



U.S. Housing Market Conditions

February 2010

SUMMARY

Housing market conditions continued to show signs of stabilizing during the fourth quarter of 2009, after a downward trend that began in the first quarter of 2006 and just started to reverse itself in the second quarter of 2009. In the production sector, both single-family housing permits and completions increased in the fourth quarter of 2009, but the number of single-family housing construction starts decreased. In the marketing sector, sales of existing homes rose sharply, but new home sales fell. The Case-Shiller® 20-city composite repeat-sales house-price index recorded a 1.9-percent seasonally adjusted (SA) increase in the third quarter of 2009, following a 1.8-percent gain in the second quarter of 2009 (the data are reported with a lag). The less volatile Federal Housing Finance Agency (FHFA) purchase-only, repeat-sales index estimated a 0.2-percent (SA) price rise in the third quarter of 2009, following a 0.6-percent decline in the second quarter of 2009. The quarterly gain in housing prices estimated by the FHFA index was the first positive change in home sales prices according to this index since the second quarter of 2007. Excessive inventories of available homes at the current sales rate continued their descent in the fourth quarter of 2009, reaching an average rate of 7.6 months' supply of new homes and 6.9 months' supply of existing homes, compared with rates of 7.7 and 8.9 months, respectively, in the third quarter of 2009. The national homeownership rate fell 40 basis points to 67.2 percent in the fourth quarter of 2009 and was down from 67.5 percent in the fourth quarter of 2008. In the third quarter of 2009 (the data are reported with a lag), the percentage of delinquencies and newly initiated foreclosures for all mortgage loans both increased. The percentage of foreclosure starts on prime loans continued its ascent, while the percentage of foreclosure starts on subprime loans continued its descent. The multifamily sector, although still weak, showed improvement in the fourth quarter of 2009. According to the Bureau of Economic Analysis, the advance estimate of overall growth in the national economy in the fourth quarter of 2009 was an increase of 5.7 percent at a seasonally adjusted annual rate (SAAR), following a 2.2-percent expansion in the third quarter of 2009. The housing component

of Gross Domestic Product (GDP) also increased 5.7 percent in the fourth quarter of 2009 compared with an increase of 18.9 percent in the third quarter of 2009.

Housing Production

Housing production indicators continued to show improvement in the fourth quarter of 2009. The number of single-family housing permits and completions both rose in the fourth quarter, but housing starts declined, likely because of unusually cold weather. Multifamily construction (condominiums and apartments) was mixed during the fourth quarter. Because the multifamily sector is traditionally volatile, fluctuations in the sector tend to be less indicative of market climate. Manufactured housing continued a downward trend that began after the hurricane-induced sales-order increases of late 2005.

- During the fourth quarter of 2009, builders took out permits for new housing at a pace of 598,000 (SAAR) units, which was 4 percent higher than in the third quarter of 2009 but 7 percent lower than in the fourth quarter of 2008. Single-family building permits were issued for 474,000 (SAAR) housing units in the fourth quarter of 2009, indicating an increase of 3 percent from the third quarter of 2009 and 13 percent from the fourth quarter of 2008. This is the third

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consecutive quarter in which single-family permits have increased, after having declined for 14 consecutive quarters.

- Builders started construction on 554,000 (SAAR) new housing units in the fourth quarter of 2009, down 6 percent from the third quarter of 2009 and down 16 percent from the fourth quarter of 2008. Single-family housing starts totaled 472,000 (SAAR) housing units in the fourth quarter of 2009, down 5 percent from the third quarter but up 2 percent from the fourth quarter of 2008. Single-family starts rose in the second and third quarters of 2009, after having fallen for 12 consecutive quarters.
- Builders completed 794,000 (SAAR) new housing units in the fourth quarter of 2009, up 4 percent from the third quarter of 2009 but down 25 percent from the fourth quarter of 2008. Single-family completions totaled 533,000 (SAAR) in the fourth quarter of 2009, up 8 percent from the third quarter but down 27 percent from the fourth quarter of 2008. Completions have increased in the third and fourth quarters, after having declined for 14 consecutive quarters.
- Manufactured housing shipments reached a record low of 48,700 (SAAR) units in the fourth quarter of 2009, the lowest level since the data series began in 1959. Manufacturers' shipments in the fourth quarter of 2009 were down 1 percent from the third quarter and 26 percent from the fourth quarter of 2008.

