SUMMARY

Housing indicators for the second quarter of 2012 continue to portray a fragile recovery in the housing market. In the production sector, the number of housing permits and completions rose for both single-family and multifamily homes. Housing construction starts increased for single-family homes but declined for multifamily housing. In the marketing sector, sales rose for new homes but fell slightly for existing homes. The Standard and Poor's Case-Shiller® national seasonally adjusted (SA) repeat-sales house price index, which is reported with a lag, recorded an increase in the value of homes in the first quarter of 2012 compared with the previous quarter but a decline in year-over-year home prices. The Federal Housing Finance Agency's (FHFA) purchase-only (SA) repeat-sales index, also reported on a lagged basis, estimated a slight gain in home values from both the previous quarter and previous year. Inventories of available homes at the current sales rate remain at low levels. The months' supply of new homes reached an average rate of 4.8 months, down from 5.0 months in the previous quarter; for existing homes, the rate was 6.5 months, up from 6.2 months.

The national homeownership rate increased in the second quarter, as did the homeownership rate for minorities. According to the Mortgage Bankers Association (MBA), the delinquency rate for all mortgages and the rate of newly initiated foreclosures, which are reported with a lag, fell in the first quarter of 2012. The U.S. economy grew at a seasonally adjusted annual rate (SAAR) of 1.5 percent in the second quarter, following 2.0-percent growth in the first quarter, according to the Bureau of Economic Analysis' first estimate. Residential investment increased 9.7 percent in the second quarter compared with a 20.5-percent increase in the first quarter and contributed 0.22 percent to real GDP growth compared with 0.43 percent in the first quarter.

Housing Production

Housing production indicators in the second quarter of 2012 were similar to the first quarter. In the single-family sector, housing permits, starts, and completions all rose. In the multifamily sector, permits and completions rose but starts fell slightly. Shipments of manufactured housing declined in the second quarter.

- Builders took out permits for new housing at a pace of 756,000 (SAAR) units during the second quarter, 5 percent higher than the first quarter and 24 percent higher than a year earlier. Single-family building permits were issued for 485,000 (SAAR) units, up 4 percent from the first quarter and 19 percent from year-earlier levels.
- During the second quarter, builders started construction on 739,000 new housing units (SAAR), up 3 percent from the first quarter and 29 percent from a year earlier. Construction began on 519,000 (SAAR) single-family units, up 7 percent from the first quarter and 23 percent from a year earlier.
- Builders completed 630,000 (SAAR) new housing units in the second quarter, up 11 percent from the first quarter and 14 percent from one year ago. Single-family home completions, at 475,000 (SAAR), were up 12 percent from the previous quarter and 8 percent from last year.
- Manufactured housing shipments totaled 54,700 (SAAR) units in the second quarter, down 6 percent from the first quarter but up 12 percent from a year earlier. Onsite placements of manufactured housing, which are reported with a lag, totaled 54,300 units in the first quarter, up 9 percent from the previous quarter and 24 percent from a year earlier.
Marketing of Housing

Data on the marketing of housing were mixed in the second quarter of 2012. The number of new homes sold increased but sales of previously owned homes declined slightly. The seasonally adjusted S&P/Case-Shiller® and FHFA repeat-sales house price indices, which are reported with a lag, showed improvement in house price trends, with both the Case-Shiller® and FHFA indices rising from the fourth quarter of 2011 to the first quarter of 2012. The Case-Shiller® index continued to show a year-over-year decline in home prices, while the FHFA index estimated a slight increase. The average months’ supply of homes for sale remained below the historical 6 months’ average for new homes and slightly above the historical average for existing homes. Home builders’ confidence, as measured by the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index, remained the same.

- During the second quarter of 2012, 363,000 (SAAR) new single-family homes were sold, up 3 percent from the 352,000 (SAAR) homes sold in the first quarter and up 17 percent from one 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 4.537 million (SAAR) in the second quarter, down 1 percent from the previous quarter but up 9 percent from year-earlier levels. According to a NAR practitioner survey, sales to first-time homebuyers accounted for 84 percent of all sales transactions in the second quarter, up from 35 percent in the previous quarter.

- The median price of new homes sold in the second quarter was $235,300, down 1 percent from the previous quarter but up 3 percent from year-earlier levels. The average price of new homes sold was $280,300, up 1 percent from the previous quarter and 5 percent from the previous year. A new constant-quality house would have sold for $282,700, up 1 percent from both the previous quarter and the previous year. (Quality is based on a typical house built in 2005.)

