



U.S. Housing Market Conditions

February 2013

SUMMARY

Housing indicators for the fourth quarter of 2012 show the recovery in the housing market is gaining strength, although there is regional variation. In the production sector, the number of housing permits, starts, and completions all rose for single-family units. Permits and starts increased for multifamily units, although completions fell. 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 third quarter of 2012 compared with the previous quarter and the previous year (both indices are reported with a lag). Inventories of available homes for sale at the current sales rate remain at low levels. The months' supply of new homes reached an average rate of 4.7 months, up slightly from 4.6 months in the previous quarter, while the rate for existing homes was 4.8 months, down from 6.0 months.

The national homeownership rate declined slightly in the fourth quarter, including a decrease in the homeownership rate for minorities. According to the Mortgage Bankers Association (MBA), the delinquency rate for all mortgage loans fell during the third quarter of 2012, and the rate of newly initiated foreclosures reached its lowest level since 2007 (the data are reported with a lag). The U.S. economy contracted at a seasonally adjusted annual rate (SAAR) of 0.1 percent in the fourth quarter of 2012 following 3.1-percent growth in the third quarter, according to the Bureau of Economic Analysis' first estimate. Real residential investment increased 15.3 percent in the fourth quarter compared with a 13.5-percent gain in the third quarter and contributed 0.36 percent to real Gross Domestic Product (GDP) growth compared with 0.31 percent in the third quarter.

Housing Production

Housing production indicators improved in the fourth quarter of 2012. Housing permits, starts, and completions rose in the single-family sector; permits and starts rose but completions fell in the multifamily sector (five or more units). Shipments of manufactured housing increased slightly.

- Builders took out permits for new housing at a pace of 892,000 units (SAAR) during the fourth quarter, 7 percent higher than the previous quarter and 29 percent higher than a year earlier. Single-family building permits were issued for 569,000 units (SAAR), up 9 percent from the third quarter and 27 percent from year-earlier levels. Builders took out permits for 297,000 new multifamily units (SAAR), up 5 percent from the third quarter and 35 percent from 1 year earlier.
- During the fourth quarter, builders started construction on 898,000 new housing units (SAAR), up 16 percent from the third quarter and 32 percent from a year earlier. Construction began on 592,000 single-family units (SAAR), up 9 percent from the third quarter and 25 percent from 1 year ago. Builders started construction on 293,000 new multifamily units (SAAR) in the fourth quarter, up 33 percent from the third quarter and 55 percent from last year.
- Builders completed 700,000 new housing units (SAAR) in the fourth quarter, up 4 percent from the third quarter and 19 percent from 1 year ago. Single-family home completions, at 527,000 units (SAAR), were up 7 percent from the previous quarter and 16 percent from last year. Builders completed 166,000 multifamily units (SAAR) in the fourth quarter, down 4 percent from the previous quarter but up 29 percent from 1 year ago.

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- Manufactured housing shipments totaled 54,300 units (SAAR) in the fourth quarter, up 1 percent from the third quarter but down 11 percent from a year earlier. Onsite placements of manufactured housing, which are reported with a lag, totaled 50,000 units (SAAR) in the third quarter, up 3 percent from the previous quarter and 6 percent from a year earlier.

Marketing of Housing

Data on the marketing of housing improved in the fourth quarter of 2012. The number of sales of new and previously owned homes increased. The (SA) 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 second to the third quarter of 2012 and over the four-quarter period. The average months' supply of homes for sale remained below the historical 6 months' average for new homes and, as of the fourth quarter, is below the historical average for previously owned homes. The absorption rates for apartments and for condominiums and cooperatives slowed, although the rental vacancy rate for multifamily units continued to drop. Home builders' confidence, as measured by the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index, rose.

- During the fourth quarter of 2012, 377,000 new single-family homes (SAAR) sold, up 2 percent from the 371,000 homes (SAAR) sold in the third quarter and up 15 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 4.897 million (SAAR) in the fourth quarter, up 5 percent from the previous quarter and 12 percent from year-earlier levels. According to a NAR practitioner survey, sales to first-time homebuyers accounted for 30 percent of all sales transactions in the fourth quarter, down from 32 percent in the previous quarter and 33 percent a year ago.
- The median price of new homes sold in the fourth quarter was \$244,700, up 11 percent from year-earlier levels. The average price of new homes sold was \$289,800, up 12 percent from the previous year. A new constant-quality house would have sold for \$293,400, up 5 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 \$179,000 in the fourth quarter, up 10 percent from a year earlier. The average price of existing homes sold in the fourth quarter was

\$227,900, up 9 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 fourth quarter, the same as in the third quarter but down from 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 20 percent in the fourth quarter, up from 17 percent in the previous quarter and 19 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 third quarter of 2012 were up 2.2 percent from the previous quarter and 3.6 percent from a year earlier. The (SA) FHFA purchase-only national index estimated that home prices were up 1.1 percent from the previous quarter and 4.0 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 fourth quarter of 2012, the average inventory of new homes for sale was 149,000 units, up 3 percent from the third quarter but down 4 percent from a year earlier. That inventory would support 4.7 months of sales at the current sales pace, up 0.1 month from the third quarter but down 1.0 month over the four-quarter period. The average inventory of existing homes for sale in the fourth quarter was 1.973 million units, down 15 percent from the third quarter and 23 percent from a year earlier. That inventory would support 4.8 months of sales at the current sales pace, down 1.2 months from the previous quarter and 2.2 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.
- For new multifamily units completed in the third quarter of 2012, market absorption during the ensuing 3 months decreased for apartments and for condominiums and cooperatives. Of the total number of new apartments completed, 63 percent leased within 3 months of completion, down slightly from 65 percent in the previous quarter and 68 percent a year earlier. Of the total number of new condominiums and cooperatives completed, 57 percent sold within 3 months, down from 66 percent in the previous quarter and 79 percent a year earlier.