Marketing of Housing

The housing marketing sector showed continuing signs of improvement in the fourth quarter of 2009. The number of existing homes sold rose sharply in the fourth quarter and the median sales price of new homes remained steady, but the number of new homes sold fell and the median sales price for existing homes declined slightly. The average months' supply of homes for sale decreased substantially for existing homes and also declined for new homes. Builders' confidence, as measured by the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index, was nearly flat, dropping marginally because of decreased prospective buyer traffic.

- During the fourth quarter of 2009, 373,000 (SAAR) new single-family homes were sold, down 8 percent from the 406,000 (SAAR) homes sold in the third quarter of 2009 and down 5 percent from the fourth quarter of 2008.
- REALTORS® sold 6.027 million (SAAR) existing single-family homes in the fourth quarter of 2009, up 14 percent from the third quarter of 2009 and up 27

percent from the fourth quarter of 2008. According to a NATIONAL ASSOCIATION OF REALTORS® (NAR) practitioner survey, sales to new homebuyers accounted for 48 percent of all home sales transactions in the fourth quarter of 2009.

- The median price of new homes sold in the fourth quarter of 2009 was \$214,700, virtually the same as in the third quarter of 2009 but 4 percent less than in the fourth quarter of 2008. The average price of new homes sold in the fourth quarter of 2009 was \$270,500, down 1 percent from the third quarter and down 2 percent from the fourth quarter of 2008. A constant-quality house would have sold for \$284,800 in the fourth quarter of 2009, up 2 percent from the third quarter but virtually the same as in the fourth quarter of 2008.
- NAR reported that the median price of existing homes sold was \$173,500 in the fourth quarter of 2009, down 3 percent from the third quarter of 2009 and down 8 percent from the fourth quarter of 2008. The average price of existing homes sold in the fourth quarter of 2009 was \$218,200, down 3 percent from the third quarter and down 6 percent from the fourth quarter of 2008. According to a NAR practitioner survey, distressed sales (foreclosures and short sales) represented 32 percent of all home sales in the fourth quarter of 2009, up slightly from 30 percent in the third quarter. Distressed-sale prices are typically 15 to 20 percent below normal market prices.
- During the fourth quarter of 2009, the average inventory of new homes for sale was 236,000 units, down 10 percent from the third quarter of 2009 and down 36 percent from the fourth quarter of 2008. That inventory would support 7.6 months of sales at the current sales pace, down 0.1 month from the third quarter of 2009 and down 3.6 months from the fourth quarter of 2008. The average inventory of existing homes for sale in the fourth quarter of 2009 was 3.458 million units, down 11 percent from the third quarter and 14 percent from the fourth quarter of 2008. That inventory would support 6.9 months of sales at the current sales pace, down 2.0 months from the third quarter of 2009 and down 3.3 months from the fourth quarter of 2008. The "shadow inventory" of homes, resulting from foreclosures and delinquencies, however, has the potential to increase the supply of homes for sale and further depress home prices.
- The Federal Housing Administration's (FHA's) share of the mortgage market increased in the third quarter of 2009 (the data are reported with a lag). Based on loan origination data, the FHA's dollar volume share of the mortgage market was 17.1 percent in the third quarter of 2009, up 1.2



percentage points from the second quarter of 2009 but down 7.4 percentage points from the third quarter of 2008. Based on the number of loans originated, the FHA's share of the mortgage market was 20.5 percent in the third quarter of 2009, up 1.9 percentage points from the second quarter of 2009 but down 8.2 percentage points from the third quarter of 2008.

- Home builders' optimism fell slightly in the fourth quarter of 2009, mainly due to decreased prospective homebuyer traffic. The NAHB/Wells Fargo composite Housing Market Index was 17 in the fourth quarter of 2009, down 1 point from the third quarter of 2009 but up 6 points from the fourth quarter of 2008. The index is based on three components—current market activity, future sales expectations, and prospective buyer traffic—and ranges from 0 to 100.

Affordability, Homeownership, and Foreclosures

Housing affordability rose in the fourth quarter of 2009, according to the NAR Housing Affordability Index. The composite index for the fourth quarter of 2009 indicates that a family earning the median income had 167.3 percent of the income needed to purchase the median-priced, existing single-family home, using standard lending guidelines. That value is up 8.3 percentage points from the third quarter of 2009 and up 19.3 percentage points from the fourth quarter of 2008. The increase in affordability is attributed to a 3-percent decrease in the median price of existing single-family homes sold and a 24-basis-point drop in mortgage interest rates, which more than offset a 0.6-percent decline in median family income.

