



U.S. Housing Market Conditions

November 2011

SUMMARY

Housing data for the third quarter of 2011 indicate that the recovery in the housing market continues to remain fragile. In the production sector, the number of single-family permits and completions rose, but housing starts declined. Building permits for multifamily units decreased, although multifamily starts and completions both rose. In the marketing sector, sales of new and existing homes declined. The Standard and Poor's Case-Shiller® national seasonally adjusted (SA) repeat-sales house price index, which is reported with a lag, recorded a 0.6-percent decline in the value of homes in the second quarter of 2011 compared with the previous quarter and a 5.9-percent decline from year-earlier levels. The Federal Housing Finance Agency's (FHFA) purchase-only repeat-sales index, also reported on a lagged basis, estimated a 0.1-percent (SA) increase in home values in the second quarter but a year-over-year decline of 5.9 percent. Inventories of available homes at the current sales rate decreased for new and existing homes in the third quarter. The months' supply of new homes dropped to an average rate of 6.5 months in the third quarter from 6.6 months in the second quarter, while the months' supply of existing homes dropped to 8.8 months, down from 9.1 months in the second quarter.

The national homeownership rate increased in the third quarter, as did the homeownership rate for minorities. According to the Mortgage Bankers Association (MBA), seriously delinquent mortgages and newly initiated foreclosures fell in the second quarter (the data are reported with a 2-month lag), although the delinquency rate on mortgage loans overall increased slightly.

According to a preliminary estimate, growth in the U.S. economy increased at a seasonally adjusted annual rate (SAAR) of 2.5 percent in the third quarter, following 1.3-percent growth in the second quarter, according to the Bureau of Economic Analysis. Residential investment rose 2.4 percent in the third quarter compared with an increase of 4.2 percent in the second quarter.

Housing Production

Housing production indicators showed a mixed picture in the third quarter of 2011. The number of single-family

permits issued and completions rose, but starts were down slightly. In the multifamily sector (apartments and condominiums), the number of building permits fell, although starts and completions increased. Shipments of manufactured housing increased in the third quarter.

- Builders took out permits for new housing at a pace of 605,000 (SAAR) units during the third quarter, 1 percent higher than the second quarter and 6 percent higher than a year earlier. Single-family building permits were issued for 411,000 (SAAR) units, up 3 percent from the second quarter and up 1 percent from year-earlier levels. Single-family permits have increased in 7 of the last 10 quarters, after having declined for 14 consecutive quarters, ending in the second quarter of 2009.
- During the third quarter, builders started construction on 615,000 new housing units (SAAR), up 7 percent from the second quarter and 5 percent from a year earlier. Single-family housing starts were 424,000 (SAAR) units, down slightly from the second quarter and down 2 percent from year-earlier levels. Single-family starts have risen or remained steady in 5 of the last 10 quarters, after having fallen for 12 consecutive quarters, ending the second quarter of 2009.

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- Builders completed 641,000 (SAAR) new housing units in the third quarter, up 15 percent from the second quarter and 5 percent over the four-quarter period. Single-family home completions reached 466,000 (SAAR) units, up 6 percent from the previous quarter but down 3 percent over the past year. Single-family completions have increased in 4 of the last 8 quarters, after having declined for 14 consecutive quarters, ending the fourth quarter of 2009.
- Manufactured housing shipments totaled 50,700 (SAAR) units in the third quarter, up 6 percent from the second quarter and 3 percent from a year earlier. Onsite placements of manufactured housing, which are reported with a lag, totaled 45,000 units in the second quarter, up 6 percent from the previous quarter but down 22 percent from a year earlier. Manufactured housing shipments have increased in 4 of the last 5 quarters, following a downward trend that began after the hurricane-induced sales-order increases of late 2005.

Marketing of Housing

Data on the housing marketing sector were mixed for the third quarter of 2011. The number of new homes sold fell in the third quarter but was up from a year ago. The median price of new homes sold fell in the third quarter and was down from last year. The number of existing homes sold in the third quarter fell but was up from the previous year. The previous quarter and year-over-year median sales price of existing homes was down. The seasonally adjusted (SA) S&P/Case-Shiller® and FHFA repeat-sales house price indices, which are reported with a lag, showed home price drops from a year ago. The average months' supply of homes for sale in the third quarter fell for both new homes and existing homes. Home builders' confidence, as measured by the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index, remained steady in the third quarter.

