



U.S. Housing Market Conditions

November 2010

SUMMARY

For the third quarter of 2010, housing indicators showed that the recovery in the housing market continues to remain fragile. In the production sector, single-family housing permits, starts, and completions all fell. Multifamily housing permits and starts rose, although the number of multifamily completions fell. In the marketing sector, sales of both new and existing homes declined, while median sales prices remained nearly the same as in the second quarter. The Standard and Poor's Case-Shiller® national seasonally adjusted (SA) repeat-sales house-price index, which is reported with a lag, recorded a 2.3-percent rise in the value of homes in the second quarter of 2010, after having fallen 1.1 percent in the first quarter, and showed a 3.6-percent improvement over year-earlier levels. The less volatile Federal Housing Finance Agency's (FHFA) purchase-only repeat-sales index, also reported on a lagged basis, estimated a 0.9-percent (SA) increase in home values in the second quarter compared with the first quarter but a 1.6-percent decline from a year earlier. Inventories of available homes at the current sales rate increased in the third quarter of 2010, reaching an average rate of 8.5 months' supply of new homes and 11.7 months' supply of existing homes, up from rates of 7.9 and 8.5 months' supply, respectively, in the previous quarter.

The national homeownership rate remained stable in the third quarter of 2010, although the homeownership rate for minorities declined. According to the Mortgage Bankers Association (MBA), the estimated percentage of delinquencies and newly initiated foreclosures for mortgage loans, which are reported with a lag, fell in the second quarter of 2010. The percentage of newly initiated foreclosures declined for both prime and subprime loans. The advance estimate of overall growth in the national economy in the third quarter was a 2.0-percent increase at a seasonally adjusted annual rate (SAAR), following a 1.7-percent expansion in the second quarter, according to the Bureau of Economic Analysis.

Housing Production

Housing production indicators were mixed in the third quarter of 2010. The number of single-family housing

permits, starts, and completions all declined. In the multifamily sector (condominiums and apartments), the number of permits and starts increased, although completions fell. Shipments of manufactured housing dropped in the third quarter.

- Builders took out permits for new housing at a pace of 559,000 (SAAR) units during the third quarter, which was 5 percent below the previous quarter and 7 percent lower than a year earlier. Single-family building permits were issued for 404,000 (SAAR) housing units, a decrease of 10 percent from the second quarter and 16 percent from year-earlier levels. Single-family permits have increased in 4 of the past 6 quarters, after having declined for 14 consecutive quarters.
- During the third quarter, builders started construction on 589,000 new housing units (SAAR), down 2 percent from the second quarter but up 1 percent from a year earlier. Single-family housing starts totaled 437,000 (SAAR) housing units, down 11 percent from the second quarter and 12 percent from year-earlier levels. Single-family starts have risen in 2 of the past 5 quarters, after having fallen for 12 consecutive quarters.

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- Builders completed 609,000 (SAAR) new housing units in the third quarter, down 22 percent from the second quarter and 20 percent over the four-quarter period. Single-family home completions totaled 485,000 (SAAR) units, down 17 percent from the previous quarter and 2 percent from a year earlier. Completions have increased in 3 of the past 5 quarters, after having declined for 14 consecutive quarters.
- Manufactured housing shipments totaled 49,700 (SAAR) units in the third quarter, down 12 percent from the second quarter but up 1 percent from the previous year. Onsite placements of manufactured housing, which are reported with a lag, reached 57,300 units in the second quarter, up 27 percent from the previous quarter and 10 percent from a year earlier. Manufactured housing shipments have increased in 2 of the last 3 quarters following a downward trend that began after the hurricane-induced sales-order increases of late 2005.

Marketing of Housing

Data in the housing marketing sector trended downward in the third quarter of 2010, in part reflecting the expiration of the homebuyer tax credit in the second quarter. Both the number of new and existing homes sold fell, while the median sales prices of new and existing homes sold remained roughly the same as in the second quarter. The FHFA and S&P Case-Shiller® repeat sales house price indices, which are reported with a lag, estimated that house prices were higher in the second quarter than in the first quarter of 2010. The average months' supply of homes for sale in the third quarter increased for both new and existing homes. Home builders' confidence, as measured by the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index, dropped in the third quarter.

