



U.S. Housing Market Conditions

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SUMMARY

Housing market conditions continued their downward slide in 2008, after most indicators peaked during 2005 or 2006. The 2008 data show declines of between 30 and 60 percent in the numbers of building permits, starts, completions, and new and existing sales compared with the record highs recorded for these indicators in 2005 or 2006. According to the Bureau of Economic Analysis, the overall economy grew at a rate of 1.3 percent in 2008 and the housing market's effect on real Gross Domestic Product (GDP) was to reduce growth by 0.93 percentage point, a bit better than the percentage-point decrease in growth of 1.02 recorded in 2007. During the fourth quarter of 2008, housing market conditions reached very low levels. The housing market reduced real GDP by 0.85 percentage point at a seasonally adjusted annual rate (SAAR) in the fourth quarter compared to reductions of 0.60, 0.52, and 1.12 percentage points in the third, second, and first quarters of 2008, respectively.

2008 Annual Data

In 2008, housing production indicators (permits, starts, and completions) were 26 to 36 percent below their 2007 levels, and permits and starts were down more than 55 percent from the record levels set in 2005. During the past year, home sales declined, especially new home sales, and builders' attitudes about the housing market reached record lows. The mortgage interest rate averaged 6.03 percent in 2008, 31 basis points lower than in 2007. The housing sector (residential fixed investment) decreased by 20.8 percent in 2008 compared with a decline of 17.9 percent in 2007.

- Builders took out single-family and multifamily permits for 892,500 new housing units in 2008, a decrease of 36 percent from 2007. In 2008, single-family permits were issued for 569,900 new homes, down 42 percent from 2007.
- Housing starts totaled 904,300 units in 2008, down 33 percent from 2007. Single-family housing starts equaled 622,400 units, down 40 percent from 2007.

- In 2008, construction was completed on 1,116,600 new housing units, down 26 percent from 2007. A total of 817,200 single-family units were ready for occupancy in 2008, down 33 percent from 2007.
- Builders were considerably less optimistic in 2008 than they were in 2007. The National Association of Home Builders/Wells Fargo (NAHB/Wells Fargo) Housing Market Index averaged 16 points in 2008, down 11 points from 2007. The 2008 value is the lowest annual value in the 24-year history of this attitude survey.
- Builders sold 482,000 new single-family homes in 2008, down 38 percent from the 776,000 homes sold in 2007.
- The NATIONAL ASSOCIATION OF REALTORS® (NAR) reported that 4,912,000 existing single-family homes were sold in 2008, a 13-percent decrease from the 5,652,000 sold in 2007.
- According to the NAR® Housing Affordability Index, housing affordability improved in 2008, increasing by 15 percent from 2007. A family earning the median level of income (\$59,339) had 128.6 percent of the income needed to purchase the median-priced existing home (\$197,100) in 2008. Falling interest rates, lower home sales prices, and higher median income all contributed to the increase in affordability.

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- The average interest rate for 30-year, fixed-rate mortgages, as reported by Freddie Mac's Primary Mortgage Market Survey, was 6.03 in 2008, 31 basis points below the 2007 annual average but 20 basis points above the record low set in 2003.
- The Federal Housing Administration guaranteed 1,468,057 mortgages in 2008, up 219 percent from 460,317 loans in 2007. In contrast, private mortgage insurance on mortgage loans decreased by 38 percent in 2008, from 1,567,961 loans in 2007 to 971,595 loans in 2008.
- The Mortgage Bankers Association reported that the delinquency rate on all loans in the third quarter of 2008 was 6.99 percent, up 20 percent from 5.82 percent at the end of 2007. Foreclosure starts amounted to 1.07 percent of all loans in the third quarter of 2008, up 22 percent from 0.88 percent at the end of 2007. (The data are reported with a 2-month lag.)
- Based on the Current Population Survey/Housing Vacancy Survey, the proportion of American households who owned their own homes in 2008 was 67.8 percent, 30 basis points below the 2007 homeownership rate. The overall minority homeownership rate of 50.6 percent in 2008 was 30 basis points below the 2007 rate.
- Multifamily housing (five or more units) had mixed results in 2008. The number of permits and starts decreased, but the number of completions increased. The absorption of new apartments rose slightly, but the rental vacancy rate also increased. The 2008 annual total for multifamily permits was 290,300, down 17.0 percent from 2007. Construction was started on 264,700 multifamily housing units in 2008, down 5 percent from 2007. Completions of multifamily housing units totaled 276,000 units, up 9 percent from 2007. The average absorption or lease rate for newly completed apartments rented within 3 months of their completion was 54.5 percent in 2008 compared with 53.3 percent in 2007. The vacancy rate for rental units increased to 10.0 percent in 2008, up 30 basis points from 2007.

