews with approximately 60,000 housing units every 2 years, and each metropolitan survey generally involves interviews or visits with up to 3,500 housing units every 6 years. An unusual and important aspect of the AHS is that the survey revisits the same housing units each time, chronicling the history of America's housing. The survey adds newly constructed housing units each survey year so that the sample represents all housing in the United States.