- During the third quarter of 2011, 302,000 (SAAR) new single-family homes were sold, down 2 percent from the 309,000 (SAAR) homes sold in the second quarter but up 4 percent from the pace a year ago.
- The NATIONAL ASSOCIATION OF REALTORS® (NAR) reported that 4.880 million (SAAR) existing homes—including single-family homes, townhomes, condominiums, and cooperatives—were sold in the third quarter, down slightly from the previous quarter but up 17 percent from year-earlier levels. According to a NAR practitioner survey, sales to first-time homebuyers accounted for 32 percent of all sales transactions in the third quarter, down from 34 percent in the previous quarter.
- The median price of new homes sold in the third quarter was \$219,000, down 4 percent from the previous quarter and 2 percent from a year earlier. The average price of new homes sold was \$257,600, down 4 percent from the previous quarter and 3 percent over the past year. A constant-quality house would have sold for \$276,200, down 2 percent from the previous quarter and 1 percent from a year ago.
- NAR reported that the median price of existing homes sold was \$169,300 in the third quarter, up slightly from the second quarter but down 3 percent from a year earlier. The average price of existing homes sold in the third quarter was \$217,500, down slightly from the previous quarter and 3 percent lower than a year earlier. According to a NAR practitioner survey, distressed sales (foreclosures and short sales) represented 30 percent of all home sales in the third quarter, down from 33 percent in the second quarter and from 34 percent a year ago. 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 indices that are reported with a 2-month lag. The S&P/Case-Shiller® national index (SA) estimated that home prices in the second quarter of 2011 were down 0.6 percent from the previous quarter and 5.9 percent from a year earlier. The FHFA purchase-only national index (SA) estimated that home prices were up 0.1 percent from the previous quarter but down 5.9 percent from a year earlier. The FHFA index differs from the S&P/Case-Shiller® index mainly because it is based on sales financed with mortgages that have been sold to or guaranteed by Fannie Mae and Freddie Mac, excludes sales transactions associated with subprime and some "jumbo" loans, and is transaction weighted instead of value weighted.
- During the third quarter of 2011, the average inventory of new homes for sale was 164,000 units, down 3 percent from the second quarter and 21 percent from a year earlier. That inventory would support 6.5 months of sales at the current sales pace, down 0.1 month from the second quarter and 2.0 months over the four-quarter period. The average inventory of existing homes for sale in the third quarter was 3.572 million units, down 4 percent from the second quarter and 12 percent from a year earlier. That inventory would support 8.8 months of sales at the current sales pace, down 0.3 months from the second quarter and 2.9 months from a year ago. 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) share of the mortgage market, which is reported with a 2-month lag, fell in terms of dollar volume but grew in terms of number of loans during the second quarter of 2011. Based on loan origination data, the FHA's dollar volume share of the mortgage market was 13.7 percent, down from 14.7 percent in the first quarter of 2011 and down from 21.3 percent a year earlier. For home purchase loans, the FHA's dollar volume share was 28.3 percent, up from 25.5 percent in the first quarter but down from 35.6 percent a year earlier. For refinance loans, the FHA's dollar volume share was 5.5 percent in the second quarter, down from 8.8 percent in the previous quarter and 8.2 percent a year earlier. Based on the number of loans originated, the FHA's share of the mortgage market reached 19.4 percent in the second quarter, up from 17.1 percent in the previous quarter but down from 24.0 percent a year earlier. For home purchase loans, the FHA's share of the number of new mortgage loans was 38.0 percent, up from 29.8 percent in the previous quarter but down from 41.5 percent a year earlier. The FHA's share of the number of new refinance loans was 7.5 percent in the second quarter, down from 9.9 percent in the previous quarter and 9.5 percent a year earlier.
- Home builders' view of housing market activity remained steady in the third quarter of 2011. The NAHB/Wells Fargo composite Housing Market Index was 15, unchanged from the second quarter but up 2 points from a year earlier. 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 2011. The NAR composite index estimates that a family earning the median income had 183.8 percent of the income needed to purchase a median-priced, existing single-family home, using standard lending guidelines. That value is up 4.0 percentage points from the previous quarter and up 12.1 percentage points over the four-quarter period. The increase in affordability is attributed to a 1-percent decrease in the median sales price of existing single-family homes and a 22 basis-point decline in mortgage interest rates.

