



U.S. Housing Market Conditions

May 2012

SUMMARY

Housing indicators for the first quarter of 2012 continue to portray a fragile recovery in the housing market. In the production sector, the number of housing permits and starts for single-family homes rose but completions fell, while housing permits, starts, and completions all rose for multifamily units. In the marketing sector, sales of new and existing homes increased. The Standard and Poor's Case-Shiller® national seasonally adjusted (SA) repeat-sales house price index, which is reported with a lag, recorded a 1.7-percent decline in the value of homes in the fourth quarter of 2011 compared with the previous quarter and a 4.0-percent decline from year-earlier levels. The Federal Housing Finance Agency's (FHFA) purchase-only (SA) repeat-sales index, also reported on a lagged basis, estimated a 0.1-percent decrease in home values in the fourth quarter and a year-over-year decline of 2.4 percent. Inventories of available homes at the current sales rate decreased for both new and existing homes in the first quarter, reaching an average rate of 5.2 months' supply for new homes and 6.2 months' supply for existing homes, down from rates of 5.7 and 7.0 months, respectively, in the previous quarter.

The national homeownership rate decreased in the first quarter, as did the homeownership rate for minorities. According to the Mortgage Bankers Association (MBA), the delinquency rate for all mortgages and the rate of newly initiated foreclosures fell in the fourth quarter (the data are reported with a lag). The U.S. economy grew at a seasonally adjusted annual rate (SAAR) of 2.2 percent in the first quarter, following 3.0-percent growth in the fourth quarter, according to the Bureau of Economic Analysis' first estimate. Residential investment increased 19.1 percent in the first quarter compared with an 11.6-percent increase in the fourth quarter and contributed 0.40 percent to real GDP growth compared to 0.25 percent in the fourth quarter.

Housing Production

Housing production indicators improved in the first quarter of 2012. In the single-family sector, housing permits and starts rose, although completions fell. In the multifamily sector, permits, starts, and completions all rose. Shipments of manufactured housing declined in the first quarter.

- Builders took out permits for new housing at a pace of 720,000 (SAAR) units during the first quarter, 8 percent higher than the fourth quarter and 29 percent higher than a year earlier. Single-family building permits were issued for 465,000 (SAAR) units, up 7 percent from the fourth quarter and 17 percent from year-earlier levels.
- During the first quarter, builders started construction on 687,000 new housing units (SAAR), up 3 percent from the fourth quarter and 18 percent from a year earlier. Construction began on 478,000 (SAAR) single-family units, up 2 percent from the fourth quarter and 15 percent from a year earlier.
- Builders completed 571,000 (SAAR) new housing units in the first quarter, down 2 percent from the fourth quarter but virtually the same as 1 year ago. Single-family home completions, at 422,000 (SAAR), were down 7 percent from the previous quarter and 1 percent from last year.
- Manufactured housing shipments totaled 58,700 (SAAR) units in the first quarter, down 4 percent from the fourth quarter but up 29 percent from a year earlier. Onsite placements of manufactured housing, which are reported with a lag, totaled 50,000 units in the fourth quarter, up 11 percent from the previous quarter and 12 percent from a year earlier.

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Marketing of Housing

Data on the marketing of housing improved in the first quarter of 2012. The number of new and existing homes sold increased. The seasonally adjusted S&P/Case-Shiller® and FHFA repeat-sales house price indices, which are reported with a lag, declined from the third to fourth quarter of 2011, although the dip in the FHFA index was very slight. The average months' supply of homes fell for both new and existing homes. Home builders' confidence, as measured by the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index, rose.

- During the first quarter of 2012, 337,000 (SAAR) new single-family homes were sold, up 4 percent from the 325,000 (SAAR) homes sold in the fourth quarter and up 13 percent from 1 year ago.
- The NATIONAL ASSOCIATION OF REALTORS® (NAR) reported that existing homes—including single-family homes, townhomes, condominiums, and cooperatives—sold at a rate of 4.570 million (SAAR) in the first quarter, up 5 percent from the previous quarter and 4 percent from year-earlier levels. According to a NAR practitioner survey, sales to first-time homebuyers accounted for 33 percent of all sales transactions in the first quarter, the same as in the previous quarter.
- The median price of new homes sold in the first quarter was \$232,200, up 5 percent from the previous quarter and 2 percent from year-earlier levels. The average price of new homes sold was \$274,200, up 6 percent from the previous quarter and 2 percent from the previous year. A new constant-quality house would have sold for \$278,000, virtually the same as in both the previous quarter and the previous year. (Quality is based on a typical house built in the year 2005.)
- NAR reported that the median price of existing homes sold was \$158,000 in the first quarter, down 3 percent from the fourth quarter but virtually the same as a year earlier. The average price of existing homes sold in the first quarter was \$204,600, down 2 percent from the previous quarter but the same as the previous year. According to a NAR practitioner survey, distressed sales (foreclosure and short sales) represented 33 percent of all home sales in the first quarter, up from 30 percent in the fourth quarter but down from 39 percent a year ago. Distressed sales prices are typically 15 to 20 percent below normal market prices. Investor purchases represented 22 percent of existing home sales in the first quarter, up from 19 percent in the previous quarter but the same as 1 year ago.

