



# U.S. Housing Market Conditions

May 2009

## SUMMARY

Housing market conditions continued their downward slide in the first quarter of 2009, after most indicators peaked during 2005 or 2006. In the production sector, the numbers of single-family building permits, starts, and completions all declined. In the marketing sector, sales of new and existing homes weakened. Excessive inventories of both new and existing homes remain, enough to last an average of 11.5 months for new homes and 9.7 months for existing homes at the current sales rates. The percentage of foreclosure starts for all mortgage loans in the fourth quarter of 2008 (the data are reported with a lag) has been virtually the same since the second quarter of 2008, when the rate of new foreclosures set a record. In the subprime segment of the mortgage market, where the crisis began, the foreclosure start rate was down 6 percent on all subprime mortgage loans and down 11 percent on subprime adjustable-rate mortgage loans. The multifamily sector also declined in the first quarter of 2009, with the numbers of permits, starts, and completions all shrinking. Conditions in the rental housing market softened. During the first quarter of 2009, the rate of apartment absorptions fell and the vacancy rate remained high, albeit steady. According to the Bureau of Economic Analysis, the advance estimate of overall growth in the national economy was a decline of 6.1 percent at a seasonally adjusted annual rate (SAAR) in the first quarter of 2009, a slightly slower pace of contraction than the 6.3-percent decline recorded in the fourth quarter of 2008. The housing component of Gross Domestic Product (GDP) fell 38.0 percent in the first quarter of 2009 compared with a decline of 22.8 percent in the previous quarter and contributed a 1.36-percentage-point reduction in the growth of real GDP. The Census Bureau estimates that the number of U.S. households declined by 486,000 in the first quarter of 2009, more than twice the fairly substantial decline in the first quarter of 2007, after the start of the subprime meltdown. The recent decline in the number of households reflects the effects of the recession and the foreclosure crisis on the formation of new households and the maintenance of existing households.

## Housing Production

All housing production indicators declined in the first quarter of 2009. The numbers of housing permits, starts, and completions all fell in the first quarter, although permits and starts reflected declines that were less steep than those recorded in the fourth quarter of 2008. Manufactured housing continued a downward trend that began after the hurricane-induced orders of late 2005.

- During the first quarter of 2009, builders took out permits for new housing at a pace of 537,000 (SAAR) units, down 15 percent from the fourth quarter of 2008 and 46 percent from the first quarter of 2008. Single-family permits were issued for 363,000 (SAAR) housing units in the first quarter of 2009, a decrease of 13 percent from the fourth quarter of 2008 and 44 percent from the first quarter of 2008. This drop is the 14th consecutive quarterly decline for single-family permits.
- Builders started construction on 523,000 (SAAR) new housing units in the first quarter of 2009, down 21 percent from the fourth quarter of 2008 and 50 percent from the first quarter of 2008. Single-family housing starts totaled 357,000 (SAAR) housing units, down 23 percent from the fourth quarter of 2008 and 51 percent from the first quarter of 2008. This drop is the 12th consecutive quarterly decline for single-family starts.

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- Builders completed 798,000 (SAAR) new housing units in the first quarter of 2009, down 24 percent from the fourth quarter of 2008 and 37 percent from the first quarter of 2008. Single-family completions totaled 545,000 (SAAR) in the first quarter of 2009, down 26 percent from the fourth quarter of 2008 and 42 percent from the first quarter of 2008. The reduction is the 12th consecutive quarterly decline for this indicator.
- Manufactured housing shipments reached a new record low of 51,000 (SAAR) units in the first quarter of 2009, the lowest level since the series began in 1959. Manufacturers' shipments were down 23 percent from the fourth quarter of 2008 and 44 percent from the first quarter of 2008.

## Housing Marketing

The number of new and existing homes sold and the median and average sales prices for these homes all fell in the first quarter of 2009. Sales of new homes have declined for the past 14 quarters. During the first quarter of 2009, inventories of new and existing homes available for sale declined, but months' supply, while also dropping slightly, remained elevated compared with previous quarters. The nearly continuous drop in new home sales and prices and the still-high supply of homes for sale caused builders' confidence, as measured by the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index, to fall again in the first quarter of 2009 and reach a record low level.

- During the first quarter of 2009, 348,000 (SAAR) new single-family homes were sold, down 10 percent from the 388,000 (SAAR) homes sold in the fourth quarter of 2008 and down 38 percent from the first quarter of 2008.
- REALTORS® sold 4,590,000 (SAAR) existing single-family homes in the first quarter of 2009, down 3 percent from the fourth quarter of 2008 and 7 percent from the first quarter of 2008.
- The median price of new homes sold in the first quarter of 2009 was \$205,600, down 8 percent from the fourth quarter of 2008 and 12 percent from the first quarter of 2008. The average price of new homes sold in the first quarter of 2009 was \$252,200, down 9 percent from the fourth quarter of 2008 and 13 percent from the first quarter of 2008. A constant-quality house would have sold for \$271,200 in the first quarter of 2009, down 4 percent from the fourth quarter of 2008 and 8 percent from the first quarter of 2008.
- The NATIONAL ASSOCIATION OF REALTORS® (NAR®) reported that the median price of existing

homes sold was \$169,400 in the first quarter of 2009, down 6 percent from the fourth quarter of 2008 and 15 percent from the first quarter of 2008. The average price of existing homes sold in the first quarter of 2009 was \$219,900, down 2 percent from the fourth quarter of 2008 and 10 percent from the first quarter of 2008.

