



U.S. Housing Market Conditions

February 2008

SUMMARY

Housing market conditions in 2007 significantly worsened from conditions in 2006. Nearly all indicators declined throughout the year and, in the fourth quarter of 2007, most were at very low levels. The fourth quarter results show declines of between 30 and 50 percent in the numbers of building permits, starts, completions, and new and existing sales from the record highs recorded for these indicators in 2005. The housing market was a drag on the national economy in 2007; in the fourth quarter of 2007, it reduced Gross Domestic Product (GDP) growth by 1 percentage point.

2007 Annual Data

In 2007, the housing market was significantly below the record-setting pace of the recent past. Housing production indicators—permits, starts, and completions—were 25 to 30 percent below their 2006 levels, and permits and starts were down about 40 percent from the record levels set in 2005. New and existing home sales declined in 2007, and builders' attitudes about the housing market were at record lows. The mortgage interest rate averaged 6.34 percent in 2007, slightly lower than in 2006. Although the overall economy grew 2.2 percent in 2007, the housing market was a drag on the economy. The housing sector (residential fixed investment) decreased by 16.9 percent in 2007, reducing GDP growth by nearly 1 percentage point.

- Builders took out single-family and multifamily permits for 1,380,500 new housing units in 2007, a decrease of 24.9 percent from 2006. In 2007, single-family permits were issued for 973,300 new homes, down 29.4 percent from 2006. Single-family permits are down 42 percent from the record set in 2005.
- Housing starts totaled 1,353,700 units in 2007, down 24.8 percent from 2006. Single-family

housing starts equaled 1,045,900 units in 2007, down 28.6 percent from 2006 and down 39 percent from the record set in 2005.

- In 2007, construction was completed on 1,500,200 new housing units, down 24.2 percent from 2006. A total of 1,216,500 single-family units were ready for occupancy in 2007, down 26.5 percent from the record set in 2006.
- Builders were considerably less optimistic in 2007 than they were in 2006. The National Association of Home Builders/Wells Fargo Housing Market Index averaged 27 points in 2007, down 15 index points from 2006. The 2007 value is the lowest annual value in the 23-year history of this attitude survey.
- Builders sold 774,000 new single-family homes in 2007, down 26.4 percent from 2006 and down 39.7 percent from the record set in 2005.
- REALTORS® sold 5,652,000 existing single-family homes in 2007, a 12.8-percent decrease from 2006 and a 20.1-percent decline from the record set in 2005.

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- The average interest rate for 30-year, fixed-rate mortgages in 2007 was the fourth lowest annual level ever reported in the 35-year history of Freddie Mac's Primary Mortgage Market Survey. The 2007 average was 6.34 percent, 7 basis points below the 2006 average but 51 basis points above the record low set in 2003.
- Affordability improved in 2007 due to falling interest rates, lower home sales prices, and higher incomes. The family earning the median income had 111.8 percent of the income needed to purchase the median-priced existing home in 2007, up 5.7 percentage points from 2006 and about in the middle of the affordability indexes reported during the 35-year history of the NATIONAL ASSOCIATION OF REALTORS® affordability series.
- In 2007, the proportion of American households who owned their own homes was 68.1 percent, 0.7 percentage point below the 2006 homeownership rate. The overall minority homeownership rate of 50.9 percent was 0.4 percentage point below the 2006 rate. The homeownership rate for Hispanics was 49.7 percent, tying the annual record set in 2006.
- Manufactured housing shipments were at their second lowest level in 2007, with only 96,000 homes shipped, down 18 percent from 2006.
- Multifamily housing (five or more units) did not fare well in 2007. The numbers of permits, starts, and completions decreased; the absorption of new apartments declined; and the vacancy rate increased. The 2007 annual total for multifamily permits was 349,500, down 9.0 percent from 2006. Construction was started on 275,700 multifamily housing units in 2007, down 5.8 percent from 2006. Completions of multifamily housing units totaled 252,500 units, down 11.2 percent from 2006. The vacancy rate for rental units increased slightly in 2007 to 9.8 percent, up 0.1 percentage point from 2006 but down 0.4 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 2007, with about 54 percent of new apartments completed in the past year rented within 3 months of their completion, the lowest level in the 37-year history of the data series.