- S&P/Case-Shiller® and the FHFA both produce repeat-sales house price indices that are reported with a 2-month lag. The (SA) S&P/Case-Shiller® national index estimated that home prices in the fourth quarter of 2011 were down 1.7 percent from the previous quarter and 4.0 percent from a year earlier. The (SA) FHFA purchase-only national index estimated that home prices were down 0.1 percent from the previous quarter and 2.4 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 sub-prime and some “jumbo” loans, and is transaction weighted instead of value weighted.
- During the first quarter of 2012, the average inventory of new homes for sale was 146,000 units, down 6 percent from the fourth quarter and 20 percent from a year earlier. That inventory would support 5.2 months of sales at the current sales pace, down 0.5 month from the fourth quarter and 2.1 months over the four-quarter period. The average inventory of existing homes for sale in the first quarter was 2.367 million units, down 8 percent from the fourth quarter and 21 percent from a year earlier. That inventory would support 6.2 months of sales at the current sales pace, down 0.8 months from the fourth quarter and 2.0 months from 1 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.
- Home builders' view of housing market activity rose fairly substantially in the first quarter of 2012. The NAHB/Wells Fargo composite Housing Market Index was 27, up 8 points from the fourth quarter and 11 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 fourth quarter of 2011. (NAR now reports housing affordability on a lagged basis.) The NAR composite index estimates that a family earning the median income had 196.0 percent of the income needed to purchase a median-priced, existing single-family home, using standard lending guidelines. That value is up from 181.8 in the third quarter and 181.4 in the fourth quarter of 2010. The increase in affordability is attributed to a 3.6-percent



decrease in the median sales price of existing single-family homes, a 32-basis-point decline in mortgage interest rates, and a 0.1-percent increase in median family income.

The national homeownership rate fell to 65.4 percent in the first quarter of 2012, down from 66.0 percent in the fourth quarter and 66.4 percent a year earlier. The homeownership rate for minorities, at 47.5 percent, also slipped, from 48.2 percent in the previous quarter and 48.3 percent a year earlier. The homeownership rate for White non-Hispanic households dipped to 73.5 from 73.7 percent in the fourth quarter; the homeownership rate for African-American households fell to 43.9 from 45.5 percent in the fourth quarter; and the homeownership rate for Hispanic households was 46.3 percent, down from 46.6 percent in the fourth quarter. The current low homeownership rates reflect the subprime lending crisis, the high rates of unemployment, and the recent severe recession.

According to the MBA's quarterly National Delinquency Survey report, mortgage performance continued to improve in the fourth quarter of 2011 (data are reported with a lag), reflecting improvement in the job market and broader economy. The delinquency rate and newly initiated foreclosure rate for all mortgages decreased and are back down to 2008 levels. The percentage of seriously delinquent mortgages (90 or more days past due or in the foreclosure process), at 7.73 percent, was at its lowest level since the first quarter of 2009. A major reason is that the loans that are seriously delinquent are predominantly made up of loans originated prior to 2008, and this pool is steadily growing smaller as a percentage of total loans outstanding. The report stated that, by several measures, mortgage delinquencies are about one-half of the way back to long-term, pre-recession levels. Total delinquency rates and foreclosure measures were up for FHA mortgages, but the FHA market share recently has grown rapidly and, as noted by the MBA, purchase loans originated in 2008 and 2009 are now entering the peak of a normal delinquency curve.

According to the MBA, in the fourth quarter of 2011, the (SA) delinquency rate for all mortgage loans was 7.58 percent, down from 7.99 percent in the previous quarter and 8.25 percent a year earlier. The (SA) delinquency rate for prime mortgages was 4.83 percent, down from 5.19 percent in the third quarter and 5.48 percent a year earlier. The (SA) delinquency rate for subprime mortgage loans was 20.83 percent, down from 22.78 percent in the previous quarter and 23.09 percent a year earlier. For FHA loans, the (SA) delinquency rate was 12.36 percent, up from 12.09 percent in the third quarter and 12.27 a year earlier.

Newly initiated foreclosures represented 0.99 percent of all mortgage loans in the fourth quarter, down from 1.08 percent in the third quarter and 1.27 percent a

year earlier. The rate of newly initiated foreclosures on prime loans was 0.78 percent, down from 0.88 percent in the previous quarter and 1.05 percent a year earlier. The foreclosure start rate for subprime loans was 2.84 percent, down from 3.25 percent in the third quarter and 3.37 percent a year earlier. 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. Lenders' review of internal procedures related to the foreclosure process and backlogs in the courts for states with a judicial process also contributed to the decline in foreclosure activity. Foreclosure actions may pick up again in the near future, however, in the wake of the recent settlement between the federal government, the states' attorneys general, and the major mortgage servicers.

Multifamily Housing

Performance in the multifamily housing sector (five or more units) was mixed in the first quarter of 2012. In the production sector, the number of building permits, starts, and completions all rose. The absorption rate for apartments and for condominiums and cooperatives declined. The rental vacancy rate for multifamily units was below the rate for both the previous quarter and previous year.

- During the first quarter of 2012, builders took out permits for 232,000 (SAAR) new multifamily units, up 12 percent from the fourth quarter and 61 percent from 1 year earlier.
- Builders started construction on 196,000 (SAAR) new multifamily units in the first quarter, up 5 percent from the fourth quarter and 27 percent from a year earlier. Builders completed 141,000 (SAAR) multifamily units in the first quarter, up 14 percent from the previous quarter but unchanged from 1 year ago.
- For new multifamily units completed in the fourth quarter of 2011, market absorption during the following 3 months decreased both for apartments and for condominiums and cooperatives. Of the total number of new apartments completed, 51 percent were leased within 3 months of completion, down from 67 percent in the previous quarter and 64 percent a year earlier. Of the total number of new condominiums and cooperatives completed, 40 percent sold within 3 months, down from 79 percent in the previous quarter and 44 percent a year earlier.
- The multifamily rental vacancy rate reported by the Census Bureau was 9.9 percent in the first quarter of 2012, down from 10.1 percent in the fourth quarter and 10.5 percent a year earlier.