



# U.S. Housing Market Conditions

August 2010

## SUMMARY

Housing market conditions continued to show signs of stabilizing during the second quarter of 2010, after a downward trend that began to reverse itself in the second quarter of 2009, although the housing market's recovery remains fragile. In the production sector, single-family housing permits and starts both fell in the second quarter of 2010, although the number of single-family housing completions rose. In the marketing sector, sales of existing homes rose, but sales fell for new homes. The Standard and Poor's Case-Shiller® national seasonally adjusted (SA) repeat-sales house-price index recorded a 1.3-percent decline in the value of homes in the first quarter of 2010 compared with the fourth quarter of 2009 but showed a 2.1-percent improvement over the first quarter of 2009. The less volatile Federal Housing Finance Agency (FHFA) purchase-only repeat-sales index estimated a 1.9-percent (SA) decline in home values in the first quarter compared with the fourth quarter and a 3.1-percent decline from the previous year (the data for both series are reported with a lag). Inventories of available homes at the current sales rate increased in the second quarter of 2010, reaching an average rate of 7.8 months' supply of new homes and 8.5 months' supply of existing homes up from 7.7 and 8.1 months' supply, respectively, in the first quarter. The multifamily sector showed improvement in the second quarter.

The national homeownership rate fell 20 basis points to 66.9 percent in the second quarter of 2010. According to the Mortgage Bankers Association (MBA), the estimated percentage of delinquencies and newly initiated foreclosures for mortgage loans rose in the first quarter of 2010 (the data are reported with a lag). The percentage of foreclosure starts on subprime loans continued to decline, but the percentage on prime loans increased. The advance estimate of overall growth in the national economy in the second quarter was a 2.4-percent increase at a seasonally adjusted annual rate (SAAR), following a 3.7-percent expansion in the first quarter, according to the Bureau of Economic Analysis. The housing sector component of Gross Domestic Product (GDP) increased 27.9 percent in the second quarter in contrast to a decrease of 12.3 percent in the previous quarter.

## Housing Production

Housing production indicators were mixed in the second quarter of 2010. The number of single-family housing permits and starts both declined, but the number of housing completions increased. Multifamily (condominiums and apartments) permits, starts, and completions all increased during the second quarter. Manufactured housing shipments were up for the second consecutive quarter following a long downward trend that began after the hurricane-induced sales-order increases of late 2005. Manufactured housing placements, however, were down from the previous quarter.

- During the second quarter of 2010, builders took out permits for new housing at a pace of 589,000 (SAAR) units, which was 10 percent below the first quarter of 2010 but 6 percent higher than the pace for the second quarter of 2009. Single-family building permits were issued for 448,000 (SAAR) housing units, indicating a decrease of 15 percent from the first quarter but an increase of 6 percent from the second quarter of the previous year. Single-family permits have increased in 4 of the past 5 quarters, after having declined for 14 consecutive quarters.

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- Builders started construction on 602,000 (SAAR) new housing units in the second quarter, down 2 percent from the first quarter but up 12 percent from a year earlier. Single-family housing starts totaled 491,000 (SAAR) housing units in the second quarter, down 6 percent from the first quarter but up 16 percent from a year earlier. Single-family starts have risen in 2 of the past 4 quarters, after having fallen for 12 consecutive quarters.
- Builders completed 778,000 (SAAR) new housing units in the second quarter, up 18 percent from the first quarter but down 5 percent from a year earlier. Single-family home completions totaled 582,000 (SAAR) units in the second quarter, up 26 percent from the first quarter and 14 percent from a year earlier. Completions have increased in 3 of the past 4 quarters, after having declined for 14 consecutive quarters.
- Manufactured housing shipments totaled 56,300 (SAAR) units in the second quarter, up 8 percent from the first quarter and 16 percent from the second quarter of the previous year. Onsite placements of manufactured housing reached 45,000 units in the first quarter, down 18 percent from both the previous quarter and a year earlier.

