



U.S. Housing Market Conditions

May 2006

SUMMARY

Economic growth in the first quarter of 2006 was significantly greater than the anemic growth performance of the fourth quarter of 2005. The labor situation in the first quarter saw continued job growth and low unemployment. Mortgage interest rates and housing affordability were basically flat in the quarter. Housing market performance was mixed, with production levels setting new records but housing sales declining. Single-family starts and completions both set new records in the first quarter. Sales of new and existing homes declined but were still at very high levels. Some concern that inventories of homes available for sale were too high resulted from the inventory of new homes available for sale being at a record high level and the inventory of existing homes increasing 40 percent in the past year. The homeownership rate declined to 68.5 percent in the first quarter of 2006.

Housing Production

Housing production was very strong in the first quarter of 2006. Totals for building permits, starts, and completions each totaled more than 2.1 million at a seasonally adjusted annual rate (SAAR). Total permits were at the sixth highest level, total starts were at the eighth highest level, and total completions were at the third highest level. Single-family production was even stronger, setting new quarterly records for single-family starts and completions. Single-family permits declined but were still at the fourth highest level. Shipments of manufactured homes declined in the first quarter, but this decline may be the result of the temporarily high level of shipments induced by hurricane-related demand for emergency housing in the fourth quarter of 2005.

- In the first quarter of 2006, builders took out permits for 2,163,000 (SAAR) new housing units, 2.3 percent above the fourth quarter of 2005 and

3.8 percent above the first quarter of 2005. This quarterly level is the sixth highest in the 45-year history of this data series. Single-family permits were issued for 1,636,000 (SAAR) housing units in the first quarter of 2006, down 3.3 percent from the fourth quarter of 2005 but up 2.0 percent from the first quarter of 2005. Even with the decline from the fourth quarter, this quarterly value is the fourth highest reported for single-family permits.

- Construction was started on 2,131,000 (SAAR) new housing units in the first quarter of 2006, up 3.5 percent from the fourth quarter of 2005 and up 2.3 percent from the first quarter of 2005. This quarterly figure is the eighth highest reported for this data series. Single-family starts equaled 1,749,000 (SAAR) units in the first quarter of 2006, up 1.9 percent from the fourth quarter of 2005 and up 2.3 percent from the first quarter of 2005, setting a new quarterly record.

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- In the first quarter of 2006, construction was completed on 2,112,000 (SAAR) new homes, up 9.2 percent from the fourth quarter of 2005 and up 13.1 percent from the first quarter of 2005. This level of quarterly completions is the third highest recorded and the highest since the first two quarters of 1973. Single-family completions were 1,760,000 in the first quarter of 2006, up 8.1 percent from the fourth quarter of 2005 and up 11.6 percent from the first quarter of 2005. This quarter marked a new record for single-family completions.
- Manufacturers shipped 149,000 (SAAR) new manufactured homes in the first quarter of 2006, down 22.4 percent from the fourth quarter of 2005 but up 8.8 percent from the fourth quarter of 2005. The large fourth quarter value was most likely due to hurricane-related orders for emergency housing.

Housing Marketing

Sales of both new and existing homes declined in the first quarter of 2006. Even with these declines, however, new homes sales were at the 10th highest quarterly value and existing home sales were at the 7th highest level. Prices were somewhat mixed. Both new and existing home prices increased from the fourth quarter of 2005, but new home prices were unchanged from the first quarter of 2005 and existing home prices increased nearly 10 percent from the first quarter of 2005. Inventories were increasing as the inventory of new homes available for sale at the end of the first quarter of 2006 increased 24 percent from a year earlier, setting a new record, and the inventory of existing homes available for sale increased nearly 40 percent from a year earlier. Builders, who were less optimistic in the first quarter, showed their concern across current sales expectations, future sales expectations, and prospective buyer traffic.

- During the first quarter of 2006, builders sold 1,159,000 (SAAR) new single-family homes, down 9.7 percent from the fourth quarter of 2005 and down 7.3 percent from the first quarter of 2005. Even with this decline, new home sales for the first quarter were at the 10th highest level in the 43-year history of this data series.
- REALTORS® sold 6,797,000 (SAAR) existing homes in the first quarter of 2006, down 2.1

percent from both the fourth and first quarters of 2005. Because both 2005 quarters were part of a record-setting year, the decline in 2006 was from a very high level and the first quarter value was still the seventh highest in the 38-year history of this data series.

