SUMMARY

Housing market conditions continued to show signs of stabilizing during the first quarter of 2010, after a downward trend that began in the first quarter of 2006 and just started to reverse itself in the second quarter of 2009. In the production sector, single-family housing permits and starts increased in the first quarter of 2010, although the number of single-family housing completions fell. The marketing sector performed less well in the first quarter. Sales of new and existing homes both fell. The Case-Shiller® national repeat-sales house-price index recorded a 1.1-percent decrease in the value of homes in the fourth quarter of 2009, following a 3.3-percent increase in the third quarter. The less volatile Federal Housing Finance Agency (FHFA) purchase-only repeat-sales index estimated a 0.1-percent seasonally adjusted (SA) price decline in the fourth quarter of 2009, following a 0.1-percent increase from the second to the third quarter (the data for both series are reported with a lag). Excessive inventories of available homes at the current sales rate increased in the first quarter of 2010, reaching an average rate of 7.8 months’ supply of new homes and 8.1 months’ supply of existing homes compared with rates of 7.7 and 7.0 months’ supply, respectively, in the fourth quarter. The multifamily sector showed improvement in the first quarter.

The national homeownership rate fell 10 basis points to 67.1 percent in the first quarter of 2010. The percentage of delinquencies and newly initiated foreclosures for all mortgage loans fell in the fourth quarter of 2009 (the data are reported with a lag). The percentage of foreclosure starts on subprime loans continued to decline, and the percentage of foreclosure starts on prime loans also dropped. The advance estimate of overall growth in the national economy in the first quarter was an increase of 3.2 percent at a seasonally adjusted annual rate (SAAR), following a 5.6-percent expansion in the fourth quarter, according to the Bureau of Economic Analysis. The housing component of Gross Domestic Product (GDP) decreased 10.9 percent in the first quarter of 2010 compared with an increase of 3.8 percent in the previous quarter.

Housing Production

Housing production indicators continued to show improvement in the first quarter of 2010. The number of single-family housing permits and starts both rose in the first quarter, but housing completions declined, likely because of unusually cold weather. Multifamily (condominiums and apartments) permits and starts also increased during the first quarter, but completions declined. Fluctuations in the multifamily sector are less indicative of the market climate, however, because the sector tends to be volatile. Manufactured housing reversed a downward trend that began after the hurricane-induced sales-order increases of late 2005.

During the first quarter of 2010, builders took out permits for new housing at a pace of 646,000 (SAAR) units, which was 8 percent higher than in the fourth quarter of 2009 and 22 percent higher than the rate a year earlier. Single-family building permits were issued for 518,000 (SAAR) housing units, indicating an increase of 9 percent from the fourth quarter and 44 percent from the previous year. This is the fourth consecutive quarter in which single-family permits have increased, after having declined for 14 consecutive quarters.
Builders started construction on 617,000 [SAAR] new housing units in the first quarter, up 10 percent from the fourth quarter and 17 percent from the previous year. Single-family housing starts totaled 525,000 [SAAR] housing units in the first quarter, up 9 percent from the fourth quarter and 46 percent from a year earlier. With the exception of the fourth quarter of 2009, single-family starts have been on the rise since the second quarter of 2009, after having fallen for 12 consecutive quarters.

Builders completed 666,000 [SAAR] new housing units in the first quarter, down 15 percent from the fourth quarter and 18 percent from the same quarter a year earlier. Single-family completions totaled 462,000 [SAAR] units in the first quarter, down 12 percent from the fourth quarter and 16 percent from a year earlier. Completions had increased in the third and fourth quarters of 2009, after having declined for 14 consecutive quarters.

Manufactured housing shipments reached 51,700 [SAAR] units in the first quarter, up 6 percent from the fourth quarter but down 1 percent from the previous year. Onsite placements of manufactured housing reached 53,700 units in the fourth quarter, up 9 percent from the previous quarter but down 22 percent from a year earlier.

Marketing of Housing

The housing marketing sector exhibited a slightly downward trend in the first quarter of 2010. The number of new and existing homes sold fell, as did the median sales prices of both new and existing homes. The average months’ supply of homes for sale increased marginally for new homes but rose somewhat more for existing homes. Builders’ confidence, as measured by the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index, dropped slightly from the previous quarter.

