



U.S. Housing Market Conditions

May 2008

SUMMARY

The housing market performed very poorly during the first quarter of 2008, continuing 2 years of decline. The number of single-family building permits, starts, and completions all declined in the first quarter, and new and existing home sales decreased as well. Excessive inventories of both new and existing homes amounted to nearly 10 months' supply. The multifamily sector was somewhat mixed: permits and starts decreased, but completions increased. The subprime meltdown continues, with foreclosure rates on subprime adjustable-rate mortgages (ARMs) doubling over the past year. On the rental side, the vacancy rate increased, but the absorption rate showed some improvement. The overall economy posted a Gross Domestic Product (GDP) growth rate of only 0.6 percent in the first quarter of 2008. The housing component of GDP decreased by 26.7 percent, which reduced GDP growth by 1.2 percentage points.

Housing Production

All housing production indicators declined in the first quarter of 2008, as they did in the past several quarters. During the past 2 years, housing production has experienced eight or more consecutive quarterly declines in the number of new building permits issued, units started, and units completed. The manufactured housing market has posted nearly continuous declines since the hurricane-induced orders of late 2005.

- During the first quarter of 2008, builders took out permits for new housing at a seasonally adjusted annual rate (SAAR) of 991,000, down 12.9 percent from the fourth quarter of 2007 and down 36.4 percent from the first quarter of last year. This drop is the 10th consecutive quarterly decline for total permits, bringing permits to the lowest level in 17 years. Single-family permits were issued for 649,000 (SAAR) housing units, a decrease of 14.6 percent from the fourth quarter

of 2007 and a decrease of 42.0 percent from the first quarter. This decrease is the 10th consecutive quarterly decline for single-family permits and represents the lowest level of single-family permits in 26 years.

- Builders started construction on 1,035,000 (SAAR) new housing units in the first quarter of 2008, down 10.1 percent from the fourth quarter of 2007 and down 29.1 percent from the first quarter of last year. Single-family housing starts totaled 722,000 (SAAR) housing units, down 12.5 percent from the fourth quarter of 2007 and down 38.4 percent from the first quarter of a year ago. This drop is the eighth consecutive quarterly decline for single-family starts. Total starts and single-family starts have not been this low in the past 17 years.
- Builders completed 1,267,000 (SAAR) new housing units in the first quarter of 2008, down 8.3 percent from the fourth quarter of 2007 and down 25.0 percent from the first quarter of 2007. The number of completions has declined for eight consecutive quarters. Single-family completions totaled 952,000 (SAAR) in the first quarter of 2008,

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down 13.7 percent from the fourth quarter and down 30.4 percent from the first quarter of 2007, reflecting the eighth consecutive quarterly decline for single-family completions. Single-family completions currently are at the lowest level since the fourth quarter of 1991.

- Manufactured housing shipments continued at very low levels. In the first quarter of 2008, manufacturers shipped 91,000 (SAAR) housing units, down 1.8 percent from the fourth quarter and down 2.8 percent from the first quarter of 2007.

Housing Marketing

Housing sales and marketing continued downward in the first quarter of 2008. Sales of new homes declined, as they had in the past 10 quarters. Existing home sales fell for the fourth consecutive quarter. Median sales prices for new and existing homes declined in the first quarter, as did average prices. The inventories of new and existing homes available for sale at the end of the first quarter were high enough to last for the next 10 to 11 months at the current sales rates. The nearly continuous drop in new home sales is the likely source of pessimism among builders as measured by the National Association of Home Builders/Wells Fargo Housing Market Index, which recorded the second lowest value in the 22-year history of the index.