Fourth Quarter Data

The housing sector had a very poor fourth quarter in 2007, following nearly 2 years of decline. The numbers of single-family building permits, starts, and completions declined in the fourth quarter, as did the homeownership rate. New and existing home sales decreased in the fourth quarter. Excessive inventories of both new and existing homes remain, enough to last nearly 10 months. The multifamily sector is somewhat mixed: permits and completions decreased, but starts increased. On the rental side, the vacancy rate decreased slightly, as did the absorption rate; however, the absorption rate was at a record low. The overall economy posted a GDP growth rate of only 0.6 percent in the fourth quarter of 2007. The housing component of GDP decreased by 23.9 percent, leading to a reduction of GDP growth by 1.2 percentage points.

Housing Production

All housing production indicators declined in the fourth quarter of 2007 as they did in the past several quarters. During the past 2 years, housing production has experienced nearly continuous declines in new housing permits issued, units started, and units completed. Manufactured housing has posted nearly consecutive declines since the hurricane-induced orders of late 2005.

- During the fourth quarter of 2007, builders took out permits for new housing at a seasonally adjusted annual rate (SAAR) of 1,137,000, down 14.1 percent from the third quarter and down 27.6 percent from the fourth quarter of 2006. This drop is the ninth consecutive quarterly decline for total permits. Single-family permits were issued for 760,000 (SAAR) housing units, a decrease of 19.1 percent from the third quarter of 2007 and a decrease of 34.9 percent from the fourth quarter of 2006. This fall is the seventh consecutive quarterly decline for single-family permits.
- Builders started construction on 1,151,000 (SAAR) new housing units in the fourth quarter of 2007, down 11.5 percent from the third quarter and down 26.0 percent from the fourth quarter of 2006. Single-family housing starts totaled 830,000 (SAAR) housing units, down 16.1 percent from the third quarter and down 32.6 percent from the fourth



quarter of 2006. This drop is the seventh consecutive quarterly decline for single-family starts.

- Builders completed 1,373,000 (SAAR) new housing units in the fourth quarter of 2007, down 6.6 percent from the third quarter and down 27.8 percent from the fourth quarter of 2006. This fall is the seventh consecutive quarterly decline. Single-family completions totaled 1,098,000 (SAAR) in the fourth quarter of 2007, down 7.4 percent from the third quarter and down 28.1 percent from the fourth quarter of 2006, reflecting the seventh consecutive quarterly decline for single-family completions.
- Manufactured housing shipments continue at very low levels. In the fourth quarter of 2007, manufacturers shipped 93,000 (SAAR) housing units, down 2.8 percent from the third quarter and down 4.1 percent from the fourth quarter of 2006.

Housing Marketing

Housing sales and marketing continued downward in the fourth quarter of 2007. Sales of new homes declined as they had in 10 of the past 11 quarters. Existing home sales fell for the third consecutive quarter. Median sales prices for new and existing homes declined in the fourth quarter as did average prices. The inventories of new and existing homes available for sale at the end of the fourth quarter were high enough to last for the next 10 months at the current sales rates. The nearly continuous drops in new home sales are the likely source of pessimism among builders as measured by the National Association of Home Builders/Wells Fargo Housing Market Index, which recorded the lowest value in the 22-year history of the index.

- In the fourth quarter of 2007, 654,000 (SAAR) new single-family homes were sold, down 10.4 percent from the 730,000 (SAAR) homes sold in the third quarter and down 33.6 percent from the fourth quarter of 2006. New home sales have decreased in 10 of the past 11 quarters.
- REALTORS® sold 4,957,000 (SAAR) existing single-family homes in the fourth quarter of 2007, down 8.5 percent from the third quarter and down 20.9 percent from the fourth quarter of 2006. This drop is the third consecutive quarterly decline in the number of existing single-family homes sold.