During the first quarter of 2010, 358,000 [SAAR] new single-family homes were sold, down 4 percent from the 372,000 [SAAR] homes sold in the fourth quarter of 2009 but up 6 percent from the first quarter a year earlier.

The NATIONAL ASSOCIATION OF REALTORS® (NAR) sold 5.137 million [SAAR] existing single-family homes in the first quarter, down 14 percent from the fourth quarter but up 11 percent from the previous year. According to a NAR practitioner survey, sales to new homebuyers accounted for 42 percent of all home sales transactions in the first quarter of 2010.

The median price of new homes sold in the first quarter was $217,800, down 1 percent from the fourth quarter but up 5 percent from the previous year. The average price of new homes sold in the first quarter was $276,700, up 1 percent from the fourth quarter and up 8 percent from a year earlier. A constant-quality house would have sold for $282,200 in the first quarter, down 1 percent from the fourth quarter but up 3 percent from a year earlier.

NAR reported that the median price of existing homes sold was $166,700 in the first quarter, down 2 percent from the fourth quarter and down 1 percent from the previous year. The average price of existing homes sold in the first quarter was $212,100, down 2 percent from the fourth quarter but up 1 percent from a year earlier. According to a NAR practitioner survey, distressed sales (foreclosures and short sales) represented 36 percent of all home sales in the first quarter, up from 32 percent in the fourth quarter. Distressed-sale prices are typically 15 to 20 percent below normal market prices.

During the first quarter of 2010, the average inventory of new homes for sale was 231,000 units, down 2 percent from the fourth quarter and down 29 percent from the previous year. That inventory would support 7.8 months of sales at the current sales pace, up 0.1 month from the fourth quarter but down 3.8 months from a year earlier. The average inventory of existing homes for sale in the first quarter was 3.464 million units, which is virtually the same as in the fourth quarter but 6 percent lower than in the previous year. That inventory would support 8.1 months of sales at the current sales pace, up 1.1 months from the fourth quarter but down 1.5 months from a year earlier. 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 further depress home prices.

The Federal Housing Administration’s (FHA’s) share of the mortgage market for all loans decreased in the fourth quarter of 2009 but increased for purchase loans (the data are reported with a lag). Based on loan origination data, the FHA’s dollar volume share of the mortgage market was 16.5 percent in the fourth quarter, down 0.6 percentage point from the third quarter and 1.5 percentage points from the fourth quarter a year earlier. For home purchase loans, the FHA’s dollar volume share was 27.6 percent in the fourth quarter, up 3.1 percentage points from the third quarter and 9.1 percentage points from the previous year. Based on the number of loans originated, the FHA’s share of the mortgage market was 19.6 percent in the fourth quarter, down 0.9 percentage point from the third quarter and down 1.7 percentage points from a year earlier. For home purchase loans, the FHA’s share of new mortgage loans was 31.7 percent in the fourth quarter, up 3.0 percentage points from the third quarter and 9.8 percentage points from a year earlier.

Summary
Home builders’ optimism fell slightly in the first quarter. The NAHB/Wells Fargo composite Housing Market Index was 16 in the first quarter of 2010, down 1 point from the fourth quarter of 2009 but up 7 points from the first quarter of 2009. The 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 rose in the first quarter of 2010, according to the NAR Housing Affordability Index. The composite index indicates that a family earning the median income had 174.9 percent of the income needed to purchase a median-priced, existing single-family home, using standard lending guidelines. That value is up 3 percent from the fourth quarter of 2009 but down 3 percent from the first quarter of 2009. The increase in affordability is attributed to a 2-percent decrease in the median price of existing single-family homes sold and a 0.4-percent rise in median family income, which more than offset a 3-basis-point increase in mortgage interest rates.

Estimates from the Mortgage Bankers Association’s [MBA’s] quarterly National Delinquency Survey indicate that both the delinquency rate and the rate of loans entering foreclosure for mortgages on 1-to 4-family homes fell during the fourth quarter of 2009 [the data are reported with a lag]. A sizable and continued fourth quarter drop of the 30-day delinquency rate, which historically has been a leading indicator of serious delinquencies and foreclosures, may indicate the beginning of the end of the recent wave in mortgage delinquencies and foreclosures, according to MBA. The percentage of newly initiated foreclosures (foreclosure starts) continued to decrease for subprime loans but also declined for prime loans. The percentage of mortgage holders seriously delinquent on their mortgages [90 or more days past due or in the foreclosure process] reached 9.64 percent (not seasonally adjusted), the highest ever recorded by the MBA survey, up from 8.85 percent last quarter.

