Summary

Housing indicators for the third quarter of 2012 continue to portray a fragile, but steady, recovery in the housing market. In the production sector, the number of housing permits, starts, and completions rose in both the single-family and multifamily housing sectors. In the marketing sector, sales rose for new and previously owned homes. The seasonally adjusted (SA) Standard & Poor's (S&P)/Case-Shiller® and the Federal Housing Finance Agency's (FHFA) repeat-sales house price indices reported increases in the value of homes in the second quarter of 2012 compared with the previous quarter and the previous year (both indices are reported with a lag). Inventories of available homes at the current sales rate remain at low levels. The months' supply of new homes reached an average rate of 4.6 months, down from 4.8 months in the previous quarter, for existing homes, the rate was 6.1 months, down from 6.5 months.

The national homeownership rate remained steady in the second quarter, although the homeownership rate for minorities fell. According to the Mortgage Bankers Association (MBA), the delinquency rate for all mortgages increased slightly, while the rate of newly initiated foreclosures remained steady in the second quarter of 2012 (the data are reported with a lag). The U.S. economy grew at a seasonally adjusted annual rate (SAAR) of 2.0 percent in the third quarter, following 1.3-percent growth in the second quarter, according to the Bureau of Economic Analysis' first estimate. Residential investment increased 14.4 percent in the third quarter compared with an 8.5-percent increase in the second quarter and contributed 0.33 percent to real GDP growth compared with 0.19 percent in the second quarter.

Housing Production

Housing production indicators improved in the third quarter of 2012. Housing permits, starts, and completions all rose in both the single-family and multifamily sectors. Shipments of manufactured housing declined slightly.

- Builders took out permits for new housing at a pace of 834,000 units (SAAR) during the third quarter, 10 percent higher than the previous quarter and 33 percent higher than a year earlier. Single-family building permits were issued for 524,000 units (SAAR), up 8 percent from the second quarter and 23 percent from year-earlier levels.
- During the third quarter, builders started construction on 786,000 new housing units (SAAR), up 7 percent from the second quarter and 28 percent from a year earlier. Construction began on 551,000 single-family units (SAAR), up 7 percent from the second quarter and 30 percent from a year earlier.
- Builders completed 679,000 new housing units (SAAR) in the third quarter, up 8 percent from the second quarter and 10 percent from 1 year ago. Single-family home completions, at 491,000 units (SAAR), were up 3 percent from the previous quarter and 6 percent from last year.
- Manufactured housing shipments totaled 53,300 units (SAAR) in the third quarter, down 2 percent from the second quarter but up 4 percent from a year earlier. Onsite placements of manufactured housing, which are reported with a lag, totaled 48,300 units (SAAR) in the second quarter, down 11 percent from the previous quarter but up 6 percent from a year earlier.

Marketing of Housing

Data on the marketing of housing improved in the third quarter of 2012. The number of sales of new and previously owned homes increased. The seasonally adjusted
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S&P/Case-Shiller® and FHFA purchase-only repeat-sales house price indices, which are reported with a lag, showed gains in house values, with both the Case-Shiller® and FHFA indices rising from the first quarter to the second quarter of 2012 and showing year-over-year gains in home prices. The average months' supply of homes for sale remained below the historical 6 months' average for new homes and just slightly above the historical average for previously owned homes. Home builders' confidence, as measured by the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index, rose.

During the third quarter of 2012, 377,000 new single-family homes (SAAR) were sold, up 4 percent from the 362,000 homes (SAAR) sold in the second quarter and up 26 percent from 1 year ago.

The NATIONAL ASSOCIATION OF REALTORS® (NAR) reported that existing homes—including single-family homes, townhomes, condominiums, and cooperatives—sold at a rate of 4.683 million (SAAR) in the third quarter, up 3 percent from the previous quarter and 10 percent from year-earlier levels. According to a NAR practitioner survey, sales to first-time homebuyers accounted for 32 percent of all sales transactions in the third quarter, down from 34 percent in the previous quarter but the same as a year ago.