## Marketing of Housing

Trends in the housing marketing sector were mixed in the second quarter of 2010. The number and median sales price of existing homes sold rose but fell for new homes sold. The FHFA and S&P Case-Shiller® repeat sales house price indexes, which are reported with a lag, estimated that house prices were down in the first quarter of 2010 compared with the previous quarter. The average months' supply of homes for sale in the second 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, increased slightly from the previous quarter.

- During the second quarter of 2010, 340,000 (SAAR) new single-family homes were sold, down 6 percent from the 360,000 (SAAR) homes sold in the first quarter and down 8 percent from the second quarter of 2009.
- The NATIONAL ASSOCIATION OF REALTORS® (NAR) reported that 5.607 million (SAAR) existing homes—including single-family, townhomes, condominiums, and co-operatives—were sold in the second quarter, up 9 percent from the first quarter and 17 percent from the second quarter of the previous year. According to a NAR practitio-

ner survey, sales to new homebuyers accounted for 46 percent of all home sales transactions in the second quarter, up from 42 percent in the first quarter.

- The median price of new homes sold in the second quarter was \$210,200, down 6 percent from the first quarter and 5 percent from the second quarter of the previous year. The average price of new homes sold in the second quarter was \$261,800, down 5 percent from the first quarter and 4 percent from a year earlier. A constant-quality house would have sold for \$278,000 in the second quarter, down 1 percent from the first quarter and 3 percent from a year earlier.
- NAR reported that the median price of existing homes sold was \$176,900 in the second quarter, up 6 percent from the first quarter and 1 percent from the second quarter of the previous year. The average price of existing homes sold in the second quarter was \$223,000, up 5 percent from the first quarter and 2 percent from a year earlier. According to a NAR practitioner survey, distressed sales (foreclosures and short sales) represented 32 percent of all home sales in the second quarter, down from 36 percent in the first quarter. Distressed sales prices are typically 15 to 20 percent below normal market prices.
- S&P/Case-Shiller® and the Federal Housing Finance Agency (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 first quarter of 2010 were down 1.3 percent from the previous quarter but up 2.1 percent from a year earlier. The FHFA purchase-only index estimated that (SA) home prices in the first quarter were down 1.9 percent from the previous quarter and were down 3.1 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 second quarter of 2010, the average inventory of new homes for sale was 213,000 units, down 8 percent from the first quarter and 27 percent from second quarter of the previous year. That inventory would support 7.8 months of sales at the current sales pace, up 0.1 month from the first quarter but down 1.7 months from a year earlier. The average inventory of existing homes for sale in the second quarter was 3.971 million units, up 14 percent from the first quarter and 3 percent from the second quarter of the previous year. That inventory



would support 8.5 months of sales at the current sales pace, up 0.4 months from the first quarter but down 1.2 months from a year earlier. Of concern is the “shadow inventory” of homes resulting from 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 decreased in the first quarter of 2010 for all loans but increased for home purchase loans (the data are reported with a lag). Based on loan origination data, the FHA’s dollar volume share of the mortgage market was 15.6 percent in the first quarter, down 0.9 percentage point from the fourth quarter of 2009 and down 3.4 percentage points from the first quarter of 2009. For home purchase loans, the FHA’s dollar volume share was 28.0 percent in the first quarter, up 0.4 percentage point from the fourth quarter and up 3.1 percentage points from the first quarter of 2009. Based on the number of loans originated, the FHA’s share of the mortgage market was 18.6 percent in the first quarter, down 1.1 percentage points from the fourth quarter and 3.6 percentage points from a year earlier. For home purchase loans, the FHA’s share of new mortgage loans was 32.7 percent in the first quarter, up 0.7 percentage point from the fourth quarter and 3.6 percentage points from a year earlier.
- Home builders’ optimism, although still very low, increased in the second quarter of 2010. The NAHB/Wells Fargo composite Housing Market Index was 19 in the second quarter, up 3 points from the first quarter and up 4 points from the second quarter of 2009. The index for expected future sales was down slightly, however, to 25 from 26 points. 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 remains high despite a decline in the second quarter of 2010, as measured by the NAR Housing Affordability Index. The NAR composite index indicates that a family earning the median income had 164.6 percent of the income needed to purchase a median-priced, existing single-family home, using standard lending guidelines. That value is down 6 percent from the first quarter and 5 percent from the second quarter of 2009. The decrease in affordability is attributed to a 7-percent increase in the median price of existing single-family homes sold, which offset a 2-basis-point decrease in mortgage interest rates.