- During the third quarter of 2010, 293,000 (SAAR) new single-family homes were sold, down 13 percent from the 335,000 (SAAR) homes sold in the second quarter and 27 percent from a year earlier.
- The NATIONAL ASSOCIATION OF REALTORS® (NAR) reported that 4.163 million (SAAR) existing homes—including single-family, townhomes, condominiums, and cooperatives—were sold in the third quarter, down 25 percent from the previous quarter and 21 percent from year-earlier levels. According to a NAR practitioner survey, sales to first-time homebuyers accounted for 34 percent of all home sales transactions in the third quarter, down from 46 percent in the previous quarter.
- The median price of new homes sold was \$216,400, down 1 percent from the previous quarter but up 1 percent over the previous four quarters. The average price of new homes sold was \$253,400, down 6 percent from the previous quarter and 8 percent from a year earlier. A constant-quality house would have sold for \$276,500, down 2 percent from the previous quarter and 1 percent from a year earlier.
- NAR reported that the median price of existing homes sold was \$177,100 in the third quarter, up slightly from the second quarter but down 1 percent from a year earlier. The average price of existing homes sold in the third quarter was \$225,300, 1 percent higher than both the previous quarter and the third quarter of the previous year. According to a NAR practitioner survey, distressed sales (foreclosures and short sales) represented 34 percent of all home sales in the third quarter, up from 32 percent in the second quarter. Distressed sales prices are typically 15 to 20 percent below normal market prices.
- S&P/Case-Shiller® and the FHFA both produce repeat-sales house price indexes that are reported with a 2-month lag. The Case-Shiller® national index estimated that (SA) home prices in the second quarter of 2010 were up 2.3 percent from the previous quarter and 3.6 percent from a year earlier. The FHFA purchase-only index estimated that (SA) home prices in the second quarter were up 0.9 percent from the previous quarter but down 1.6 percent from a year earlier. The FHFA index is based on mortgages that have been sold to or guaranteed by Fannie Mae and Freddie Mac and tends to show less volatility than the S&P Case-Shiller® index, mainly because it excludes subprime and some “jumbo” loans and because the index is loan weighted instead of value weighted.
- During the third quarter of 2010, the average inventory of new homes for sale was 207,000 units, down 4 percent from the second quarter and 21 percent from a year earlier. That inventory would support 8.5 months of sales at the current sales pace, up 0.6 month from the second quarter and 0.7 month from a year earlier. The average inventory of existing homes for sale in the third quarter was 4.055 million units, up 3 percent from the second quarter and 4 percent from the previous year. That inventory would support 11.7 months of sales at the current sales pace, up 3.2 months from the second quarter and 2.8 months from a year earlier. Of concern is the “shadow inventory” of homes as a result of the high rate of delinquencies and foreclosures, which 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, which is reported with a 2-month lag, increased in the second quarter of 2010 for all loans and for home purchase loans. Based on loan origination data, the FHA's dollar volume share of the mortgage market was 18.9 percent, up from 16.2 percent in the first quarter and 16.8 percent a year earlier. For home purchase loans, the FHA's dollar volume share was 36.3 percent, up from 29.2 percent in first quarter and 24.5 percent a year earlier. Based on the number of loans originated, the FHA's share of the mortgage market was 22.7 percent, up from 19.2 percent in the previous quarter and 19.5 percent a year earlier. For home purchase loans, the FHA's share of the number of new mortgage loans was 42.3 percent, up from 33.7 percent from the previous quarter and 28.6 percent a year earlier.
- Home builders' optimism declined in the third quarter of 2010. The NAHB/ Wells Fargo composite Housing Market Index was 13, down 6 points from the second quarter and 5 points from a year earlier. The index for expected future sales dropped from 25 to 19 points. The composite 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, as measured by the NAR Housing Affordability Index, increased in the third quarter of 2010. The NAR composite index estimates that a family earning the median income had 172.6 percent of the income needed to purchase a median-priced, existing single-family home, using standard lending guidelines. That value is up 3 percent from the second quarter and 7 percent over the four-quarter period. The increase in affordability is attributed to a 29-basis-point decrease in mortgage interest rates and a 0.3-percent increase in median family income, which more than offset a 1-percent increase in the median price of existing single-family homes sold.

