

U.S. Housing Market Conditions

November 2007

SUMMARY

Economic growth in the third quarter of 2007 continued at the same pace as in the second quarter of 2007. The labor situation in the third quarter saw continued job growth and low unemployment. Housing affordability worsened as mortgage interest rates increased. Housing market performance was weak in the third quarter of 2007, with generally falling production levels and weak new home sales. The exception is an increase in existing home sales. Inventories of new and existing homes available for sale continue at very high levels, with enough houses available to last 8 to 10 months. The homeownership rate remained steady at 68.2 percent in the third quarter of 2007.

Housing Production

All housing production indicators were negative or unchanged in the third quarter of 2007, especially when compared with the third quarter of 2006. Single-family building permits, starts, and completions were down 7 to 14 percent from the second quarter of 2007 and down 26 to 29 percent from the third quarter of 2006. The only piece of positive news was that multifamily completions increased 20 percent. The numbers of permits, starts, and completions have declined for six or more consecutive quarters. Shipments of manufactured homes decreased in the third quarter.

- In the third quarter of 2007, builders took out permits for 1,324,000 new housing units at a seasonally adjusted annual rate (SAAR), down 10 percent from the second quarter of 2007 and down 23 percent from the third quarter of 2006. Single-family building permits were issued for 940,000 (SAAR) housing units in the third quarter of 2007, down 11 percent from the second quarter of 2007 and down 26 percent from the third quarter of 2006. Both total permits and single-family permits have declined for eight consecutive quarters.

- Construction was started on 1,296,000 (SAAR) new housing units in the third quarter of 2007, down 11 percent from the second quarter of 2007 and down 24 percent from the third quarter of 2006. Single-family housing starts equaled 1,000,000 (SAAR) units in the third quarter of 2007, down 14 percent from the second quarter of 2007 and down 28 percent from the third quarter of 2006. Both total starts and single-family starts have declined for six consecutive quarters.
- In the third quarter of 2007, construction was completed on 1,476,000 (SAAR) new homes, down 3 percent from the second quarter of 2007 and down 24 percent from the third quarter of 2006. Single-family housing completions were 1,182,000 in the third quarter of 2007, down 7 percent from the second quarter of 2007 and down 29 percent from the third quarter of 2006. These are the sixth consecutive quarterly declines for both total completions and single-family completions.
- Manufacturers shipped 96,000 (SAAR) new manufactured homes in the third quarter of 2007, down 3 percent from the second quarter of 2007 and down 11 percent from the third quarter of 2006.

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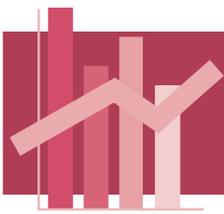


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Housing Marketing

Sales of new homes decreased in the third quarter of 2007, although inventories of new homes available for sale stabilized. Prices of new homes were unchanged, but those of existing homes decreased. Inventories of existing homes available for sale at the end of the third quarter of 2007 increased to more than 10 months of sales. Builders were pessimistic in the third quarter regarding current sales expectations, future sales expectations, and prospective buyer traffic.

- During the third quarter of 2007, builders sold 768,000 (SAAR) new single-family homes, down 10 percent from the second quarter of 2007 and down 23 percent from the third quarter of 2006.
- REALTORS® sold 5,423,000 (SAAR) existing homes in the third quarter of 2007, down 8 percent from the second quarter of 2007 and down 14 percent from the third quarter of 2006.
- The median sales price for new homes sold in the third quarter of 2007 was \$241,700, unchanged from the second quarter of 2007 but up 3 percent from the third quarter of 2006. The average sales price decreased 4 percent from the second quarter of 2007 and decreased 3 percent from the third quarter of 2006 to \$298,500. The price of a constant-quality new home was estimated to be \$262,200 in the third quarter of 2007, down 2 percent from the second quarter of 2007 and down 1 percent from the third quarter of 2006.
- Existing homes sold during the third quarter of 2007 had a median price of \$221,000, down 1 percent from the second quarter of 2007 and down 2 percent from the third quarter of 2006. The average price was \$267,700, down 1 percent from the second quarter of 2007 and down 1 percent from the third quarter of 2006.
- At the end of the third quarter of 2007, the inventory of new homes available for sale was 523,000, down 3 percent from the second quarter of 2007 and down 7 percent from the third quarter of 2006. This inventory would support 8.3 months of sales at the current sales pace, unchanged from the end of the second quarter of 2007 but up 1.5 months from the end of the third quarter

of 2006. The inventory of existing homes available for sale was 4,399,000 at the end of the third quarter of 2007, up 1 percent from the second quarter of 2007 and up 16 percent from the third quarter of 2006. This inventory would support 10.5 months of sales at the current sales pace, up 0.6 months from the second quarter of 2007 and up 3.2 months from the third quarter of 2006.

- Home builders were considerably less optimistic in the third quarter of 2007 than they were in the second quarter of 2007 or than they were a year earlier, according to the National Association of Home Builders/Wells Fargo composite Housing Market Index. The index was 22 in the third quarter of 2007, down 8 index points from the second quarter of 2007 and down 12 index points from the third quarter of 2006. All three components of the composite index declined—current sales expectations declined 9 points, future sales expectations declined 11 points, and prospective buyer traffic declined 7 points.

Affordability and Interest Rates

In the third quarter of 2007, the interest rate for 30-year, fixed-rate mortgages averaged 6.55 percent, up 18 basis points from the second quarter of 2007 but down 1 basis point from the third quarter of 2006. Housing affordability worsened from the past quarter but improved from the third quarter of 2006, according to the index published by the NATIONAL ASSOCIATION OF REALTORS®. The composite index indicates that, in the third quarter of 2007, the family earning the median income (\$59,427) had 108.2 percent of the income needed to purchase the median-priced (\$220,800) existing home, using standard lending guidelines. This value is down 1.0 point from the second quarter of 2007 but up 5.1 points from the third quarter of 2006. This decline in the third quarter is attributable to a 28-basis point increase in the interest rate, more than offsetting a 1-percent decrease in the median home price and a 0.7-percent increase in median family income. The national homeownership rate in the third quarter of 2007 was 68.2 percent, unchanged from the second quarter of 2007 but down 0.8 percentage point from the third quarter of 2006.



Multifamily Housing

The multifamily (5+ units) sector was mixed in the third quarter of 2007. The issuance of building permits declined, starts were unchanged, and completions increased. The absorption of new rental units set a record low, and the vacancy rate increased.

- In the third quarter of 2007, builders took out building permits for 331,000 (SAAR) new multifamily units, down 6 percent from the second quarter of 2007 and down 10 percent from the third quarter of 2006.
- Builders started construction on 263,000 (SAAR) new multifamily units in the third quarter of 2007, unchanged from the second quarter of 2007 but up 1 percent from the third quarter of 2006.
- Builders completed 265,000 (SAAR) new multifamily units in the third quarter of 2007, up 20 percent from the second quarter of 2007 and up 1 percent from the third quarter of 2006.
- The rental vacancy rate in the third quarter of 2007 was 9.8 percent, up 0.3 percentage point from the second quarter of 2007 but down 0.1 percentage point from the third quarter of 2006.
- Market absorption of new rental apartments slowed in the third quarter of 2007. Of the 26,900 new apartments completed in the second quarter of 2007, only 54 percent were leased or absorbed by the end of the 3 months following completion. This absorption rate is a record low. The previous record was 56 percent.