Fourth Quarter Data

The housing market reached very low levels in the fourth quarter of 2008. In the production sector, the number of single-family building permits, starts, and completions all declined. In the marketing sector, sales of new and existing homes also declined. Excessive inventories of both new and existing homes remain, enough to last an average of 12.5 months for new homes and 10.3 months for existing homes at the current sales rate. The subprime meltdown has slowed slightly,

with foreclosure start rates on all subprime loans down 1 percent and foreclosure start rates on subprime adjustable-rate mortgages down 2 percent. The multi-family sector had mixed results in the fourth quarter; the number of permits and starts decreased, but the number of completions increased. Conditions in the rental housing market were similar. During the fourth quarter, the rate of apartment absorptions rose, but the vacancy rate also increased. The advance estimate of real growth in the national economy indicated a decline of 3.8 percent (SAAR) in the fourth quarter of 2008, up from a decline of 0.5 percent in the third quarter. The housing component of GDP decreased 23.6 percent in the fourth quarter of 2008, which contributed to a reduction in the growth of real GDP by 0.85 percentage point.

Housing Production

All housing production indicators declined in the fourth quarter of 2008 and, overall, reflected steeper declines than they did in the previous quarter. The number of building permits issued declined, as did the number of housing starts and completions. Manufactured housing continued a downward trend that began after the hurricane-induced orders of late 2005.

- During the fourth quarter of 2008, builders took out permits for new housing at 631,000 (SAAR) units, down 27 percent from the third quarter and 46 percent from the fourth quarter of 2007. Single-family permits were issued for 416,000 (SAAR) housing units, a decrease of 25 percent from the third quarter and 46 percent from the fourth quarter of 2007. This drop is the 13th consecutive quarterly decline for single-family permits.
- Builders started construction on 656,000 (SAAR) new housing units in the fourth quarter of 2008, down 25 percent from the third quarter and 43 percent from the fourth quarter of 2007. Single-family housing starts totaled 465,000 (SAAR) housing units, down 23 percent from the third quarter and 44 percent from the fourth quarter of 2007. This drop is the 11th consecutive quarterly decline for single-family starts.
- Builders completed 1,047,000 (SAAR) new housing units in the fourth quarter of 2008, down 3 percent from the third quarter and 24 percent from the fourth quarter of 2007. Single-family completions totaled 730,000 (SAAR) in the fourth quarter of 2008, down 7 percent from the third quarter and 34 percent from the fourth quarter of 2007. The reduction is the 11th consecutive quarterly decline for this indicator.



- Manufactured housing shipments reached a new record low of 68,000 (SAAR) units in the fourth quarter of 2008, the lowest level since the series began in 1959. Manufacturers' shipments were down 16 percent from the third quarter and 27 percent from the fourth quarter of 2007.

Housing Marketing

The number of new and existing homes sold and median and average sales prices for new and existing homes all fell in the fourth quarter of 2008. Sales of new homes have declined for the past 13 quarters. During the fourth quarter of 2008, average inventories of new homes available for sale were sufficient to last for the next 12.5 months and inventories of existing homes were high enough to last 10.3 months at the current sales rates. The nearly continuous drop in new home sales and prices and the buildup in inventories caused builders' confidence, as measured by the NAHB/Wells Fargo Housing Market Index, to fall again in the fourth quarter.

