



U.S. Housing Market Conditions

August 2007

SUMMARY

Economic growth in the second quarter of 2007 was significantly higher than in the first quarter of 2007. The labor situation in the second quarter saw continued job growth and low unemployment. Housing affordability worsened as sales prices of existing homes increased and mortgage interest rates increased. Housing market performance was weak in the second quarter of 2007, with generally falling production levels and weak existing home sales. The exceptions are the increase in new home sales and the slight increase in housing starts. Inventories of new and existing homes available for sale continue at very high levels, with enough houses available to last nearly 8 months. The homeownership rate declined to 68.2 percent in the second quarter of 2007.

Housing Production

Almost all housing production indicators were negative in the second quarter of 2007, especially when compared with the second quarter of 2006. Single-family building permits and completions were down 6 to 10 percent from the first quarter of 2007 and down 24 to 28 percent from the second quarter of 2006. Some positive news for home construction was that starts were nearly unchanged. The numbers of permits, starts, and completions have declined for five or more consecutive quarters. Shipments of manufactured homes increased in the second quarter and are now at the 100,000-unit annual rate.

- In the second quarter of 2007, builders took out permits for 1,463,000 (SAAR) new housing units, down 6.1 percent from the first quarter of 2007 and down 24.1 percent from the second quarter of 2006. Single-family building permits were issued for 1,052,000 (SAAR) housing units in the second quarter of 2007, down 6.0 percent from the first quarter of 2007 and down 27.5 percent

from the second quarter of 2006. Both total and single-family permits have declined for seven consecutive quarters.

- Construction was started on 1,462,000 (SAAR) new housing units in the second quarter of 2007, up 0.1 percent from the first quarter of 2007 but down 21.5 percent from the second quarter of 2006. Single-family housing starts equaled 1,166,000 (SAAR) units in the second quarter of 2007, down 0.5 percent from the first quarter of 2007 and down 23.3 percent from the second quarter of 2006. Both total and single-family starts have declined for five consecutive quarters.
- In the second quarter of 2007, construction was completed on 1,519,000 (SAAR) new homes, down 10.1 percent from the first quarter of 2007 and down 24.1 percent from the second quarter of 2006. Single-family housing completions were 1,265,000 in the second quarter of 2007, down 7.5 percent from the first quarter of 2007 and down 25.4 percent from the second quarter of 2006. These figures indicate the fifth consecutive quarterly declines for both total and single-family completions.

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- Manufacturers shipped 100,000 (SAAR) new manufactured homes in the second quarter of 2007, up 6.0 percent from the first quarter of 2007 but down 18.1 percent from the second quarter of 2006.

Housing Marketing

Sales of new homes increased in the second quarter of 2007 and inventories of new homes available for sale improved. Prices of existing homes increased. All other housing marketing indicators posted declines from the first quarter. New home sales prices decreased from those recorded during the first quarter of 2007 and the second quarter of 2006.

Inventories of existing homes available for sale at the end of the second quarter of 2007 increased to nearly 9 months of sales. Builders were pessimistic in the second quarter regarding current sales expectations, future sales expectations, and prospective buyer traffic. In fact, the last time they were reporting such negative attitudes was in 1991.

- During the second quarter of 2007, builders sold 880,000 (SAAR) new single-family homes, up 3.1 percent from the first quarter of 2007 but down 18.9 percent from the second quarter of 2006. This is the first increase after six consecutive quarterly declines.
- REALTORS® sold 5,913,000 (SAAR) existing homes in the second quarter of 2007, down 7.9 percent from the first quarter of 2007 and down 10.8 percent from the second quarter of 2006.
- The median sales price for new homes sold in the second quarter of 2007 was \$240,500, down 6.6 percent from the first quarter of 2007 and down 2.4 percent from the second quarter of 2006. The average sales price decreased 3.8 percent from the first quarter of 2007 but increased 2.4 percent from the second quarter of 2006 to \$310,000. The price of a constant-quality new home was estimated to be \$267,200 in the second quarter of 2007, down 2.4 percent from the first quarter of 2007 but up 0.6 percent from the second quarter of 2006.
- Existing homes sold during the second quarter of 2007 had a median price of \$224,200, up 4.8 percent from the first quarter of 2007 but down 1.1 percent from the second quarter of 2006. The average price was \$271,800, up 4.2 percent from the first quarter of 2007 but down 0.4 percent from the second quarter of 2006.