- The median price for new homes sold in the fourth quarter of 2007 was \$232,200, down 4.0 percent from the third quarter and down 5.4 percent from the fourth quarter of 2006. The average price for new homes sold in the fourth quarter was \$299,700, down 0.5 percent from the third quarter but unchanged from the fourth quarter of 2006. A constant-quality house would have sold for \$301,200 in the fourth quarter, down 1.5 percent from the third quarter and down 3.3 percent from the fourth quarter of 2006.
- The NATIONAL ASSOCIATION OF REALTORS® reported that the median price for existing homes was \$208,000 in the fourth quarter of 2007, down 5.9 percent from the third quarter and down 4.5 percent from the fourth quarter of 2006. The average price for existing homes in the fourth quarter was \$255,300, down 5.2 percent from the third quarter and down 4.0 percent from the fourth quarter of 2006.
- At the end of the fourth quarter, 495,000 new homes were in the unsold inventory, down 6.1 percent from the end of the third quarter and down 7.5 percent from the end of the fourth quarter of 2006. This inventory will support 9.6 months of sales at the current sales pace, up 0.3 month from the end of the third quarter and up 3.4 months from the end of the fourth quarter of 2006. The inventory of existing homes available for sale at the end of the fourth quarter of 2007 consisted of 3,905,000 homes, down 10.6 percent from the end of the third quarter but up 13.2 percent from the end of the fourth quarter of 2006. This inventory would last for 9.6 months at the current sales rate, down 0.8 month from the end of the third quarter of 2007 but up 3.0 months from the end of the fourth quarter of 2006.
- Home builders were slightly less optimistic in the fourth quarter of 2007. The National Association of Home Builders/Wells Fargo composite Housing Market Index was 19 in the fourth quarter of 2007, down 3 index points from the third quarter and down 13 index points from the fourth quarter of 2006. This value is the lowest quarterly value in the 22-year history of the series. The index is based on three components—current sales expectations, future sales expectations, and prospective buyer traffic—all of which declined.

Affordability and Interest Rates

Housing affordability improved in the fourth quarter of 2007, according to the index published by the NATIONAL ASSOCIATION OF REALTORS®. The composite index indicates that the family earning the median income had 120.5 percent of the income needed to purchase the median-priced, existing single-family home using standard lending guidelines. This value is up 11.9 points from the third quarter of 2007 and up 11.1 points from the fourth quarter of 2006. The increase from the third quarter is attributable to the decline (6.4 percent) in the median price of an existing single-family home, the increase (0.7 percent) in median family income, and the 32-basis-point decrease in the mortgage interest rate. The fourth quarter homeownership rate was 67.8, 0.6 percentage point below the third quarter rate and 0.1 percentage point below the rate of the fourth quarter of 2006.

Multifamily Housing

The multifamily (five or more units) sector performed better than the single-family sector did in the fourth quarter of 2007. Production indicators were mixed; building permits and completions decreased, but starts increased. The absorption of new rental units dropped to its lowest level.

- In the fourth quarter of 2007, builders took out permits for 328,000 new multifamily units, down 0.9 percent from the third quarter and down 2.8 percent from the fourth quarter of 2006.
- Construction was started on 295,000 new multifamily units in the fourth quarter of 2007, up 7.0 percent from the third quarter and up 2.6 percent from the fourth quarter of 2006.
- Builders completed 251,000 units in the fourth quarter of 2007, down 2.0 percent from the third quarter and down 20.5 percent from the fourth quarter of 2006.
- The rental vacancy rate in the fourth quarter of 2007 was 9.6 percent, down 0.2 percentage point from the third quarter and down 0.2 percentage point from the fourth quarter of 2006.
- Market absorption of new rental apartments decreased, with only 53 percent of new apartments completed in the third quarter leased or absorbed in the first 3 months following completion. This absorption rate is down from the 59-percent rate of the previous quarter but up 1 percentage point from the third quarter of 2006. This absorption rate is among the lowest rates ever recorded.