Median family income in the second quarter remained the same as in the previous quarter.

Estimates from MBA’s Quarterly National Delinquency Survey indicate that both the delinquency rate and the rate of loans entering foreclosure for mortgages on 1- to 4-family homes increased during the first quarter of 2010 (the data are reported with a lag). The delinquency rate increased for both prime and subprime loans but decreased for FHA loans. The percentage of newly initiated foreclosures (foreclosure starts) continued to decrease for subprime loans but increased for prime loans. The percentage of mortgage holders seriously delinquent on their mortgages (90 or more days past due or in the foreclosure process) fell in the first quarter for the first time since the third quarter of 2006.

The delinquency rate (SA) for all mortgage loans in the first quarter of 2010 was 10.06 percent, according to the Mortgage Bankers Association, up from 9.47 percent in the fourth quarter of 2009 but down from 9.12 percent a year earlier. The delinquency rate (SA) for prime mortgages was 7.32 percent in the first quarter, up from 6.73 percent in the fourth quarter and 6.06 percent a year earlier. The delinquency rate (SA) for subprime mortgage loans was 27.21 percent in the first quarter, up from 25.26 percent in the fourth quarter and 24.95 percent a year earlier. For FHA loans in the MBA survey, the delinquency rate (SA) was 13.15 percent in the first quarter, down from 13.57 percent in the fourth quarter and 13.84 percent in the first quarter of 2009.

Newly initiated foreclosures represented 1.23 percent of all mortgage loans in the first quarter, up from 1.20 percent in the fourth quarter but down from 1.37 percent a year earlier. Foreclosures started on prime loans reached 0.92 percent in the first quarter, up from 0.86 percent in the fourth quarter but down from 0.94 percent in the first quarter of 2009. Foreclosures started on subprime loans fell for the fourth consecutive quarter to 3.35 percent in the first quarter, down from 3.66 percent in the fourth quarter and 4.65 percent a year earlier. Not all newly initiated foreclosures end in foreclosure completions. 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 41 percent of foreclosures initiated in the third quarter of 2009 were completed in the first quarter of 2010.

The national homeownership rate was 66.9 percent in the second quarter of 2010, down from 67.1 percent in the first quarter and 67.4 percent in the second quarter of 2009. The homeownership rate for minority households decreased to 49.0 percent in the second quarter, down from 49.5 percent in the first quarter and 49.7 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 rising delinquencies. 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) improved in the second quarter of 2010. In the production sector, the number of building permits, starts, and completions all rose. The absorption rate for multifamily units was up in the second quarter, but the rental vacancy rate increased slightly.

- In the second quarter of 2010, builders took out permits for 123,000 (SAAR) new multifamily units, up 12 percent from the first quarter and 10 percent from the second quarter of 2009.
- Builders started construction on 100,000 (SAAR) new multifamily units in the second quarter, up 22 percent from 82,000 units in the first quarter but down 3 percent from 104,000 units a year earlier.

- Builders completed 188,000 (SAAR) multifamily units in the second quarter, up 2 percent from the first quarter but down 36 percent from a year earlier.
- Market absorption of new multifamily units increased in the second quarter of 2010. Of the total number of new apartments completed in the first quarter, 56 percent were leased in the first 3 months after completion. This rate of market absorption is 5 percentage points higher than in the first quarter and 3 percentage points higher than in the second quarter of 2009. The absorption rate of new condos and co-ops completed in the first quarter of 2010 was 42 percent, up 10 percentage points from the fourth quarter of 2009 but the same as the first quarter of 2009.
- The multifamily rental vacancy rate in the second quarter of 2010 was 12.2 percent, up from 12.1 percent in both the first quarter of 2010 and the second quarter of 2009. In comparison, the rental vacancy rate for single-family units was 9.4 percent in the second quarter, down from 9.7 percent in the first quarter and down from 9.9 percent in the second quarter of 2009.