SUMMARY

Housing market conditions showed some signs of stabilizing during the second quarter of 2009, after a fairly steady decline since peaking during 2005. In the production sector, the numbers of starts and completions increased, but the number of building permits issued remained steady. In the marketing sector, sales and prices of new and existing homes all rose. Excessive inventories of available homes receded to an average rate of a 9.9 months’ supply for new homes and remained steady at a 9.8 months’ supply for existing homes at the current sales rates. The percentage of foreclosure starts for all mortgage loans in the first quarter of 2009 (the data are reported with a lag) set a new record high after remaining steady since the second quarter of 2008. In the subprime segment of the mortgage market, where the crisis began, the foreclosure start rate was again for both subprime mortgage loans and subprime adjustable-rate mortgage loans. The multifamily sector was mixed in the second quarter of 2009. The numbers of permits and starts fell, but the number of completions increased. Conditions in the rental housing market softened. During the second quarter of 2009, the rate of apartment absorptions rose, but the vacancy rate increased sharply. According to the Bureau of Economic Analysis, the advance estimate of overall growth in the national economy was a decline of 1.0 percent at a seasonally adjusted annual rate (SAAR) in the second quarter of 2009, a much slower pace of contraction than the 6.4-percent decline recorded in the first quarter of 2009. The housing component of Gross Domestic Product (GDP) fell 29.3 percent in the second quarter of 2009, compared with a decline of 38.2 percent in the previous quarter, and contributed a 0.88-percentage-point reduction in the growth of real GDP, compared with a decline of 1.33 percentage points in the first quarter of 2009.

Housing Production

Many housing production indicators improved in the second quarter of 2009. The numbers of single-family housing permits issued and total starts and completions all rose in the second quarter of 2009. Manufactured housing continued a downward trend that began after the hurricane-induced orders of late 2005.

■ During the second quarter of 2009, builders took out permits for new housing at a pace of 529,000 (SAAR) units, virtually the same as in the first quarter of 2009 but 50 percent lower than in the second quarter of 2008. Single-family permits were issued for 406,000 (SAAR) housing units in the second quarter of 2009, an increase of 12 percent from the first quarter of 2009 but 35 percent lower than the second quarter of 2008. For the first time in 15 consecutive quarters, the number of single-family permits issued has not declined.

■ Builders started construction on 541,000 (SAAR) new housing units in the second quarter of 2009, up 3 percent from the first quarter of 2009 but down 47 percent from the second quarter of 2008. Single-family housing starts totaled 423,000 (SAAR) housing units, up 18 percent from the first quarter of 2009 but down 37 percent from the second quarter of 2008. For the first time in 13 consecutive quarters, single-family starts have not declined.

■ Builders completed 828,000 (SAAR) new housing units in the second quarter of 2009, up 2 percent from the first quarter of 2009 but down 25 percent from the second quarter of 2008. Single-family completions totaled 524,000 (SAAR) in the second quarter of 2009, down 4 percent from the first quarter of 2009 and down 38 percent from the second quarter of 2008. The increase in completions
represents the first time in 13 consecutive quarters that this indicator has not declined.

Manufactured housing shipments reached a new record low of 49,000 (SAAR) units in the second quarter of 2009, the lowest level since the series began in 1959. Manufacturers' shipments in the second quarter of 2009 were down 7 percent from the first quarter of 2008.

Housing Marketing

The housing marketing sector also showed signs of improvement in the second quarter of 2009. The numbers of new and existing homes sold and the median and average sales prices for these homes all rose in the second quarter of 2009. Sales of new homes increased for the first time in 15 quarters. The inventory of new homes available for sale declined, but the supply of existing homes for sale increased. The number of months' supply of homes for sale dropped substantially for new homes but remained virtually the same for existing homes. The rise in new home sales and prices and the receding supply of new homes for sale caused builders' confidence, as measured by the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index, to increase in the second quarter of 2009.