- The multifamily rental vacancy rate reported by the Census Bureau was 8.8 percent in the fourth quarter of 2012, down from 9.1 percent in the third quarter and 10.1 percent a year earlier.
- Home builders' views of the housing market rose in the fourth quarter of 2012. The NAHB/Wells Fargo composite Housing Market Index was 44 points in the fourth quarter, up from 37 points the previous quarter and 19 points the previous year. 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 third quarter of 2012. (NAR reports housing affordability on a lagged basis.) The NAR composite index estimates that a family earning the median income had 189.1 percent of the income needed to purchase a median-priced, existing single-family home, using standard lending guidelines. That value is up from 187.4 in the second quarter and 183.8 in the third quarter of 2011. The increase in affordability is attributed to a 20-basis-point decline in mortgage interest rates, which more than offset a 1.7-percent increase in the median sales price of existing single-family homes. Median family income, another component of housing affordability, was virtually unchanged from the second quarter of 2012.

The national homeownership rate declined to 65.4 percent in the fourth quarter of 2012 from 65.5 percent in the previous quarter and 66.0 percent a year earlier. The homeownership rate for minorities dropped to 47.5 percent from 47.8 percent in the third quarter and 48.2 percent a year earlier. The homeownership rate for White non-Hispanic households remained the same as in the third quarter, the homeownership rate for African-American households rose to 45.2 percent from 44.8 percent, and the homeownership rate for Hispanic households fell to 45.0 percent from 46.7 percent. Two other groups are included in the homeownership rate for minorities: other race—non-Hispanic and two or more races—non-Hispanic; the homeownership rates rose 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 decreased during the third quarter of 2012, driven mainly by loans that are 90 or more days delinquent, which fell by 23 basis points. The 30-day delinquency rate increased slightly but remains close to its long-term average. The delinquency rate includes loans that are at least one payment past due but does not include loans in the process of foreclosure. The percentage of loans on which foreclosure actions were started during the third quarter was down 6 basis points from last quarter and is at its lowest level since 2007. The percentage of seriously delinquent mortgages (90 or more days past due or in the foreclosure process) was 7.03 percent, a decrease of 28 basis points from last quarter. FHA foreclosure starts declined after a sizeable increase in the second quarter; FHA loans in foreclosure also declined in the third quarter.

2012 ANNUAL DATA

The housing market turned the corner in 2012. Data on housing production improved, with permits, starts, and completions rising in both the single-family and multifamily sectors. Annual shipments of manufactured homes increased again in 2012. Housing marketing indicators also improved. Sales and prices of new and existing homes were up from the previous year. Homeownership rates for the nation and for major racial and ethnic groups declined, however. The housing sector component of real GDP increased 11.9 percent.

Housing Production

- Builders took out permits for 514,200 new single-family homes in 2012, an increase of 23 percent from 2011. Multifamily permits were issued for 276,600 new units in 2012, up 50 percent from a year earlier.
- Builders started construction on 535,500 single-family housing units in 2012, up 24 percent from 2011, while multifamily housing starts totaled 233,400 units, up 40 percent from the previous year.
- In 2012, builders completed 484,600 new single-family housing units, 9 percent more than in 2011. A total of 158,100 new multifamily units became ready for occupancy in 2012, up 22 percent from 2011.
- Manufacturers shipped 54,900 manufactured homes in 2012, 6.4 percent above the 2011 rate.

Marketing of Housing

- For all of 2012, 367,000 new single-family homes sold, up 19.9 percent from the previous year. The median price of new homes sold was \$243,600, up 7.2 percent from 2011.

- NAR reported that 4.650 million existing single-family homes sold in 2012, a 9.2-percent increase from the 4.260 million sold in 2011. The median price of existing homes sold was \$176,600, up 6.3 percent from 2011.
- Builders' views on housing market activity were more positive in 2012, with the NAHB/Wells Fargo Composite Housing Market Index reaching 34 in 2012, up 18 points from 2011.
- The average interest rate for 30-year, fixed-rate mortgages, as reported by Freddie Mac's Primary Mortgage Market Survey set a record low in 2012 at 3.66 percent, 79 basis points below the 2011 annual average interest rate.

Homeownership and Growth

- According to the Housing Vacancy Survey, a supplement to the Current Population Survey, the proportion of American households that owned their homes in 2012 declined to 65.4 percent from 66.1 percent in 2011. The homeownership rate for White non-Hispanic households was 73.5 percent, down from 73.8 percent in 2011; the homeownership rate for African-American households was 44.6 percent, down from 45.4 percent the previous year; and the homeownership rate for Hispanic households was 46.1 percent, down from 46.9 percent in 2011.
- The housing sector component of real GDP (residential fixed investment) increased 11.9 percent in 2012 compared with a decline of 1.4 percent in 2011.