Estimates from the MBA's quarterly National Delinquency Survey, which is reported with a 2-month lag, showed that both the delinquency rate and the rate of loans entering foreclosure for mortgages on 1- to 4-family homes fell during the second quarter of 2010. The delinquency rate decreased for both prime and subprime loans but increased for FHA loans. The percentage of newly initiated foreclosures (foreclosure starts) fell for prime, subprime, and FHA loans. The percentage of mortgage holders seriously delinquent on their mortgages (90 or more days past due or in the

foreclosure process) fell for the second consecutive quarter; the rate had been rising since the third quarter of 2006. Of concern is the rise in short-term delinquencies in the second quarter, which had been on the decline since the beginning of 2009.

According to the MBA, the (SA) delinquency rate for all mortgage loans in the second quarter of 2010 was 9.85 percent, down from 10.06 percent in the first quarter but up from 9.24 percent a year earlier. The (SA) delinquency rate for prime mortgages was 7.10 percent in the second quarter, down from 7.32 percent in the first quarter but up from 6.41 percent a year earlier. The (SA) delinquency rate for subprime mortgage loans was 27.02 percent for the second quarter, down from 27.21 percent in the first quarter but up from 25.35 percent a year earlier. For FHA loans in the MBA survey, the (SA) delinquency rate was 13.29 percent in the second quarter, up from 13.15 percent in the first quarter but down from 14.42 percent a year earlier.

Newly initiated foreclosures represented 1.11 percent of all mortgage loans in the second quarter, down from 1.23 percent in the first quarter and 1.36 percent a year earlier. The rate of newly initiated foreclosures on prime loans was 0.91 percent in the second quarter, down slightly from 0.92 percent in the first quarter and 1.01 percent a year earlier. Foreclosures started on subprime loans fell for the fifth consecutive quarter to 2.83 percent in the second quarter, from 3.35 percent in the first quarter and 4.13 percent a year earlier. Not all newly initiated foreclosures end in foreclosure completions. Approximately 52 percent of foreclosures initiated in the fourth quarter of 2009 were completed in the second quarter of 2010. The lag between a foreclosure start and a completed foreclosure usually ranges between 2 and 15 months, with an average lag of about 6 months.

The national homeownership rate was 66.9 percent in the third quarter of 2010, the same as in the second quarter but down from 67.6 percent a year earlier. The homeownership rate for minority households decreased to 48.6 percent in the third quarter, down from 49.0 percent in the previous quarter and 49.9 percent a year earlier. 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 high rates of mortgage delinquency. These programs cannot help all delinquent borrowers, however. In this regard, servicers have indicated that completed foreclosures are likely to increase as alternatives for seriously delinquent borrowers are exhausted.

Multifamily Housing

Performance in the multifamily housing sector (five or more units) continued to improve in the third quarter of 2010. In the production sector, the number of building permits and starts rose, although completions fell. The absorption rate for multifamily apartments increased and the rental vacancy rate declined. The absorption rate for condominiums and cooperatives decreased in the third quarter.

- During the third quarter of 2010, builders took out permits for 135,000 (SAAR) new multifamily units, up 9 percent from the second quarter and 31 percent from a year earlier.
- Builders started construction on 138,000 (SAAR) new multifamily units in the third quarter, up 36 percent from 102,000 units in the second quarter and up 74 percent from 79,000 units a year earlier. Builders

completed 117,000 (SAAR) multifamily units in the third quarter, down 37 percent from the previous quarter and 54 percent from year-earlier levels.

- Market absorption of new multifamily units increased for apartments but decreased for condos and co-ops in the third quarter of 2010. Of the total number of new apartments completed in the second quarter, 62 percent were leased in the first 3 months after completion, which is 6 percentage points higher than in the second quarter and 13 percentage points higher than year-earlier levels. Of the total number of new condos and co-ops completed in the second quarter of 2010, 36 percent were sold in the third quarter, down 8 percentage points from the second quarter but the same as a year earlier.
- The multifamily rental vacancy rate in the third quarter of 2010 was 11.8 percent, down from 12.2 percent in the second quarter and 13.1 percent a year earlier.