- During the first quarter of 2009, 356,000 (SAAR) new single-family homes were sold, up 5 percent from the 338,000 (SAAR) homes sold in the first quarter of 2009 but down 30 percent from the second quarter of 2008.
- REALTORS® sold 4,757,000 (SAAR) existing single-family homes in the second quarter of 2009, up 4 percent from the first quarter of 2009 and down only 3 percent from the second quarter of 2008.
- The median price of new homes sold in the second quarter of 2009 was $216,600, up 4 percent from the first quarter of 2009 but down 8 percent from the second quarter of 2008. The average price of new homes sold in the second quarter of 2009 was $273,800, up 7 percent from the first quarter of 2009 but down 10 percent from the second quarter of 2008. A constant-quality house would have sold for $284,200 in the second quarter of 2009, up 3 percent from the first quarter of 2009 but down 6 percent from the second quarter of 2008.
- The NATIONAL ASSOCIATION OF REALTORS® (NAR®) reported that the median price of existing homes sold was $174,400 in the second quarter of 2009, up 4 percent from the first quarter of 2009 but down 17 percent from the second quarter of 2008. The average price of existing homes sold in the second quarter of 2009 was $218,100, up 4 percent from the first quarter of 2009 but down 14 percent from the second quarter of 2008.
- During the second quarter of 2009, the average inventory of new homes for sale was 292,000 units, down 11 percent from the first quarter of 2009 and down 35 percent from the second quarter of 2008. This inventory would support 9.9 months of sales at the current sales pace, down 1.7 months from the first quarter of 2009 and down 0.7 month from the second quarter of 2008. The average inventory of existing homes for sale was 3.87 million units, up 5 percent from the first quarter of 2009 but down 14 percent from the second quarter of 2008. This inventory would support 9.8 months of sales at the current sales pace, up 0.1 month from the first quarter of 2009 but down 1.3 months from the second quarter of 2008.
- The Federal Housing Administration (FHA) continues to account for a large share of the mortgage market. Based on loan origination data, the FHA's dollar volume share of the mortgage market was 17.5 percent in the first quarter of 2009 (the data are reported with a lag), down 27 percent from the fourth quarter of 2008 but up 108 percent from the first quarter of 2008. Based on the number of loans originated, the FHA's share of the mortgage market was 20.8 percent in the first quarter of 2009, down 26 percent from the fourth quarter of 2008 but up 81 percent from the first quarter of last year. Although the FHA's share of home purchase loans in the first quarter of 2009 was up from the fourth quarter of 2008, the number of mortgage refinance loans was 46 percent lower than in the previous quarter. This drop in the FHA's share of refinance originations reflects a rise in interest-rate–reducing refinances in the market, reflecting the low mortgage rates available in early 2009. The FHA typically does not capture a high share of interest-rate–induced refinances because borrowers seeking rate reductions often have sufficient equity to avoid paying mortgage insurance. In previous quarters, the FHA's share of refinance originations was higher due to a higher proportion of refinances by borrowers seeking to change product type. For example, borrowers with conventional adjustable-rate loans who faced potentially large rate resets were refinancing into FHA loan products.
- Home builders were more optimistic in the second quarter of 2009. The NAHB/Wells Fargo composite Housing Market Index was 15 in the second quarter of 2009, up 6 points from the first quarter of 2009 but down 4 points from the second quarter of 2008. The index is based on three components—current sales expectations, future sales expectations, and prospective buyer traffic—and ranges from 0 to 100. All three components increased in the second quarter of 2009.
Affordability, Homeownership, and Foreclosures

Housing affordability decreased in the second quarter of 2009, according to the NAR® Housing Affordability Index. The composite index for the second quarter suggests that a family earning the median income had 169.3 percent of the income needed to purchase the median-priced, existing single-family home using standard lending guidelines. This value is down 5.1 percentage points from the first quarter of 2009 and down 40.1 percentage points from the second quarter of 2008. The decrease in affordability is attributed to a 4-percent increase in the median price of existing single-family homes sold and a 2.3-percent decline in median family income, which more than offset the positive impact of a 14-basis-point decrease in mortgage interest rates.

The delinquency rate on all mortgage loans in the first quarter of 2009 (the data are reported with a lag) was at its highest level since the series began in 1972, according to the Mortgage Bankers Association. The foreclosure start rate on all mortgages also set a record high after remaining steady since the second quarter of 2008. The delinquency rate for all mortgage loans was 9.12 percent in the first quarter of 2009, up from 7.88 percent in the fourth quarter of 2008 and up from 6.35 percent in the first quarter of 2008. The delinquency rate for subprime mortgage loans was 24.95 percent in the first quarter of 2009, up from 21.88 percent in the fourth quarter of 2008 and up from 18.79 percent in the first quarter of 2008. Foreclosures started on all mortgage loans were at 1.37 percent in the first quarter of 2009, up 29 basis points from 1.08 percent recorded in the fourth quarter of 2008 and up 36 basis points from 1.01 percent recorded in the first quarter of 2008. Foreclosures started on subprime mortgage loans increased to 4.65 percent in the first quarter of 2009, up 69 basis points from 3.96 percent in the fourth quarter of 2008 and up 57 basis points from 4.08 percent in the first quarter of 2008. Not all foreclosure starts end in foreclosure. The lag between a foreclosure start and a completed foreclosure ranges between 2 and 15 months and the average lag is approximately 6 months.

The second quarter 2009 homeownership rate was 67.4 percent, up 10 basis points from 67.3 percent in the first quarter of 2009 but down 70 basis points from the second quarter 2008 rate. The increase in homeownership reflects the recent upturn in home purchases and a decreasing percentage of completed foreclosures due to moratoria in effect on foreclosures and increasing use of loan modification plans.

Multifamily Housing

Performance in the multifamily [five or more units] housing sector was mixed in the second quarter of 2009. In the production sector, the numbers of building permits and starts decreased, but the number of completions increased. The absorption rate of new rental units rose during the second quarter of 2009, but the rental vacancy rate also increased fairly sharply.

In the second quarter of 2009, builders took out permits for 103,000 (SAAR) new multifamily units, down 31 percent from the first quarter of 2009 and down 73 percent from the second quarter of 2008.

Construction was started on 108,000 (SAAR) new multifamily units in the second quarter of 2009, down 28 percent from the first quarter of 2009 and down 67 percent from the second quarter of 2008.

Builders completed 293,000 (SAAR) multifamily units in the second quarter of 2009, up 16 percent from the first quarter of 2009 and up 24 percent from the second quarter of 2008.

Market absorption of new rental apartments increased in the second quarter of 2009. Of the total number of new apartments completed in the first quarter of 2009, 52 percent were leased in the first 3 months following completion. This absorption rate is up 7 percentage points from the first quarter of 2009 but down 1 percentage point from the second quarter of 2008.

The rental vacancy rate in the second quarter of 2009 was 10.6 percent, up 50 basis points from the previous quarter and up 60 basis points from the second quarter of 2008.