Estimates from the MBA's quarterly National Delinquency Survey, which is reported with a 2-month lag, showed that, although the delinquency rate on mortgage loans on one- to four-family units increased slightly in the second quarter of 2011, seriously delinquent mortgages (90 or more days delinquent or in the foreclosure process) remained steady but newly initiated foreclosures fell during the quarter. Delinquency rates increased for FHA loans, prime mortgages, and subprime mortgages. The percentage of mortgage holders seriously delinquent on their mortgages dropped for the sixth consecutive quarter, and foreclosure starts are at their lowest level since before 2008.

According to the MBA, in the second quarter of 2011 the (SA) delinquency rate for all mortgage loans was 8.44 percent, up from 8.32 percent in the previous quarter but down from 9.85 percent a year earlier. The (SA) delinquency rate for prime mortgages was 5.66 percent, up from 5.50 percent in the first quarter of 2011 but down from 7.10 percent a year earlier. The (SA) delinquency rate for subprime mortgage loans was 24.33 percent, up from 24.01 percent in the previous quarter but down from 27.02 percent a year earlier. For FHA loans in the MBA survey, the (SA) delinquency rate was 12.62 percent, up from 12.03 percent in the first quarter but down from 13.29 percent a year earlier.

Newly initiated foreclosures represented 0.96 percent of all mortgage loans in the second quarter, down from 1.08 percent in the first quarter of 2011 and 1.11 percent a year earlier. The rate of newly initiated foreclosures on prime loans was 0.78 percent, down from 0.86 percent in the previous quarter and 0.91 percent a year earlier. Foreclosures started on subprime loans fell to 2.87 percent, down from 3.08 percent in the first quarter but up from 2.83 percent a year earlier.

The national homeownership rate for the third quarter of 2011 was 66.3 percent, up from 65.9 percent in the previous quarter but down from 66.9 percent a year earlier. The homeownership rate for minority households increased to 48.9 percent from 47.8 percent in the previous quarter and 48.6 percent a year earlier. The current low homeownership rates reflect the subprime lending crisis, the high rates of unemployment, and the recent severe recession. Servicers' emphasis on home retention actions, including those actions under the Making Home Affordable Program, is helping to keep the number of newly initiated and completed foreclosures down, despite high rates of mortgage delinquency. Foreclosure activity has also declined recently as lenders review internal procedures related to the foreclosure process.

Multifamily Housing

Performance in the multifamily housing sector (five or more units) was mixed in the third quarter of 2011. In the production sector, the number of building permits decreased, although starts and completions increased. The absorption rate for condominiums and cooperatives completed in the first quarter of 2011 increased, although the absorption rate for apartments fell. The rental vacancy rate for multifamily units was up in the third quarter.

- During the third quarter of 2011, builders took out permits for 172,000 (SAAR) new multifamily units, down 2 percent from the second quarter but up 21 percent from a year earlier.
- Builders started construction on 184,000 (SAAR) new multifamily units in the third quarter, up 33 percent from 138,000 units in the second quarter and 34 percent from 137,000 units a year earlier. Builders

completed 166,000 (SAAR) multifamily units in the third quarter, up 61 percent from the previous quarter and 41 percent from year-earlier levels.

- Market absorption of new multifamily units declined for apartments but rose for condominiums and cooperatives completed in the first quarter of 2011. Of the total number of new apartments completed in the first quarter, 58 percent were leased in the first 3 months after completion, down from 64 percent in the previous quarter but up from 56 percent a year earlier. Of the total number of new condominiums and cooperatives completed in the first quarter of 2011, 51 percent were sold in the second quarter, up from 44 percent in the first quarter and 45 percent a year earlier.
- The multifamily rental vacancy rate reported by the Census Bureau was 9.8 percent in the third quarter of 2011, up from 9.2 percent in the previous quarter but down from 10.3 percent a year earlier.