- At the end of the second quarter of 2007, the inventory of new homes available for sale was 537,000, down 2.0 percent from the first quarter of 2007 and down 5.0 percent from the second quarter of 2006. This inventory would support 7.8 months of sales at the current sales pace, down 0.5 months from the end of the first quarter of 2007 but up 1.4 months from the end of the second quarter of 2006. The inventory of existing homes available for sale was 4,196,000 at the end of the second quarter of 2007, up 10.2 percent from the first quarter of 2007 and up 12.3 percent from the second quarter of 2006. This inventory would support 8.8 months of sales at the current sales pace, up 1.4 months from the first quarter of 2007 and up 1.9 months from the second quarter of 2006.
- Home builders were less optimistic in the second quarter of 2007 than they were in the first quarter of 2007 and considerably 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 30 in the second quarter of 2007, down 7 index points from the first quarter of 2007 and down 16 index points from the second quarter of 2006. This index figure indicates the lowest quarterly value since the first quarter of 1991. All three components of the composite index declined—current sales expectations declined 6 points, future sales expectations declined 9 points, and prospective buyer traffic declined 4 points.

Affordability and Interest Rates

In the second quarter of 2007, the interest rate for 30-year, fixed-rate mortgages averaged 6.37 percent, up 15 basis points from the first quarter of 2007 but down 23 basis points from the second quarter of 2006. The 2007 second quarter value of 6.37 percent is the 20th lowest value ever reported by the Freddie Mac Primary Mortgage Market Survey since it began reporting this data in 1971. Housing affordability worsened from the past quarter but improved from the second quarter of 2006, according to the index published by the NATIONAL ASSOCIATION OF REALTORS®. The composite index indicates that, in the second quarter of 2007, the family earning the median income (\$59,021) had 109.1 percent of the income needed to purchase the median-priced (\$222,800) existing home, using standard lending guidelines. This value is down 5.4 points from the



first quarter of 2007 but up 6.3 points from the second quarter of 2006. The decline in the second quarter is attributable to a 5.3-percent increase in the median house price and a 5-basis-point increase in the interest rate, more than offsetting the 0.7-percent increase in the median family income. The improvement from the second quarter of 2006 resulted from a 1.4-percent decrease in the median house price, a 16-basis-point decrease in the mortgage interest rate, and a 2.9-percent increase in the median family income. Despite this improvement in affordability, homeownership declined. The national homeownership rate in the second quarter of 2007 was 68.2 percent, down 0.2 percentage point from the first quarter of 2007 and down 0.5 percentage point from the second quarter of 2006.

Multifamily Housing

The multifamily (5+ units) sector was generally down in the second quarter of 2007. The issuance of building permits and completions declined. Starts posted a slight increase. The absorption of new rental units set a record low, but the vacancy rate decreased to under 10 percent.

- In the second quarter of 2007, builders took out building permits for 353,000 (SAAR) new multifamily units, down 3.6 percent from the first quarter of 2007 and down 11.8 percent from the second quarter of 2006.
- Builders started construction on 261,000 (SAAR) new multifamily units in the second quarter of 2007, up 0.8 percent from the first quarter of 2007 but down 10.3 percent from the second quarter of 2006.
- Builders completed 217,000 (SAAR) new multifamily units in the second quarter of 2007, down 24.1 percent from the first quarter of 2007 and down 21.1 percent from the second quarter of 2006.
- The rental vacancy rate in the second quarter of 2007 was 9.5 percent, down 0.6 percentage point from the first quarter of 2007 and down 0.1 percentage point from the second 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 slowed in the second quarter of 2007. Of the 28,000 new apartments completed in the first quarter of 2007, 54 percent were leased or absorbed within the second 3 months following completion. This absorption rate is a record low. The previous record was 56 percent.