



U.S. Housing Market Conditions

February 2006

SUMMARY

2005 Annual Data

The year 2005 was a record-setting year for housing. New annual production records were set for single-family permits, single-family starts, and single-family completions. The mortgage interest rate was nearly equal to the all-time low set in 2003. New home sales and existing home sales both set new annual records in 2005 for the fifth consecutive year. Annual totals for overall (single-family plus multifamily) permits, starts, and completions were at near-record levels and have not been this high since the 1970s. Total permits and starts in 2005 were the second highest ever. Completions were the third highest ever. The strength of the housing market contributed to the overall growth of the U.S. economy. In 2005, real gross domestic product grew by 3.5 percent, and residential fixed investment (housing) grew by 7.2 percent, contributing 0.42 percentage point to the overall growth rate. For the fourth consecutive year, housing provided impetus to the overall economy.

- Builders took out single-family and multifamily permits for 2,141,200 new housing units in 2005, the second highest ever and an increase of 3.4 percent from 2004. Single-family permits set a new annual record with 1,678,700 new home permits issued in 2005, up 4.0 percent from 2004.
- Housing starts totaled 2,064,700 units in 2005, up 5.6 percent from 2004. This housing start total is the second highest annual value recorded. Single-family housing starts equaled 1,714,300 units in 2005, up 6.4 percent from 2004, setting a new record for the third consecutive year.
- In 2005, construction was completed on 1,930,300 new housing units, up 4.8 percent from 2004. This value is the third highest annual number of total completions. For the third consecutive year, single-family completions set a new record. In

2005, 1,634,100 units were ready for occupancy, up 6.7 percent from 2004.

- Builders were relatively upbeat in 2005, although slightly less so than they were in 2004. The National Association of Home Builders/Wells Fargo Housing Market Index averaged 67.2 points in 2005, down 1.1 index points from 2004. The 2005 value is the fourth highest annual value in the 21-year history of this attitude survey.
- Builders sold a record number of new single-family homes in 2005. New home sales totaled 1,282,000 units, up 6.6 percent from 2004. This year's value set a record for the fifth consecutive year.
- REALTORS® sold a record 7,072,000 existing single-family homes in 2005, a 4.2-percent increase from 2004 and the fifth consecutive year with a new annual record.
- Interest rates were nearly tied with the lowest annual level ever reported in the 33-year history of Freddie Mac's Primary Mortgage Market Survey. The 2005 average was 5.86 percent, 2 basis points above the 2004 average and 3 basis points above the record low set in 2003.

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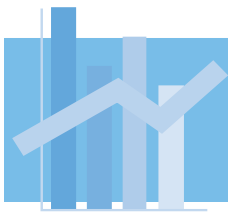


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- Affordability declined in 2005 due to higher home prices. The family earning the median income had 121.1 percent of the income needed to purchase the median-priced existing home in 2005, down 11.5 percentage points from 2004 and about in the middle of the affordability indexes reported during the 33-year history of the NATIONAL ASSOCIATION OF REALTORS® affordability series.
- In 2005, the proportion of American households who owned their own homes was 68.9 percent, 0.1 percentage point below the record annual average set in 2004. A new annual record of 51.3 percent was set for the overall minority homeownership rate. Hispanics also set a new annual record in 2005 with a homeownership rate of 49.5 percent.
- Manufactured housing shipments increased for the first time in 7 years, although they continue to be very low. For 2005, manufacturers shipped 147,000 housing units, up 12.5 percent from 2004. Demand for replacement housing for units lost to Hurricane Katrina drove the increased shipments.
- Multifamily housing (5+ units) did not fare as well as the single-family portion of the market. The 2005 annual total for multifamily permits was 377,900, up 3.2 percent from 2004. Construction was started on 309,500 multifamily housing units in 2005, up 2.1 percent from 2004. Completions of multifamily housing units totaled 258,500 units, down 9.9 percent from 2004. The vacancy rate for rental units improved in 2005 to 9.9 percent, down 0.3 percentage point from the record-setting 10.2 percent of 2004. The absorption or lease-up rate for newly completed apartments improved for the third consecutive year. About 64 percent of new apartments completed in the past year were rented within 3 months of their completion, the sixth lowest level in the 33-year history of the data series.