Estimates from the Mortgage Bankers Association's (MBA's) quarterly National Delinquency Survey indicate that, for the third quarter of 2009 (the data are reported with a lag), the delinquency rate and the loans entering foreclosure for mortgages on one- to four-family homes set new record highs. (The data series began in 1972.) Although the percentage of foreclosure starts (newly initiated foreclosures) set a new record high, foreclosure starts on subprime loans declined and were more than offset by an increase in foreclosure starts on prime loans. This change suggests a continuing shift away from mortgage defaults driven by interest rate increases on subprime adjustable rate mortgages to those defaults caused by unemployment and the recession.

The delinquency rate (SA) for all mortgage loans was 9.64 percent in the third quarter of 2009 (the data are reported with a lag), up from 9.24 percent in the second quarter of 2009 and 6.99 percent in the third quarter of 2008. The delinquency rate (SA) for prime mortgages was 6.84 percent in the third quarter of 2009, up from 6.41 percent in the second quarter and 4.34 percent in the third quarter of 2008. The delinquency rate (SA) for subprime mortgage loans was 26.42 percent in the third quarter of 2009, up from 25.35 percent in the second quarter and 20.03 percent in the third quarter of 2008. For FHA loans in the MBA survey, the delinquency rate (SA) was 14.36 percent in the third quarter of 2009, down from 14.42 percent in the second quarter of 2009 but up from 12.63 percent in the third quarter of 2008.

Newly initiated foreclosures represented 1.42 percent of all mortgage loans in the third quarter of 2009, up from 1.36 percent in the second quarter of 2009 and up 35 basis points from 1.07 percent in the third quarter of 2008. Foreclosures started on prime loans rose to 1.14 percent in the third quarter 2009, up from 1.01 percent in the second quarter of 2009 and 0.61 percent in the third quarter of 2008. In contrast, foreclosures started on subprime loans fell for the second consecutive quarter to 3.76 percent in the third quarter of 2009, down from 4.13 percent in the second quarter and 4.23 percent in the third quarter of 2008. Not all newly initiated foreclosures end in foreclosure. The lag between a foreclosure start and a completed foreclosure ranges between 2 and 15 months, with an average lag period of about 6 months. Approximately 32 percent of foreclosures initiated in the first quarter of 2009 were completed in the third quarter of 2009.

The national homeownership rate was 67.2 percent in the fourth quarter of 2009, down from 67.6 percent in the third quarter of 2009 and 67.5 percent in the fourth quarter of 2008. The homeownership rate for minority households decreased to 49.8 percent in the fourth quarter of 2009, down from 49.9 percent in the third quarter of 2009 and 50.1 percent in the fourth quarter of 2008. The decline in homeownership reflects the subprime lending crisis, the high rates of unemployment, and the recent severe recession. Servicer emphasis on home retention actions, including those actions under the Making Home Affordable program, are helping to keep the number of newly initiated and completed foreclosures down, despite rising serious delinquencies.

Multifamily Housing

Performance in the multifamily (five or more units) housing sector continued to be weak in the fourth quarter of 2009 but showed signs of improvement. In the production sector, the number of starts and completions fell, while the number of building permits increased. The absorption rate for new rental units rose during the fourth quarter of 2009 and the rental vacancy rate for multifamily units declined.

- In the fourth quarter of 2009, builders took out permits for 104,000 (SAAR) new multifamily units, up 10 percent from the third quarter of 2009 but down 47 percent from the fourth quarter of 2008.
- Builders started construction on 74,000 (SAAR) new multifamily units in the fourth quarter of 2009, down 6 percent from 78,000 units in the third quarter and down 60 percent from 184,000 units in the fourth quarter of 2008.
- Builders completed 244,000 (SAAR) multifamily units in the fourth quarter of 2009, down 5 percent from 255,000 units in the third quarter and down 19 percent from 303,000 units in the fourth quarter of 2008.
- Market absorption of new rental apartments increased in the fourth quarter of 2009. Of the total number of new apartments completed in the third quarter, 52 percent were leased in the first 3 months after completion. The market absorption rate is 8 percent higher than in the third quarter of 2009 but is 2 percent lower than in the fourth quarter of 2008. The multifamily rental vacancy rate in the fourth quarter of 2009 was 12.5 percent, down from 13.1 percent in the previous quarter but up from 11.2 percent in the fourth quarter of 2008. In contrast, the rental vacancy rate for single-family units was 9.6 percent in the fourth quarter of 2009, down from 9.9 in the third quarter and 10.0 percent in the fourth quarter of 2008. The vacancy rate for all rental units in the fourth quarter of 2009 was 10.7 percent, down from 11.1 percent in the third quarter but up from 10.1 percent in the fourth quarter of 2008.