The median price of new homes sold in the third quarter was $242,900, up 2 percent from the previous quarter and 9 percent from year-earlier levels. The average price of new homes sold was $287,900, up 2 percent from the previous quarter and 9 percent from the previous year. A new constant-quality house would have sold for $292,000, up 3 percent from the previous quarter and 6 percent from the previous year. (Quality is based on a typical house built in 2005.)

NAR reported that the median price of existing homes sold was $185,500 in the third quarter, up 3 percent from the second quarter and 10 percent from a year earlier. The average price of existing homes sold in the third quarter was $233,800, up 2 percent from the previous quarter and 7 percent from the previous year. According to a NAR practitioner survey, distressed sales (foreclosure and short sales) accounted for 23 percent of all home sales in the third quarter, down from 26 percent in the second quarter and 30 percent 1 year ago. Distressed sales prices are typically 15 to 20 percent below normal market prices. The share of existing home sales purchased by investors was 17 percent in the third quarter, down from 19 percent in the previous quarter and 20 percent 1 year ago.

The S&P/Case-Shiller® and the FHFA both produce repeat-sales house price indices that are reported with a 2-month lag. The [SA] S&P/Case-Shiller® national index estimated that home prices in the second quarter of 2012 were up 2.2 percent from the previous quarter and 1.1 percent from a year earlier. The [SA] FHFA purchase-only national index estimated that home prices were up 1.8 percent from the previous quarter and 3.0 percent from a year earlier. The FHFA index differs from the Case-Shiller® index mainly because it is based on sales financed with mortgages that have been sold to or guaranteed by Fannie Mae and Freddie Mac, excludes sales transactions associated with subprime and some “jumbo” loans, and is transaction weighted instead of value weighted.

During the third quarter of 2012, the average inventory of new homes for sale was 144,000 units, down 1 percent from the second quarter and 11 percent from a year earlier. That inventory would support 4.6 months of sales at the current sales pace, down 0.2 month from the second quarter and 1.9 months over the four-quarter period. The average inventory of existing homes for sale in the second quarter was 2.373 million units, down 3 percent from the second quarter and 21 percent from a year earlier. That inventory would support 6.1 months of sales at the current sales pace, down 0.4 month from the previous quarter and 2.4 months from 1 year ago. Of concern is the “shadow inventory” of homes as a result of the high rate of delinquencies and foreclosures, which has the potential to increase the supply of homes for sale and depress home prices.

Home builders' view of the housing market rose substantially in the third quarter of 2012. The NAHB/Wells Fargo composite Housing Market Index was 37 points in the third quarter, up from 27 points a year earlier. The composite index is based on three components—current market activity, future sales expectations, and prospective buyer traffic—and ranges from 0 to 100.

### Affordability, Homeownership, and Foreclosures

Housing affordability, as measured by the NAR Housing Affordability Index, decreased in the second quarter of 2012. [NAR reports housing affordability on a lagged basis.] The NAR composite index estimates that a family earning the median income had 187.4 percent of the income needed to purchase a median-priced, existing single-family home, using standard lending guidelines. That value is down from 207.5 in the first quarter but up from 179.5 in the second quarter of 2011. The decrease in affordability is attributed to a 14.3-percent increase in the median sales price of existing single-family homes, which more than offset a 26-basis-point decline in
Summary

The national homeownership rate remained steady at 65.5 percent in the third quarter of 2012 but was down from 66.3 percent in the third quarter of 2011. The homeownership rate for minorities dropped to 47.8 percent from 47.9 percent in the second quarter and 48.9 percent a year earlier. The homeownership rate for White non-Hispanic households increased in the third quarter to 73.6 percent from 73.5 percent, the homeownership rate for Hispanic households increased to 46.7 percent from 46.5 percent. Two other groups are included in the homeownership rate for minorities: other—non-Hispanic and two or more races—non-Hispanic; the homeownership rates declined for these two groups. The current low homeownership rates reflect the subprime lending crisis, the high rates of unemployment, and the recent severe recession.