- The median price for new homes sold in the first quarter of 2006 was \$232,500, down 4.6 percent from the fourth quarter of 2005 but unchanged from the first quarter of 2005. The average sales price declined 1.4 percent from the fourth quarter of 2005 but increased 0.6 percent from the first quarter of 2005 to \$290,100. The price of a constant-quality new home was estimated to be \$262,600 in the first quarter of 2006, up 1.1 percent from the fourth quarter of 2005 and up 6.0 percent from the first quarter of 2005.
- Existing homes sold during the first quarter of 2006 had a median price of \$218,700, down 2.9 percent from the fourth quarter of 2005 but up 9.5 percent from the first quarter of 2005. The average price was \$266,000, down 1.7 percent from the fourth quarter of 2005 but up 6.4 percent from the first quarter of 2005.
- At the end of the first quarter of 2006, the inventory of new homes available for sale was 555,000, up 8.8 percent from the fourth quarter of 2005 and up 24.4 percent from the first quarter of 2005. This inventory of new homes available for sale is the highest since this data series began in 1963 and would support 5.5 months of sales at the current sales pace, up 0.7 month from the end of the fourth quarter of 2005 and up 1.3 months from the end of the first quarter of 2005. The inventory of existing homes available for sale was 3,194,000 at the end of the first quarter of 2006, up 12.2 percent from the fourth quarter of 2005 and up 39.1 percent from the first quarter of 2005. This record-setting inventory would support 5.5 months of sales at the current sales pace, up 0.4 month from the fourth quarter of 2005 and up 1.5 months from the first quarter of 2005.
- Homebuilders were less optimistic in the first quarter of 2006 than they were in the fourth quarter of 2005, according to the National Association of Home Builders/Wells Fargo composite Housing Market Index. The index was 56 in the first quarter, down 6 index points from the fourth quarter of 2005 and down 14 index points from the first quarter of 2005. All three components of the composite index declined—



current sales expectations were down 7 points, future sales expectations were down 4 points, and prospective buyer traffic was down 6 points.

Affordability and Interest Rates

In the first quarter of 2006, the interest rate for 30-year, fixed-rate mortgages averaged 6.24 percent, up 2 basis points from the fourth quarter of 2005 and up 48 basis points from the first quarter of 2005. The first quarter value of 6.24 percent is the 14th lowest ever reported by the Freddie Mac Primary Mortgage Market Survey since it began reporting this data in 1971. Housing affordability improved slightly from the past quarter but worsened significantly from the first quarter of 2005 according to the index published by the NATIONAL ASSOCIATION OF REALTORS®. The composite index indicates that in the first quarter of 2006 the family earning the median income (\$58,634) had 112.1 percent of the income needed to purchase the median-priced (\$217,900) existing home using standard lending guidelines. This value is up 2.5 points from the fourth quarter of 2005 but down 14.9 points from the first quarter of 2005. This slight improvement in the first quarter is attributable to a 3.3-percent decline in the median house price and an increase of 0.9 percent in median family income, more than offsetting the 20-basis-point increase in the interest rate. The decline from the first quarter of 2005 was caused by a 10.3-percent increase in the median house price and a 63-basis-point increase in the mortgage interest rate, offsetting the 4.1-percent increase in the median family income. This decline in affordability most likely contributed to the decline in homeownership. The national homeownership rate in the first quarter of 2006 was 68.5 percent, down 0.5 percentage point from the fourth quarter of 2005 and down 0.6 percentage point from the first quarter of 2005.

Multifamily Housing

The multifamily (5+ units) sector is improving. At the end of the first quarter of 2006, all production indicators were positive, absorption of new rental units was above recent record lows, and the annual vacancy rate had declined from recent record highs.

- In the first quarter of 2006, builders took out building permits for 435,000 (SAAR) new multifamily units, up 27.9 percent from the fourth quarter of 2005 and up 9.9 percent from the first quarter of 2005.
- Builders started construction on 349,000 (SAAR) new multifamily units in the first quarter of 2006, up 13.3 percent from the fourth quarter of 2005 and up 6.1 percent from the first quarter of 2005.
- Builders completed 298,000 (SAAR) new multifamily units in the first quarter of 2006, up 8.4 percent from the fourth quarter of 2005 and up 20.2 percent from the first quarter of 2005.
- The rental vacancy rate in the first quarter of 2006 was 9.5 percent, down 0.1 percentage point from the fourth quarter of 2005 and down 0.6 percentage point from the first quarter of 2005. The record high quarterly vacancy rate was 10.4 percent set in the first quarter of 2004.
- Market absorption of new rental apartments was unchanged in the first quarter of 2006. Of new apartments completed in the fourth quarter of 2005, 64 percent were leased or absorbed in the first 3 months following completion. Although absorption rate is historically low, it is considerably above the all-time low of 56 percent experienced in the fourth quarters of 2003, 2002, and 2001.