



U.S. Housing Market Conditions

February 2007

SUMMARY

Housing market conditions at the end of 2006 reflected two themes. First, the year posted significant declines from 2005. Second, since these declines were from records set in 2005, the levels of housing market activity are still quite high. Another twist to these themes is that the quarterly data have been on the decline throughout the year.

2006 Annual Data

In 2006 the housing market turned away from the record-setting pace of the recent past. Even with this decline, 2006 was still one of the better years in the history of the data series, and many of the key indicators were among the best 10 values ever reported. This trend was especially true for single-family housing; building permits had their fifth best year, starts and new home sales had their fourth best year, existing home sales had their third best year, and completions set a new annual record. The mortgage interest rate was low—about 60 basis points higher than the all-time low set in 2003. Although the overall economy grew, for the first time in several years housing was not a contributor to that growth. In 2006, real gross domestic product grew by 3.4 percent, but residential fixed investment (housing) declined by 4.2 percent, subtracting 0.26 percentage point from the overall growth rate.

- Builders took out single-family and multifamily permits for 1,837,300 new housing units in 2006, the sixth highest ever but a decrease of 14.8 percent from 2005. Single-family permits in 2006 were the fifth highest ever, with 1,380,000 new home permits issued in 2006, but were down 18.0 percent from the record set in 2005.
- Housing starts totaled 1,800,700 units in 2006, down 12.9 percent from the record set in 2005. Single-family housing starts equaled 1,463,700

units in 2006, down 14.7 percent from the record set in 2005.

- In 2006, construction was completed on 1,978,200 new housing units, up 2.4 percent from 2005. This value is the third highest annual number for total completions. For the fourth consecutive year, single-family completions set a new record. In 2006, 1,654,500 single-family units were ready for occupancy, up 9.6 percent from 2005.
- Builders were considerably less optimistic in 2006 than they were in 2005. The National Association of Home Builders/Wells Fargo Housing Market Index averaged 42.1 points in 2006, down 25.1 index points from 2005. The 2006 value is the third lowest annual value in the 22-year history of this attitude survey.
- Builders sold 1,061,000 new single-family homes in 2006, down 17.3 percent from the record set in 2005. This year's value is the fourth highest ever.

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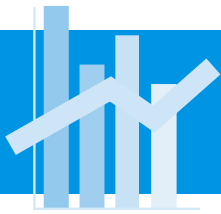


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- REALTORS® sold 6,480,000 existing single-family homes in 2006, an 8.4-percent decrease from the record set in 2005. The 2006 value is the third highest annual total for existing home sales.
- The average interest rate for 30-year, fixed-rate mortgages in 2006 was the fourth lowest annual level ever reported in the 34-year history of Freddie Mac's Primary Mortgage Market Survey. The 2006 average was 6.41 percent, 54 basis points above the 2005 average and 58 basis points above the record low set in 2003.
- Affordability declined in 2006 due to rising interest rates and higher home prices. The family earning the median income had 106.0 percent of the income needed to purchase the median-priced existing home in 2006, down 5.8 percentage points from 2005 and about in the middle of the affordability indexes reported during the 34-year history of the NATIONAL ASSOCIATION OF REALTORS® affordability series.
- In 2006, the proportion of American households who owned their own homes was 68.8 percent, 0.1 percentage point below the 2005 homeownership rate. The overall minority homeownership rate of 51.3 percent tied with the record set in 2005. The homeownership rate for Hispanics in 2006 was 49.7 percent, setting a new annual record.
- Manufactured housing shipments continue to be very low and totaled 131,100 units in 2006, down 10.9 percent from 2005. The 2005 level was temporarily high due to the demand for replacement housing for units lost to the hurricanes in 2005.
- Multifamily housing (5+ units) did not fare as well in 2006 as it did the previous 4 years. The 2006 annual total for multifamily permits was 380,000, down 2.4 percent from 2005. Construction was started on 293,000 multifamily housing units in 2006, down 5.9 percent from 2005. Completions of multifamily housing units totaled 282,700 units, up 9.6 percent from 2005. The vacancy rate for rental units improved slightly in 2006 to 9.7 percent, down 0.1 percentage point from 2005 and down 0.5 percentage point from the record high of 10.2 percent in 2004. The absorption or lease-up rate for newly completed apartments declined through the third quarter of 2006, with about 60 percent of new apartments completed in the past year rented within 3 months of their completion, the lowest level in the 34-year history of the data series.