According to the MBA’s quarterly National Delinquency Survey report, mortgage delinquencies were up slightly in the second quarter of 2012, reversing a trend of steadily dropping rates over the past year (data are reported with a lag). This reversal is consistent with a slowing economy in the first half of the year. The non-seasonally adjusted, newly initiated foreclosure rate for all mortgages was unchanged in the second quarter. The percentage of seriously delinquent mortgages (90 or more days past due or in the foreclosure process), at 7.31 percent, was at its lowest level since the first quarter of 2009. A major reason is that the loans that are seriously delinquent are predominantly made up of loans originated before 2008, and this pool is steadily growing smaller as a percentage of total loans outstanding.

According to the MBA, in the second quarter of 2012, the (SA) delinquency rate for all mortgage loans was 7.58 percent, up from 7.40 percent in the previous quarter but down from 8.44 percent a year earlier. The (SA) delinquency rate for prime mortgages was 4.88 percent, up from 4.68 percent in the first quarter but down from 5.66 percent a year earlier. The (SA) delinquency rate for subprime mortgage loans was 20.88 percent, up from 20.39 percent in the previous quarter but down from 24.33 percent a year earlier. For FHA loans, the (SA) delinquency rate was 11.89 percent, down from 12.00 percent in the first quarter and 12.62 percent a year earlier.

 Newly initiated foreclosures represented 0.96 percent of all mortgage loans in the second quarter of 2012, the same as in the first quarter and a year earlier. The rate of newly initiated foreclosures on prime loans was 0.66 percent, down from 0.77 percent in the previous quarter and 0.78 percent a year earlier. The foreclosure start rate for subprime loans was 2.40 percent, down from 2.51 percent in the first quarter and 2.87 percent a year earlier. Foreclosure starts on FHA loans increased to 1.53 percent from 0.96 percent in the first quarter and 0.73 percent a year earlier. This jump was triggered by one or more large servicers of FHA loans restarting foreclosure actions on delinquent FHA loans after the mortgage servicing settlement, and it does not reflect a change in FHA loan performance. Servicers’ emphasis on home retention actions, including those actions under the Making Home Affordable Program, is helping to keep the number of newly initiated and completed foreclosures down, despite high rates of mortgage delinquency. Lenders’ review of internal procedures related to the foreclosure process and backlogs in the courts for states with a judicial process also contributed to the decline in foreclosure activity. In the wake of the February 2012 settlement between the federal government, the states’ attorneys general, and the major mortgage servicers, foreclosure activity is starting to pick up again in some states, primarily those where the foreclosure process slowed dramatically in the last 2 years.

Multifamily Housing

Performance in the multifamily housing sector (five or more units) improved in the third quarter of 2012. In the production sector, the number of building permits, starts, and completions all increased. The absorption rates for apartments and for condominiums and cooperatives rose. The rental vacancy rate for multifamily units was below the rates for the previous quarter and previous year.

■ During the third quarter of 2012, builders took out permits for 282,000 new multifamily units (SAAR), up 14 percent from the second quarter and 56 percent from 1 year earlier.

■ Builders started construction on 226,000 new multifamily units (SAAR) in the third quarter, up 8 percent from the second quarter and 24 percent from a year earlier. Builders completed 177,000 multifamily units (SAAR) in the third quarter, up 26 percent from the previous quarter and 20 percent from 1 year ago.

■ For new multifamily units completed in the second quarter of 2012, market absorption during the ensuing 3 months increased for apartments and for condominiums and cooperatives. Of the total number of new apartments completed, 67 percent were leased within 3 months of completion, up from 60 percent in the previous quarter and 51 percent a year earlier. Of the total number of new condominiums and cooperatives completed, 66 percent were sold within 3 months, up slightly from 65 percent in the previous quarter and 54 percent a year earlier.

■ The multifamily rental vacancy rate reported by the Census Bureau was 9.1 percent in the third quarter of 2012, down from 9.4 percent in the second quarter and 10.8 percent a year earlier.