- During the fourth quarter of 2008, 375,000 (SAAR) new single-family homes were sold, down 19 percent from the 462,000 (SAAR) homes sold in the third quarter and down 42 percent from the fourth quarter of 2007.
- REALTORS® sold 4,700,000 (SAAR) existing single-family homes in the fourth quarter of 2008, down 6 percent from both the third quarter of 2008 and the fourth quarter of 2007.
- The median price of new homes sold in the fourth quarter of 2008 was \$211,800, down 6 percent from the third quarter and 11 percent from the fourth quarter of 2007. The average price of new homes sold in the fourth quarter was \$274,700, down 4 percent from the third quarter and 10 percent from the fourth quarter of 2007. A constant-quality house would have sold for \$286,000 in the fourth quarter of 2008, down 5 percent from the third quarter and 6 percent from the fourth quarter of 2007.
- NAR® reported that the median price of existing homes was \$180,700 in the fourth quarter of 2008, down 10 percent from the third quarter and 13 percent from the fourth quarter of 2007. The average price of existing homes in the fourth quarter was \$222,900, down 9 percent from the third quarter and 13 percent from the fourth quarter of 2007.
- During the fourth quarter of 2008, the average inventory of new homes for sale was 386,000 units, down 9 percent from the third quarter and 23 percent from the fourth quarter of 2007. This inventory would support 12.5 months of sales at the current sales pace, up 1.2 months from the third quarter

and 3.2 months from the fourth quarter of 2007. The average inventory of existing homes available for sale during the fourth quarter consisted of 4,012,000 homes, down 9 percent from the third quarter and 5 percent from the fourth quarter of 2007. This inventory would last for 10.3 months at the current sales rate, down 0.2 month from the third quarter but up 0.2 month from the fourth quarter of 2007.

- Home builders were more pessimistic in the fourth quarter of 2008. The NAHB/Wells Fargo composite Housing Market Index slid to 11 in the fourth quarter of 2008, down 5 points from the third quarter and 8 points from the fourth quarter of 2007. 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 fell in the fourth quarter of 2008.

Affordability, Homeownership, and Foreclosures

Housing affordability increased in the fourth quarter of 2008, according to the NAR® Housing Affordability Index. The composite index for the fourth quarter suggests that a family earning the median income had 146.9 percent of the income needed to purchase the median-priced, existing single-family home using standard lending guidelines. This value is up 20.8 percentage points from the third quarter and 26.1 percentage points from the fourth quarter of 2007. The increase in affordability is attributed to a 10-percent decrease in the median price of existing single-family homes, a 0.5-percent increase in median family income, and a 38-basis-point decrease in mortgage interest rates.

The delinquency rate on subprime mortgage loans increased, while foreclosure start rates on subprime mortgages decreased slightly in the third quarter of 2008. (The data are reported with a 2-month lag.) The delinquency rate for subprime loans was 20.03 percent in the third quarter of 2008, up from 18.67 percent in the second quarter and 16.31 percent in the third quarter of 2007. Foreclosures started on subprime loans decreased slightly to 4.23 percent in the third quarter of 2008, down from 4.26 percent in the second quarter but up 1.05 percentage points from 3.18 percent in the third quarter of 2007. Not all foreclosure starts end in foreclosure, but the average lag between a foreclosure start and a completed foreclosure is approximately 6 months.

The fourth quarter 2008 homeownership rate was 67.5 percent, down 40 basis points from the third quarter rate of 67.9 percent and down 30 basis points from the fourth quarter rate of 2007. The decline in homeownership reflects the high rate of foreclosures and a reduction in home purchases due to the recession

that, according to the National Bureau of Economic Research, began in December 2007.

Multifamily Housing

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

- In the fourth quarter of 2008, builders took out permits for 192,000 (SAAR) new multifamily units, down 30 percent from the third quarter and 44 percent from the fourth quarter of 2007.
- Construction was started on 180,000 (SAAR) new multifamily units in the fourth quarter of 2008, down 30 percent from the third quarter and 40 percent from the fourth quarter of 2007.
- Builders completed 300,000 (SAAR) units in the fourth quarter of 2008, up 10 percent from the third quarter and 18 percent from the fourth quarter of 2007.
- Market absorption of new rental apartments increased in the fourth quarter of 2008. Of the total number of new apartments completed in the third quarter, 55 percent were leased in the first 3 months following completion. This absorption rate is up 3 percentage points from the third quarter of 2008 but is unchanged from the fourth quarter of 2007.
- The rental vacancy rate in the fourth quarter of 2008 was 10.1 percent, up 0.2 percentage point from the third quarter and up 0.5 percentage point from the fourth quarter of 2007.