- NAR reported that the median price of existing homes sold was $181,100 in the second quarter, up 14 percent from the first quarter and 7 percent from a year earlier. The average price of existing homes sold in the second quarter was $230,000, up 12 percent from the previous quarter and 6 percent from the previous year. According to a NAR practitioner survey, distressed sales (foreclosure and short sales) accounted for 26 percent of all home sales in the second quarter, down from 33 percent both in the first quarter and one year ago. Distressed sales prices are typically 15 to 20 percent below normal market prices. Investors’ share of existing home sales was 19 percent in the second quarter, down from 22 percent in the previous quarter but the same as a 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 first quarter of 2012 were up 1.1 percent from the previous quarter but down 1.9 percent from a year earlier. The [SA] FHFA purchase-only national index estimated that home prices were up 0.5 percent from both the previous quarter and 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 second quarter of 2012, the average inventory of new homes for sale was 144,000 units, down 2 percent from the first quarter and 15 percent from a year earlier. That inventory would support 4.8 months of sales at the current sales pace, down 0.2 month from the first quarter and 1.8 months over the four-quarter period. The average inventory of existing homes for sale in the second quarter was 2.453 million units, up 4 percent from the first quarter but down 22 percent from a year earlier. That inventory would support 6.5 months of sales at the current sales pace, up 0.3 months from the previous quarter but down 2.6 months from one 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 remained the same in the second quarter of 2012 after rising substantially in the first quarter. The NAHB/Wells Fargo composite Housing Market Index was 27 points in the second quarter, up from 15 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, increased in the first quarter of 2012. [NAR reports housing affordability on a lagged basis.] The NAR composite index estimates that a family earning the median income had 205.4 percent of the income needed to purchase a median-priced, existing single-family home, using standard lending guidelines.
That value is up from 197.0 in the fourth quarter and 187.9 in the first quarter of 2011. The increase in affordability is attributed to a 2.5-percent decrease in the median sales price of existing single-family homes, a 13-basis-point decline in mortgage interest rates and a 0.2-percent increase in median family income.

The national homeownership rate rose to 65.5 percent in the second quarter of 2012, up from 65.4 percent in the first quarter but down from 65.9 percent a year earlier. The homeownership rate for minorities, at 47.9 percent, also rose, from 47.5 percent in the previous quarter and 47.8 percent a year earlier. The homeownership rate for White non-Hispanic households remained the same in the second quarter at 73.5 percent; the homeownership rate for African-American households rose to 44.5 percent from 43.9 percent in the first quarter; and the homeownership rate for Hispanic households was 46.5 percent, up from 46.3 percent in the first quarter. 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 performance continued to improve in the first quarter of 2012 [data are reported with a lag], reflecting improvement in the job market and broader economy. The SA delinquency rate is at its lowest level since 2008, due largely to declines in 30- and 60-day default rates. The non-seasonally adjusted newly initiated foreclosure rate for all mortgages also decreased, to its lowest level since 2007. The percentage of seriously delinquent mortgages (90 or more days past due or in the foreclosure process), at 7.44 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. Total delinquency rates were down but foreclosure measures were up for FHA mortgages. The FHA market share, however, recently grew rapidly and, as noted by the MBA, purchase loans originated in 2008 and 2009 are now entering the peak of a normal delinquency curve.

According to the MBA, in the first quarter of 2012, the (SA) delinquency rate for all mortgage loans was 7.40 percent, down from 7.58 percent in the previous quarter and 8.32 percent a year earlier. The (SA) delinquency rate for prime mortgages was 4.68 percent, down from 4.83 percent in the fourth quarter and 5.50 percent a year earlier. The (SA) delinquency rate for subprime mortgage loans was 20.39 percent, down from 20.83 percent in the previous quarter and 24.01 percent a year earlier. For FHA loans, the (SA) delinquency rate was 12.00 percent, down from 12.36 percent in the fourth quarter and 12.03 percent a year earlier.

Newly initiated foreclosures represented 0.96 percent of all mortgage loans in the first quarter of 2012, down from 0.99 percent in the fourth quarter and 1.08 percent a year earlier. The rate of newly initiated foreclosures on prime loans was 0.77 percent, down from 0.78 percent in the previous quarter and 0.86 percent a year earlier. The foreclosure start rate for subprime loans was 2.51 percent, down from 2.84 percent in the fourth quarter and 3.08 percent a year earlier. 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. Foreclosure actions may pick up again in the near future, however, in the wake of the February 2012 settlement between the federal government, the states’ attorneys general, and the major mortgage servicers.

**Multifamily Housing**

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

- During the second quarter of 2012, builders took out permits for 249,000 (SAAR) new multifamily units, up 7 percent from the first quarter and 37 percent from one year earlier.
- Builders started construction on 210,000 (SAAR) new multifamily units in the second quarter, down 3 percent from the first quarter but up 48 percent from a year earlier. Builders completed 143,000 (SAAR) multifamily units in the second quarter, up 4 percent from the previous quarter and 41 percent from one year ago.
- For new multifamily units completed in the first 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, 61 percent were leased within 3 months of completion, up from 56 percent in both the previous quarter and a year earlier. Of the total number of new condominiums and cooperatives completed, 64 percent sold within 3 months, up from 49 percent in the previous quarter and 54 percent a year earlier.
- The multifamily rental vacancy rate reported by the Census Bureau was 9.4 percent in the second quarter of 2012, down from 9.9 percent in the first quarter and 10.0 percent a year earlier.