- During the first quarter of 2009, the average inventory of new homes for sale was 326,000 units, down 11 percent from the fourth quarter of 2008 and 32 percent from the first quarter of 2008. This inventory would support 11.5 months of sales at the current sales pace, down 0.1 month from the fourth quarter of 2008 but up 1.3 months from the first quarter of 2008. The average inventory of existing homes available for sale during the first quarter of 2009 consisted of 3,715,000 homes, down 8 percent from the fourth quarter of 2008 and 9 percent from the first quarter of 2008. This inventory would last for 9.7 months at the current sales rate, down 0.5 month from the fourth quarter of 2008 and 0.3 month from the first quarter of 2008.
- The Federal Housing Administration (FHA) continues to account for a large share of the mortgage insurance market. FHA mortgage insurance endorsements were issued for 430,800 mortgages in the first quarter of 2009, down 1 percent from the fourth quarter of 2008 but up 81 percent from the first quarter of 2008. Private mortgage insurers issued 165,300 policies in the first quarter of 2009, up 40 percent from the fourth quarter of 2008 but down 59 percent from the first quarter of 2008.
- Home builders were more pessimistic in the first quarter of 2009. The NAHB/Wells Fargo composite Housing Market Index slid to 9 in the first quarter of 2009, down 2 points from the fourth quarter of 2008 and 11 points from the first quarter of 2008. The index is based on three components—current sales expectations, future sales expectations, and prospective buyer traffic—and ranges from 0 to 100. Prospective buyer traffic was the only component to increase in the first quarter of 2009.

## Affordability, Homeownership, and Foreclosures

Housing affordability increased in the first quarter of 2009, according to the NAR® Housing Affordability Index. The composite index for the first quarter suggests that a family earning the median income had 172.7 percent of the income needed to purchase the median-priced, existing single-family home using standard lending guidelines. This value is up 24.7 percentage points from the fourth quarter of 2008 and 34.4 percentage points from the first quarter of 2008. The



increase in affordability is attributed to a 6-percent decrease in the median price of existing single-family homes sold and an 87-basis-point decrease in mortgage interest rates, which more than offset the negative impact of a 0.4-percent decline in median family income.

The delinquency rate on all mortgage loans in the fourth quarter of 2008 (the data are reported with a lag) was at its highest level since the series began in 1972, according to the Mortgage Bankers Association. In addition, the foreclosure start rate on all mortgages has remained steady since the second quarter of 2008, when it set a record. The delinquency rate on subprime mortgages increased in the fourth quarter of 2008, while the foreclosure start rate on subprime mortgages continued to decline. The delinquency rate for all mortgage loans was 7.88 percent in the fourth quarter of 2008, up from 6.99 percent in the third quarter and 5.82 percent in the fourth quarter of 2007. The delinquency rate for subprime mortgage loans was 21.88 percent in the fourth quarter of 2008, up from 20.03 percent in the third quarter and 17.31 percent in the fourth quarter of 2007. Foreclosures started on all mortgage loans were at 1.08 percent in the fourth quarter of 2008, virtually the same as the 1.07 percentage recorded in the third quarter but up 20 basis points from 0.88 in the fourth quarter of 2007. Foreclosures started on subprime loans decreased to 3.96 percent in the fourth quarter of 2008, down from 4.23 percent in the third quarter but up 25 basis points from 3.71 percent in the fourth quarter of 2007. Not all foreclosure starts end in foreclosure. The average lag between a foreclosure start and a completed foreclosure is approximately 6 months.

The first quarter 2009 homeownership rate was 67.3 percent, down 20 basis points from 67.5 percent in the fourth quarter of 2008 and down 50 basis points from the first quarter rate of 2008. The decline in homeownership reflects the high rate of foreclosures and a reduction in home purchases resulting from the recession that began in December 2007.

## Multifamily Housing

Performance in the multifamily (five or more units) housing sector was mostly negative in the first quarter of 2009. In the production sector, the numbers of building permits, starts, and completions all decreased. The absorption rate of new rental units fell during the first quarter, and the rental vacancy rate remained relatively high but steady.

- In the first quarter of 2009, builders took out permits for 154,000 (SAAR) new multifamily units, down 20 percent from the fourth quarter of 2008 and down 49 percent from the first quarter of 2008.
- Construction was started on 146,000 (SAAR) new multifamily units in the first quarter of 2009, down 22 percent from the fourth quarter of 2008 and 52 percent from the first quarter of 2008.
- Builders completed 242,000 (SAAR) multifamily units in the first quarter of 2009, down 20 percent from the fourth quarter of 2008 and 17 percent from the first quarter of 2008.
- Market absorption of new rental apartments decreased in the first quarter of 2009. Of the total number of new apartments completed in the fourth quarter of 2008, 50 percent were leased in the first 3 months following completion. This absorption rate is down 5 percentage points from the fourth quarter of 2008 and 7 percentage points from the first quarter of 2008.
- The rental vacancy rate in the first quarter of 2009 was 10.1 percent, the same rate as that recorded in both the previous quarter and the first quarter of 2008.