



U.S. Housing Market Conditions

November 2008

SUMMARY

The housing market continued its downhill slide in the third quarter of 2008, a trend that began in the first quarter of 2006. In the production sector, the number of single-family building permits, starts, and completions all declined. In the marketing sector, sales of new homes fell, but sales of existing homes increased for the first time in six quarters. Excessive inventories of both new and existing homes remain, enough to last approximately 10 to 10.5 months at the current sales rate. The multi-family sector was down for the most part; permits and starts decreased, but completions increased. The sub-prime meltdown continues, with foreclosure start rates on all subprime loans up by 16 percent and rates on subprime adjustable-rate mortgages up by 12 percent. Conditions in the rental housing market also showed signs of decline. The rate of apartment absorptions fell during the third quarter, but the vacancy rate was down slightly from the second quarter. The advance estimate of the rate of real growth in the national economy indicated a decline of 0.3 percent at a seasonally adjusted annual rate (SAAR) in the third quarter of 2008, down from 2.8 percent in the second quarter. The housing component of Gross Domestic Product (GDP) decreased by 19.1 percent in the third quarter, contributing to a reduction in the growth of real GDP by 0.72 of a percentage point.

Housing Production

Housing production indicators declined in the third quarter of 2008 and, overall, reflected steeper declines than in the last quarter. The number of building permits issued declined, as did housing starts and completions. Manufactured housing has shown a downward trend since the hurricane-induced orders of late 2005. Shipments of manufactured homes reached a low of 81,000 units (SAAR), the lowest level since the series began in 1959.

- During the third quarter of 2008, builders took out permits for new housing at 866,000 units (SAAR), down 16 percent from the second quarter and down 35 percent from the third quarter of 2007. Single-family permits were issued for 558,000 (SAAR)

housing units, a decrease of 12 percent from the second quarter and a decrease of 40 percent from the third quarter of 2007. This decrease is the 12th consecutive quarterly decline for single-family permits.

- Builders started construction on 879,000 (SAAR) new housing units in the third quarter of 2008, down 13 percent from the second quarter and down 32 percent from the third quarter of 2007. Single-family housing starts totaled 602,000 (SAAR) housing units, down 10 percent from the second quarter and down 39 percent from the third quarter of 2007. This drop is the 10th consecutive quarterly decline for single-family starts.
- Builders completed 1,005,000 (SAAR) new housing units in the third quarter of 2008, down 4 percent from the second quarter and down 28 percent from the third quarter of 2007. Single-family completions totaled 775,000 (SAAR) in the third quarter of 2008, down 8 percent from the second quarter and down 34 percent from the third quarter of 2007. The reduction reflects the 10th consecutive quarterly decline for this indicator.
- Manufactured housing shipments reached a record low. In the third quarter of 2008, manufacturers shipped 81,000 (SAAR) housing units, down 8 percent from the second quarter and down 16 percent from the third quarter of 2007.

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Housing Marketing

The number of new homes sold and median and average sales prices for new and existing homes all fell in the third quarter of 2008. One upturn was an increase in the number of existing homes sold, which rose for the first time in six quarters. Sales of new homes have declined for the past 12 quarters. At the end of the third quarter, inventories of homes available for sale were sufficient to last for about the next 10 to 10.5 months at the current sales rates. The nearly continuous drop in new home sales and prices is the likely source of pessimism among builders, as measured by the National Association of Home Builders/Wells Fargo Housing Market Index, which fell again in the third quarter.

