



# U.S. Housing Market Conditions

May 2007

## SUMMARY

Economic growth in the first quarter of 2007 was significantly lower than growth performance of the fourth quarter of 2006. The labor situation in the first quarter saw continued job growth and low unemployment. Mortgage interest rates remain close to 6 percent and actually declined slightly in the first quarter of 2007. Housing affordability improved as sales prices of existing homes slipped. Housing market performance was weak in the first quarter of 2007, with falling production levels and weak new home sales. Inventories of new and existing homes available for sale are at very high levels, with enough houses available to last more than 7 months. The homeownership rate declined to 68.4 percent in the first quarter of 2007.

## Housing Production

Housing production was off in the first quarter of 2007, especially when compared with the first quarter of 2006. Single-family building permits, starts, and completions were down 4 to 10 percent from the fourth quarter of 2006 and down 21 to 33 percent from the first quarter of 2006. The numbers of permits, starts, and completions have declined for four or more consecutive quarters. Shipments of manufactured homes declined in the first quarter and remained below the 100,000-unit annual rate.

- In the first quarter of 2007, builders took out permits for 1,556,000 (SAAR) new housing units, down 0.3 percent from the fourth quarter of 2006 and down 27.4 percent from the first quarter of 2006. Single-family building permits were issued for 1,118,000 (SAAR) housing units in the first quarter of 2007, down 4.1 percent from the fourth quarter of 2006 and down 30.7 percent from the first quarter of 2006. Both total and single-family permits have declined for six consecutive quarters.

- Construction was started on 1,474,000 (SAAR) new housing units in the first quarter of 2007, down 5.4 percent from the fourth quarter of 2006 and down 30.6 percent from the first quarter of 2006. Single-family housing starts equaled 1,177,000 (SAAR) units in the first quarter of 2007, down 4.6 percent from the fourth quarter of 2006 and down 32.6 percent from the first quarter of 2006. Both total and single-family starts have declined for four consecutive quarters.
- In the first quarter of 2007, construction was completed on 1,702,000 (SAAR) new homes, down 10.8 percent from the fourth quarter of 2006 and down 18.8 percent from the first quarter of 2006. Single-family housing completions were 1,378,000 in the first quarter of 2007, down 10.3 percent from the fourth quarter of 2006 and down 21.2 percent from the first quarter of 2006. Both total and single-family completions have declined for four consecutive quarters.
- Manufacturers shipped 94,000 (SAAR) new manufactured homes in the first quarter of 2007, down 3.8 percent from the fourth quarter of 2006 and down 36.4 percent from the fourth quarter of 2006.

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## Housing Marketing

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Sales of new homes declined in the first quarter of 2007 while sales of existing homes increased slightly. Sales prices were mixed. New home sales prices increased from those recorded during the first and fourth quarters of 2006, but existing home prices decreased from those in the first and fourth quarters of 2006. Inventories of new and existing homes available for sale at the end of the first quarter of 2007 remain at high levels, especially relative to current sales volume. Builders were slightly more optimistic overall in the first quarter regarding current sales expectations, future sales expectations, and prospective buyer traffic.

- During the first quarter of 2007, builders sold 856,000 (SAAR) new single-family homes, down 13.7 percent from the fourth quarter of 2006 and down 23.0 percent from the first quarter of 2006. This level of sales is the lowest quarterly value since the second quarter of 2000 and the seventh consecutive quarterly decline.
- REALTORS® sold 6,413,000 (SAAR) existing homes in the first quarter of 2007, up 2.4 percent from the fourth quarter but down 6.6 percent from the first quarter of 2006.
- The median sales price for new homes sold in the first quarter of 2007 was \$252,200, up 2.8 percent from the fourth quarter of 2006 and up 1.8 percent from the first quarter of 2006. The average sales price increased 7.6 percent from the fourth quarter of 2006 and increased 5.6 percent from the first quarter of 2006 to \$322,400. The price of a constant-quality new home was estimated to be \$275,200 in the first quarter of 2007, up 2.5 percent from the fourth quarter of 2006 and up 5.0 percent from the first quarter of 2006.
- Existing homes sold during the first quarter of 2007 had a median price of \$213,800, down 2.5 percent from the fourth quarter of 2006 and down 1.7 percent from the first quarter of 2006. The average price was \$260,300, down 2.1 percent from the fourth quarter of 2006 and down 1.7 percent from the first quarter of 2006.
- At the end of the first quarter of 2007, the inventory of new homes available for sale was 545,000, up 1.7 percent from the fourth quarter of 2006 but down 1.4 percent from the first quarter of 2006. This inventory, the fourth highest since this data series began in 1963, would support