Fourth Quarter Data

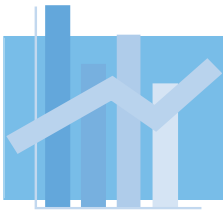
The housing sector had a very strong fourth quarter, which followed an especially strong third quarter. Both single-family starts and completions achieved the third highest levels ever reported, and single-family permits were at the second highest quarterly value ever reported. The fourth quarter homeownership rate increased. New home sales and existing home

sales had quarterly values that were, respectively, the third and fourth highest levels ever reported. The multifamily sector is somewhat mixed: starts and permits decreased, completions increased, the vacancy rate decreased, and the absorption rate improved.

Housing Production

Housing production was very strong in the fourth quarter of 2005. Total starts, total permits, and total completions are the highest since the 1970s. Single-family statistics are at near-record levels: both single-family starts and completions are the third highest ever, and single-family permits are the second highest quarterly value ever.

- During the fourth quarter of 2005, builders took out permits for new housing at a seasonally adjusted annual rate (SAAR) of 2,114,000, down 2.9 percent from the third quarter but up 1.2 percent from the fourth quarter of 2004. This quarter reported the seventh highest level for total permits and was only surpassed by levels in the early 1970s. Single-family permits were issued for 1,692,000 (SAAR) housing units, a decrease of 1.1 percent from the third quarter of 2005 but an increase of 5.5 percent from the fourth quarter of 2004. This quarter's pace is the second highest ever reported, just 19,000 off the record set in the third quarter of 2005.
- Builders started construction on 2,035,000 (SAAR) new housing units in the fourth quarter of 2005, down 3.1 percent from the third quarter but up 3.1 percent from the fourth quarter of 2004. Even with the decline, such high levels of new housing starts have not been experienced since the 1970s. Single-family housing starts totaled 1,702,000 (SAAR) housing units, down 2.6 percent from the third quarter but up 5.0 percent from the fourth quarter of 2004. The fourth quarter reported the third highest quarterly level for single-family starts.
- Builders completed 1,928,000 (SAAR) new housing units in the fourth quarter, unchanged from the third quarter but up 5.6 percent from the fourth quarter of 2004. Single-family completions totaled 1,621,000 (SAAR) in the fourth quarter of 2005, down 1.7 percent from the third quarter but up 5.2 percent from the fourth quarter of 2004. This quarter marked the third highest quarterly pace in the 36-year history of the data series.



- Manufactured housing has improved significantly but is still at very low shipment levels. In the fourth quarter, manufacturers shipped 194,000 (SAAR) housing units, up 49.0 percent from the third quarter and up 40.0 percent from the fourth quarter of 2004. Much of this increase may be attributed to the shipment of homes to replace housing destroyed by hurricanes.

Housing Marketing

Housing sales and marketing continued at very high, near-record levels in the fourth quarter of 2005. Builders of new single-family homes had their third highest quarterly sales in the fourth quarter. REALTORS® had their fourth highest quarter for existing home sales. New home prices and existing home prices decreased in the fourth quarter. Existing home prices increased significantly from the fourth quarter of 2004. The inventory of new homes available for sale at the end of the fourth quarter increased in absolute terms and relative to sales. The inventories of new and existing single-family homes were much higher than a year earlier in absolute terms and relative to sales. Weakening sales may have led to less optimism among builders as they gave fewer positive responses to the National Association of Home Builders/Wells Fargo Housing Market Index survey.