Fourth Quarter Data

The housing sector had a very poor fourth quarter in 2006, following a string of three to four quarters of decline. Permits, starts, and completions declined in the fourth quarter and the fourth quarter homeownership rate decreased. One bright spot is that new home sales increased in the fourth quarter, reversing a sequence of four quarterly declines. Existing home sales declined slightly, registering their sixth consecutive quarterly decline. The multifamily sector is somewhat mixed: permits decreased, but starts and completions increased. On the rental side, the vacancy rate decreased slightly, as did the absorption rate; however, the absorption rate is very low.

Housing Production

All housing production indicators declined in the fourth quarter of 2006 as they all did in the past three quarters. Both total and single-family permits posted decreases for the past five quarters, and total and single-family starts and completions posted three consecutive quarters of decline. Manufactured housing posted its fourth quarterly decline.

- During the fourth quarter of 2006, builders took out permits for new housing at a seasonally adjusted annual rate (SAAR) of 1,560,000, down 8.8 percent from the third quarter and down 27.2 percent from the fourth quarter of 2005. Single-family permits were issued for 1,166,000 (SAAR) housing units, a decrease of 8.6 percent from the third quarter of 2006 and a decrease of 31.1 percent from the fourth quarter of 2005.
- Builders started construction on 1,564,000 (SAAR) new housing units in the fourth quarter of 2006, down 8.8 percent from the third quarter and down 24.1 percent from the fourth quarter of 2005. Single-family housing starts totaled 1,233,000 (SAAR) housing units, down 12.0 percent from the third quarter and down 28.2 percent from the fourth quarter of 2005.
- Builders completed 1,907,000 (SAAR) new housing units in the fourth quarter, down 2.6 percent from the third quarter and down 1.9 percent from the fourth quarter of 2005. Single-family completions totaled 1,540,000 (SAAR) in the fourth quarter of 2006, down 7.7 percent



from the third quarter and down 6.0 percent from the fourth quarter of 2005.

- Manufactured housing shipments continue at very low shipment levels. In the fourth quarter, manufacturers shipped 98,000 (SAAR) housing units, down 8 percent from the third quarter and down 49 percent from the fourth quarter of 2005. Much of this decrease may be attributed to the high level of shipments in the fourth quarter of 2005 used to replace housing destroyed by hurricanes in late 2005.

Housing Marketing

Housing sales and marketing generally continued downward in the fourth quarter of 2006. Builders of new single-family homes had their first quarterly increase after four consecutive quarterly declines. REALTORS® posted the sixth consecutive quarterly decline for existing home sales. Prices for new and existing homes were somewhat mixed in the fourth quarter. The median price for existing homes decreased from the fourth quarter of 2005 while the median price for new homes increased, although the average price for new homes declined. The inventories of new and existing homes available for sale at the end of the fourth quarter decreased 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. The significant drops in new home sales during the year may have led to less optimism among builders as the National Association of Home Builders/Wells Fargo Housing Market Index reported the third lowest value in the 22-year history of the index.