7.8 months of sales at the current sales pace, up 1.6 months from the end of the fourth quarter of 2006 and up 1.7 months from the end of the first quarter of 2006. The inventory of existing homes available for sale was 3,745,000 at the end of the first quarter of 2007, up 8.6 percent from the fourth quarter of 2006 and up 17.1 percent from the first quarter of 2006. This inventory would support 7.3 months of sales at the current sales pace, up 0.7 month from the fourth quarter of 2006 and up 1.7 months from the first quarter of 2006.

- Home builders were more optimistic in the first quarter of 2007 than they were in the fourth quarter of 2006 but were still less optimistic than they were a year earlier, according to the National Association of Home Builders/Wells Fargo composite Housing Market Index. The index was 37 in the first quarter, up 5 index points from the fourth quarter of 2006 but down 19 index points from the first quarter of 2006. All three components of the composite index improved—current sales expectations were up 4 points, future sales expectations were up 5 points, and prospective buyer traffic was up 4 points.

## Affordability and Interest Rates

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In the first quarter of 2007, the interest rate for 30-year, fixed-rate mortgages averaged 6.22 percent, down 3 basis points from the fourth quarter of 2006 and down 2 basis points from the first quarter of 2006. The first quarter value of 6.22 percent is the 13th lowest value 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 and from the first quarter of 2006, according to the index published by the NATIONAL ASSOCIATION OF REALTORS®. The composite index indicates that, in the first quarter of 2007, the family earning the median income (\$58,615) had 114.7 percent of the income needed to purchase the median-priced (\$212,300) existing home, using standard lending guidelines. This value is up 5.2 points from the fourth quarter of 2006 and up 4.9 points from the first quarter of 2006. This slight improvement in the first quarter is attributable to a 3.1-percent decline in the median house price, an increase of 0.6 percent in the median family income, and a 10-basis-point decrease in the interest rate. The improvement from the first quarter of 2006 resulted from a 1.7-percent decrease in the median house price, a



5-basis-point decrease in the mortgage interest rate, and a 3.0-percent increase in the median family income. Despite this improvement in affordability, homeownership declined. The national homeownership rate in the first quarter of 2007 was 68.4 percent, down 0.5 percentage point from the fourth quarter of 2006 and down 0.1 percentage point from the first quarter of 2006.

## Multifamily Housing

The multifamily (5+ units) sector was mixed in the first quarter of 2007. The issuance of building permits increased while starts and completions declined. The absorption of new rental units was near the record low set in the previous quarter, and the vacancy rate increased to near the historical high of 10.4 percent.

- In the first quarter of 2007, builders took out building permits for 365,000 (SAAR) new multifamily units, up 12.1 percent from the fourth quarter of 2006 but down 16.6 percent from the first quarter of 2006.
- Builders started construction on 267,000 (SAAR) new multifamily units in the first quarter of 2007, down 7.5 percent from the fourth quarter of 2006 and down 22.3 percent from the first quarter of 2006.
- Builders completed 287,000 (SAAR) new multifamily units in the first quarter of 2007, down 9.6 percent from the fourth quarter of 2006 and down 1.1 percent from the first quarter of 2006.
- The rental vacancy rate in the first quarter of 2007 was 10.1 percent, up 0.3 percentage point from the fourth quarter of 2006 and up 0.6 percentage point from the first quarter of 2006. The record-high quarterly vacancy rate of 10.4 percent was set in the first quarter of 2004.
- Market absorption of new rental apartments improved in the first quarter of 2007. Of the 33,000 new apartments completed in the fourth quarter of 2006, 57 percent were leased or absorbed within the first 3 months following completion. This absorption rate is historically low, and nearly equal to the all-time low of 52 percent recorded in the third quarter 2006.