- In the third quarter, 1,287,000 (SAAR) new single-family homes were sold, down 0.9 percent from the 1,298,000 (SAAR) sold in the third quarter but up 3.5 percent from the fourth quarter of 2004. This total is the third highest quarterly value reported in the 42-year history of the series. New home sales in the past 11 quarters are the highest ever reported.
- REALTORS® sold 6,897,000 (SAAR) existing single-family homes in the fourth quarter of 2005, down 4.7 percent from the third quarter but up 0.3 percent from the fourth quarter of 2004. This total is the fourth highest value for existing home sales. Existing home sales in the past 19 quarters are the highest quarterly values ever reported.
- The median price for new homes sold in the fourth quarter was \$232,600, down 1.6 percent from the third quarter but up 1.7 percent from the fourth quarter of 2004. The average price for new homes sold in the fourth quarter was

\$285,300, down 3.2 percent from the third quarter and down 0.3 percent from the fourth quarter of 2004. A constant-quality house would have sold for \$255,600 in the fourth quarter, down 0.3 percent from the third quarter but up 4.8 percent from the fourth quarter of 2004.

- The NATIONAL ASSOCIATION OF REALTORS® reported that the median price for existing homes was \$214,700 in the fourth quarter of 2005, down 0.8 percent from the third quarter but up 13.4 percent from the fourth quarter of 2004. The average price in the fourth quarter was \$264,300, down 0.5 percent from the third quarter but up 9.4 percent from the fourth quarter of 2004.
- At the end of the fourth quarter, 516,000 new homes were in the unsold inventory, up 6 percent from the end of the third quarter and up 22 percent from the end of the fourth quarter of 2004. This inventory will support 4.9 months of sales at the current sales pace, up 0.1 month from the end of the third quarter and up 0.8 month from the end of the fourth quarter of 2004. The inventory of existing homes available for sale at the end of the fourth quarter of 2005 consisted of 2,796,000 homes, up 1 percent from the end of the third quarter and up 26 percent from the end of the fourth quarter of 2004. This inventory would last for 5.1 months at the current sales rate, up 0.5 month from the end of the third quarter of 2004 and up 1.2 months from the end of the fourth quarter of 2004.
- Homebuilders were less optimistic in the fourth quarter. The National Association of Home Builders/Wells Fargo composite Housing Market Index was 62 in the fourth quarter of 2005, down 5 index points from the third quarter and down 8 index points from the fourth quarter of 2004. All three components of the composite index—current sales expectations, future sales expectations, and prospective buyer traffic—declined.

Affordability

Housing affordability declined according to the index published by the NATIONAL ASSOCIATION OF REALTORS®. The composite index indicates that the family earning the median income had 115.9 percent of the income needed to purchase the median-priced existing home using standard lending guidelines. This value is down 1.9 points from the

third quarter of 2005 and down 16 points from the fourth quarter of 2004. The decline from the third quarter is attributable to the slight decline (1.3 percent) in the median price of an existing home and the increase (1.0 percent) in median family income being offset by the 37-basis point increase in the mortgage interest rate. The fourth quarter homeownership rate is 0.2 percentage point above the third quarter rate but 0.4 percentage point below the record level of 69.2 from the fourth quarter of 2004.

Multifamily Housing

The multifamily (5+ units) sector is not faring as well. Production indicators were mixed, but the absorption of new rental units improved and the vacancy rate declined.

- In the fourth quarter of 2005, builders took out permits for 340,000 new multifamily units, down 9.2 percent from the third quarter and down 14.3 percent from the fourth quarter of 2004.
- Construction was started on 299,000 new multifamily units in the fourth quarter of 2005, down 2.7 percent from the third quarter and down 3.2 percent from the fourth quarter of 2004.
- Builders completed 275,000 units in the fourth quarter, up 16.2 percent from the third quarter and up 6.6 percent from the fourth quarter of 2004.
- The rental vacancy rate in the fourth quarter of 2005 was 9.6 percent, down 0.3 percentage point from the third quarter and down 0.4 percentage point from the fourth quarter of 2004.
- Market absorption of new rental apartments has increased with 65 percent of new apartments completed in the third quarter leased or absorbed in the first 3 months following completion. This absorption rate is considerably above the all-time low of 56 percent experienced in the third quarters of 2001, 2002, and 2003.