- In the first quarter of 2008, 569,000 (SAAR) new single-family homes were sold, down 13.1 percent from the 655,000 (SAAR) homes sold in the fourth quarter of 2007 and down 33.3 percent from the first quarter of 2007. This is the lowest monthly estimate since the second quarter of 1992.
- REALTORS® sold 4,950,000 (SAAR) existing single-family homes in the first quarter of 2008, down 0.9 percent from the fourth quarter of 2007 and down 22.2 percent from the first quarter of last year. This drop is the fourth consecutive quarterly decline in the number of existing single-family homes sold.
- The median price of new homes sold in the first quarter of 2008 was \$234,100, down 1.8 percent from the fourth quarter of 2007 and down 9.1 percent from the first quarter a year ago. The average price for new homes sold in the first quarter was \$293,100, down 4.2 percent from the fourth quarter of 2007 and down 9.0 percent from the first quarter of 2007. A constant-quality house would have sold for \$294,000 in the first quarter of 2008, down 3.0 percent from the fourth quarter of 2007 and down 7.7 percent from the first quarter of last year.
- The NATIONAL ASSOCIATION OF REALTORS® reported that the median price for existing homes was \$198,700 in the first quarter of 2008, down 4.3 percent from the fourth quarter of 2007 and down 7.1 percent from the first quarter of 2007. The average price for existing homes in the first quarter of 2008 was \$245,100, down 3.9 percent from the fourth quarter of 2007 and down 6.0 percent from the first quarter a year ago.
- At the end of the first quarter of 2008, 468,000 new homes were in the unsold inventory, down 5.3 percent from the end of the fourth quarter of 2007 and down 14.6 percent from the end of the first quarter of 2007. This inventory will support 11.0 months of sales at the current sales pace, up 1.6 months from the end of the fourth quarter and up 2.7 months from the end of the first quarter of 2007. The inventory of existing homes available for sale at the end of the first quarter of 2008 consisted of 4,058,000 homes, up 2.1 percent from the end of the fourth quarter and up 6.6 percent from the end of the first quarter of 2007. This inventory would last for 9.9 months at the current sales rate, up 0.2 month from the end of the fourth quarter of 2007 and up 2.4 months from the end of the first quarter of last year.
- Home builders were slightly more optimistic in the first quarter of 2008. The National Association of Home Builders/Wells Fargo composite Housing Market Index was 20 in the first quarter of 2008, up 1.2 index points from the fourth quarter of 2007 but down 15.3 index points from the first quarter of 2007. This value is the second lowest quarterly value in the 22-year history of the series. The index is based on three components—current sales expectations, future sales expectations, and prospective buyer traffic—all of which increased slightly in the first quarter.



Affordability and Interest Rates

Housing affordability improved in the first quarter of 2008, according to the index published by the NATIONAL ASSOCIATION OF REALTORS®. The composite index indicates that the family earning the median income had 132.3 percent of the income needed to purchase the median-priced, existing single-family home using standard lending guidelines. This value is up 11.5 points from the fourth quarter of 2007 and up 17.8 points from the first quarter of 2007. The increase from the fourth quarter is attributable to a decline (4.6 percent) in the median price of an existing single-family home, an increase (0.2 percent) in median family income, and a 40-basis-point decrease in the mortgage interest rate. The first quarter homeownership rate was 67.8 percent, unchanged from the fourth quarter 2007 rate but 0.6 percentage point below the rate of the first quarter of 2007.

Multifamily Housing

The multifamily (five or more units) sector performed better than the single-family sector did in the first quarter of 2008. Production indicators were mixed; building permits and starts decreased, but completions increased. The absorption of new rental units improved, but the rental vacancy rate increased.

- In the first quarter of 2008, builders took out permits for 302,000 new multifamily units, down 8.0 percent from the fourth quarter of 2007 and down 17.7 percent from the first quarter of 2007.
- Construction was started on 288,000 new multifamily units in the first quarter of 2008, down 4.3 percent from the fourth quarter of 2007 but up 11.5 percent from the first quarter of last year.
- Builders completed 287,000 units in the first quarter of 2008, up 12.9 percent from the fourth quarter of 2007 and up 0.2 percent from the first quarter of a year ago.
- The rental vacancy rate in the first quarter of 2008 was 10.1 percent, up 0.5 percentage point from the fourth quarter of 2007 but unchanged from the first quarter of 2007.
- Market absorption of new rental apartments improved, with 57 percent of new apartments completed in the fourth quarter of 2007 leased or absorbed in the first 3 months following completion. This absorption rate is up 3 percentage points from both the third quarter of 2007 and the fourth quarter of 2006.