The seriously delinquent category is elevated because it not only includes increases in trial loan modifications, but it also reflects a buildup in foreclosure inventory resulting from clogged courts.

The delinquency rate (SA) for all mortgage loans in the fourth quarter of 2009 was 9.47 percent, down from 9.64 percent in the third quarter and 7.88 percent a year earlier. The delinquency rate [SA] for prime mortgages was 6.73 percent in the fourth quarter, down from 6.84 percent in the third quarter and 5.06 percent a year earlier. The delinquency rate (SA) for subprime mortgage loans was 25.26 percent in the fourth quarter, down from 26.42 percent in the third quarter and 21.88 percent a year earlier. For FHA loans in the MBA survey, the delinquency rate [SA] was 13.57 percent in the fourth quarter, down from 14.36 percent in the third quarter and 13.73 percent from the fourth quarter of the previous year.

Newly initiated foreclosures represented 1.20 percent of all mortgage loans in the fourth quarter, down from 1.42 percent in the third quarter but up from 1.08 percent a year earlier. Foreclosures started on prime loans declined to 0.86 percent in the fourth quarter, down from 1.14 percent in the third quarter but up from 0.68 percent in the fourth quarter of the previous year. Foreclosures started on subprime loans fell for the third consecutive quarter to 3.66 percent in the fourth quarter, down from 3.76 percent in the third quarter and 3.96 percent a year earlier. Not all newly initiated foreclosures end in foreclosure completions. The lag between a foreclosure start and a completed foreclosure ranges between 2 and 15 months, with an average lag period of about 6 months. Approximately 32 percent of foreclosures initiated in the first quarter of 2009 were completed in the third quarter of 2009 (data are not yet available for the fourth quarter of 2009).

The national homeownership rate was 67.1 percent in the first quarter of 2010, down from 67.2 percent in the fourth quarter and 67.3 percent a year earlier. The homeownership rate for minority households decreased to 49.5 percent in the first quarter, down from 49.8 percent in the fourth quarter but the same rate as a year earlier. The decline in homeownership reflects the subprime lending crisis, the high rates of unemployment, and the recent severe recession. Servicer emphasis on home retention actions, including those actions under the Making Home Affordable program, are helping to keep the number of newly initiated and completed foreclosures down, despite rising serious delinquencies.

**Multifamily Housing**

Performance in the multifamily [five or more units] housing sector improved in the first quarter of 2010. In the production sector, the number of building permits and starts rose, although the number of completions fell. The absorption rate for multifamily units declined, but the rental vacancy rate improved.

- In the first quarter of 2010, builders took out permits for 109,000 (SAAR) new multifamily units, up 5 percent from the fourth quarter of 2009 but down 28 percent from the first quarter of 2009.

- Builders started construction on 82,000 (SAAR) new multifamily units in the first quarter, up 19 percent from 69,000 units in the fourth quarter but down 45 percent from 150,000 units a year earlier.
 Builders completed 193,000 (SAAR) multifamily units in the first quarter, down 19 percent from the fourth quarter and 24 percent from a year earlier.

Market absorption of new multifamily units decreased in the first quarter of 2010. Of the total number of new apartments completed in the fourth quarter, 51 percent were leased in the first 3 months after completion. This rate of market absorption is 1 percentage point lower than in the fourth quarter but 6 percentage points higher than in the first quarter of 2009. The absorption rate of new condos and co-ops completed in the fourth quarter was 36 percent, down 10 percentage points from the previous quarter and 3 percentage points from a year earlier. The multifamily rental vacancy rate in the first quarter of 2010 was 12.1 percent, down from 12.5 percent in the previous quarter but up from 11.5 percent in first quarter of the previous year. In comparison, the rental vacancy rate for single-family units was 9.7 percent in the first quarter, up from 9.6 in both the previous quarter and the first quarter of the previous year.