- In the fourth quarter, 1,061,000 (SAAR) new single-family homes were sold, up 5.4 percent from the 1,007,000 (SAAR) sold in the third quarter but down 17.1 percent from the fourth quarter of 2005.
- REALTORS® sold 6,243,000 (SAAR) existing single-family homes in the fourth quarter of 2006, down 0.6 percent from the third quarter and down 10.0 percent from the fourth quarter of 2005.
- The median price for new homes sold in the fourth quarter was \$237,700, up 0.9 percent from the third quarter but down 2.4 percent from the fourth quarter of 2005. The average price for new

homes sold in the fourth quarter was \$296,300, down 3.8 percent from the third quarter but up 0.7 percent from the fourth quarter of 2005. A constant-quality house would have sold for \$268,700 in the fourth quarter, up 1.6 percent from the third quarter and up 3.4 percent from the fourth quarter of 2005.

- The NATIONAL ASSOCIATION OF REALTORS® reported that the median price for existing homes was \$219,300 in the fourth quarter of 2006, down 2.5 percent from the third quarter and down 2.6 percent from the fourth quarter of 2005. The average price in the fourth quarter was \$266,300, down 1.5 percent from the third quarter and down 1.6 percent from the fourth quarter of 2005.
- At the end of the fourth quarter, 537,000 new homes were in the unsold inventory, down 4.1 percent from the end of the third quarter but up 5.5 percent from the end of the fourth quarter of 2005. This inventory will support 5.9 months of sales at the current sales pace, down 0.8 month from the end of the third quarter but up 1.1 months from the end of the fourth quarter of 2005. The inventory of existing homes available for sale at the end of the fourth quarter of 2006 consisted of 3,508,000 homes, down 7.3 percent from the end of the third quarter but up 23.3 percent from the end of the fourth quarter of 2005. This inventory would last for 6.8 months at the current sales rate, down 0.5 month from the end of the third quarter of 2006 but up 1.7 months from the end of the fourth quarter of 2005.
- Homebuilders were slightly less optimistic in the fourth quarter. The National Association of Home Builders/Wells Fargo composite Housing Market Index was 32.3 in the fourth quarter of 2006, down 1.7 index points from the third quarter and down 29.7 index points from the fourth quarter of 2005. This is the third lowest quarterly value in the 22-year history of the series. The index is based on three components—current sales expectations, which declined; future sales expectations, which increased; and prospective buyer traffic, which was unchanged.

Affordability and Interest Rates

Housing affordability improved according to the index published by the NATIONAL ASSOCIATION OF REALTORS®. The composite index indicates

that the family earning the median income had 109.3 percent of the income needed to purchase the median-priced existing single-family home using standard lending guidelines. This value is up 6.2 points from the third quarter of 2006 and up 2.8 points from the fourth quarter of 2005. The increase from the third quarter is attributable to the decline (2.7 percent) in the median price of an existing single-family home, the increase (0.8 percent) in median family income, and the 24-basis point decrease in the mortgage interest rate. The fourth quarter homeownership rate was 68.9, 0.1 percentage point below the third quarter rate and 0.1 percentage point below the rate of the fourth quarter of 2005.

Multifamily Housing

The multifamily (5+ units) sector posted ambiguous results for the fourth quarter. Production indicators were mixed; permits were down but starts and completions increased. The absorption of new rental units improved but continues to be historically low and the vacancy rate declined slightly.

- In the fourth quarter of 2006, builders took out permits for 325,000 new multifamily units, down 8.7 percent from the third quarter and down 11.9 percent from the fourth quarter of 2005.
- Construction was started on 290,000 new multifamily units in the fourth quarter of 2006, up 10.5 percent from the third quarter but down 5.7 percent from the fourth quarter of 2005.
- Builders completed 312,000 units in the fourth quarter, up 19.1 percent from the third quarter and up 14.0 percent from the fourth quarter of 2005.
- The rental vacancy rate in the fourth quarter of 2006 was 9.8 percent, down 0.1 percentage point from the third quarter and down 0.2 percentage point from the fourth quarter of 2005.
- Market absorption of new rental apartments has decreased with 57 percent of new apartments completed in the third quarter leased or absorbed in the first 3 months following completion. This absorption rate is near the all-time low of 56 percent experienced in the third quarters of 2001, 2002, and 2003.