2009 ANNUAL DATA

Single-family housing production indicators (permits, starts, and completions) declined during 2009 and ranged between 24 and 36 percent below their 2008 levels. New home sales also fell during the past year. A bright spot in 2009 was an increase in existing home sales, spurred by lower home prices and record-low mortgage interest rates and by a new first-time home-buyer tax credit. Housing affordability also improved during 2009 and the FHA's share of the mortgage market increased. Homeownership rates for the nation and for most groups declined during the past year. The multifamily (five or more units) housing sector weakened in 2009. The housing sector component of GDP (residential fixed investment) declined in 2009, but by a slower rate than in 2008.

- Builders took out permits for 435,100 new single-family homes in 2009, which is a decrease of 24 percent from 2008. Multifamily permits were issued for 117,200 new units in 2009, down 60 percent from 2008.
- Single-family housing starts totaled 443,500 units in 2009, down 29 percent from 2008, and multifamily housing starts fell to 98,800 units, 63 percent fewer than in 2008.
- In 2009, construction was completed on 521,000 new single-family housing units, 36 percent fewer than in 2008. A total of 260,600 new multifamily units were ready for occupancy in 2009, 6 percent fewer than in 2008.
- Builders sold 374,000 new single-family homes in 2009, down 30 percent from the 485,000 homes they sold in 2008. For all of 2009, the median price of a new home sold was \$215,900, down 7.0 percent from 2008.
- NAR reported that 5.156 million existing single-family homes were sold in 2009, indicating a 5-percent increase from the 4.913 million sold in 2008. For all of 2009, the median price of an existing home sold was \$173,500, down 12 percent from 2008.
- Builders were slightly less optimistic in 2009 than they were in 2008. NAHB/Wells Fargo composite Housing Market Index averaged 15 points in 2009, down 1 point from 2008. The 2009 value, however, is the lowest annual value in the 25-year history of this attitude survey.
- The average interest rate for 30-year, fixed-rate mortgages in 2009, as reported by Freddie Mac's Primary Mortgage Market Survey, was 5.04 percent, which is 99 basis points below the 2008 annual average and which sets a record-low annual average rate.



- According to the NAR Housing Affordability Index, housing affordability improved dramatically in 2009, increasing by 24 percent from 2008. A family earning the median level of income (\$60,608) had 167.0 percent of the income needed to purchase the median-priced existing home (\$173,200) in 2009. Falling interest rates and lower prices of homes for sale more than offset a 2-percent decline in median income in 2009.
- The FHA share of the mortgage market, measured by dollar volume of loans, averaged 17.3 percent for the first three quarters of 2009, up from 16.1 percent for all of 2008, while the FHA share by loan count was 20.4 percent for the first three quarters of 2009 compared with 19.9 percent for all of 2008. (The data are reported with a lag.)
- The FHA guaranteed 2.023 million mortgages in 2009, up 38 percent from 1.468 million in 2008. In contrast, private mortgage insurance on mortgage loans decreased by 54 percent in 2009, from 971,595 loans in 2008 to 442,224 in 2009.
- Based on the MBA's National Delinquency Survey, the delinquency rate on all loans through the third quarter of 2009 averaged 9.33 percent, up 35 percent from 6.91 percent for all of 2008. Newly initiated foreclosures averaged 1.38 percent of all loans through the third quarter of 2009, up 30 percent from 1.06 percent for all of 2008. (The data are reported with a 2-month lag.)
- Based on the Housing Vacancy Survey of the Current Population Survey, the proportion of American households that owned their own homes in 2009 was 67.4 percent, 40 basis points below the 2008 homeownership rate of 67.8. The homeownership rate for White non-Hispanic households was 74.8 percent in 2009, down from 75.0 percent in 2008; the homeownership rate for African-American households was 46.6 percent in 2009, down from 47.9 percent in 2008; and the homeownership rate for Hispanic households was 48.4 percent, down from 49.1 percent in 2008.
- The number of multifamily housing permits, starts, and completions fell in 2009. The rental vacancy rate increased sharply during 2009, while the absorption of new apartments rose only slightly. The vacancy rate for multifamily rental units increased to 12.3 percent in 2009, up from 10.0 percent in 2008. The average lease rate for newly completed apartments rented within 3 months of their completion was 51 percent for the first three quarters of 2009 compared with 50 percent for all of 2008.
- The housing component of GDP declined 20.4 percent in 2009 compared with a decline of 22.9 percent in 2008; it contributed a decrease of 0.65 percentage point in real GDP growth in 2009 compared with a drop of 1.0 percentage point in 2008.