- In the third quarter of 2008, 478,000 (SAAR) new single-family homes were sold, down 8 percent from the 519,000 (SAAR) homes sold in the second quarter and down 35 percent from the third quarter of 2007.
- REALTORS® sold 5,037,000 (SAAR) existing single-family homes in the third quarter of 2008, up 3 percent from the second quarter but down 8 percent from the third quarter of 2007.
- The median price of new homes sold in the third quarter of 2008 was \$225,700, down 4 percent from the second quarter and down 7 percent from the third quarter of 2007. The average price for new homes sold in the third quarter was \$283,400, down 7 percent from the second quarter and down 6 percent from the third quarter of 2007. A constant-quality house would have sold for \$299,700 in the third quarter, down 1 percent from the second quarter and down 2 percent from the third quarter of 2007.
- The NATIONAL ASSOCIATION OF REALTORS® reported that the median price for existing homes was \$201,700 in the third quarter of 2008, down 3 percent from the second quarter and down 9 percent from the third quarter of 2007. The average price for existing homes in the third quarter was \$244,500, down 3 percent from the second quarter and down 9 percent from the third quarter of 2007.
- In the third quarter of 2008, the average inventory of new homes for sale was 394,000 units, down 11 percent from the second quarter and down 25 percent from the third quarter of 2007. This inventory would support 10.4 months of sales at the current sales pace, down 0.5 month from the second quarter but up 1.0 month from the third quarter of 2007. The average inventory of existing homes available for sale during the third quarter consisted of 4,266,000 homes, down 5 percent from the second quarter and down 2 percent from the third quarter of 2007. This inventory would last for 9.9 months at the current sales rate, down 1.2 months

from the second quarter and down 0.4 month from the third quarter of 2007.

- Home builders were more pessimistic in the third quarter of 2008. The National Association of Home Builders/Wells Fargo composite Housing Market Index slid to 16 in the third quarter of 2008, down 3 points from the second quarter and down 6 points from the third quarter of 2007. The index is based on three components—current sales expectations, future sales expectations, and prospective buyer traffic. All three components fell in the third quarter, with prospective buyer traffic declining the most.

Affordability, Homeownership, and Foreclosures

Housing affordability increased in the third quarter of 2008, according to the index published by the NATIONAL ASSOCIATION OF REALTORS®. The composite index indicates that the family earning the median income had 126.0 percent of the income needed to purchase the median-priced, existing single-family home using standard lending guidelines. This value is up 0.8 point from the second quarter and up 17.4 points from the third quarter of 2007. The increase in affordability is attributed to a 3-percent decrease in the median price of an existing single-family home and a 0.5-percent increase in median family income, which more than offset the rise in mortgage interest rates. The third quarter homeownership rate was 67.9 percent, down 0.2 percentage point from the second quarter rate of 68.1 percent and down 0.3 percentage point from the third quarter of 2007.

The delinquency rate on subprime mortgage loans decreased slightly, while foreclosure start rates on subprime mortgages increased in the second quarter of 2008. (The data are available with a 2-month lag.) The delinquency rate for subprime loans was 18.67 percent, down from 18.79 in the first quarter but up from 14.82 percent in the second quarter of 2007. Foreclosures started on subprime loans increased to 4.70 percent, up from 4.06 percent in the first quarter and up from 2.72 percent in the second quarter of 2007.

Multifamily Housing

Performance in the multifamily (five or more units) housing sector was somewhat mixed in the third quarter of 2008. In the production sector, building permits and starts decreased, but completions increased. The absorption rate of new rental units fell during the third quarter, while the rental vacancy rate showed a slight decline.



- In the third quarter of 2008, builders took out permits for 275,000 new multifamily units, down 24 percent from the second quarter and down 21 percent from the third quarter of 2007.
- Construction was started on 262,000 new multifamily units in the third quarter of 2008, down 20 percent from the second quarter and down 5 percent from the third quarter of 2007.
- Builders completed 256,000 units in the third quarter of 2008, up 9 percent from the second quarter but down 1 percent from the third quarter of 2007.

- The rental vacancy rate in the third quarter of 2008 was 9.9 percent, down 0.1 percentage point from the second quarter but up 0.1 percentage point from the third quarter of 2007.
- Market absorption of new rental apartments declined in the third quarter. Of the total number of new apartments completed in the second quarter of 2008, 48 percent were leased in the first 3 months following completion. This absorption rate is down 5 points from both the second quarter of 2008 and the third quarter of 2007.