

December 2011 Housing Notes: Starts, Sales, Permits, and Inventory



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Executive Summary

The following commentary reviews January's housing data and is intended to provide a wide-ranging perspective on the current conditions impacting the United States housing market. This commentary reports on the housing market and includes data for new home starts and sales, building permits, housing completions, and construction spending. Also included are data concerning existing home sales, distressed homes, and conclusions.

January's data indicated small increases in housing starts. Multi-family starts, while volatile, are increasing and responsible for much of the housing increase. New home sales are down slightly year-over-year; housing completions are rising very modestly; and permits were down minimally from 2010. Construction spending also increased.

Existing home sales are 'muddling along'; however, on a positive note, the quantity of available existing homes is the least since 2005. United States existing home prices, on average, are declining year-over-year. Private investors are the apparent driver of foreclosure, REO, existing, and new home sales.

Overview

U.S. Housing

Housing starts

Housing permits

Housing completions

New home sales

New Housing start and Home sale projections

Existing home sales

Case-Shiller indices

Shadow inventory

Distressed homes

Conclusion

Commentary on Housing

Comments

Economic deterrents to a meaningful housing recovery are unchanged

- Increasing U.S. debt – Federal and State governments
- Personal debt increasing
- Exploding student loan debt
- European sovereign debt crisis
- European bank crisis
- China – continued growth, a soft or hard-landing???

Encouraging News

- Unemployment rate (U.3-8.3%; U.6-15.1%); both decreased
- The Labor Force Participation Rate decreased to 63.7%

Commentary on Housing

Comments

- New home starts are sluggish
 - New home starts: 606,900 Seasonally Adjusted Annual Rate (SAAR) for 2011 – 3.4% above 2010
- Multi-family units still remain the driver for starts increase:
 - 5+ multi-family units starts increased 60.5% year-over-year

Commentary on Housing

Comments

- New home sales – the worst since 1963
- Existing home sales – faint signs of improvement
- In 2011, 40% of all bank foreclosed home sales; 28% of resales; and 13% of new-home sales were purchased by → Private Investors
- Shadow inventory and distressed home numbers – still extremely elevated

New Housing Starts

Commentary

For December 2011, Single-family (SF) starts were:

470,000, up by 4.4% from November 2011

From Dec 2011 to Dec 2010 – an increase of 11.6%

2010 vs. 2011 – a decrease of -9%

471,200 m vs. 428,600 m

From a wood utilization perspective,
this series is indicating minimal improvement

New Housing Starts

Commentary

For December 2011, Multi-family (MF) starts – volatile:

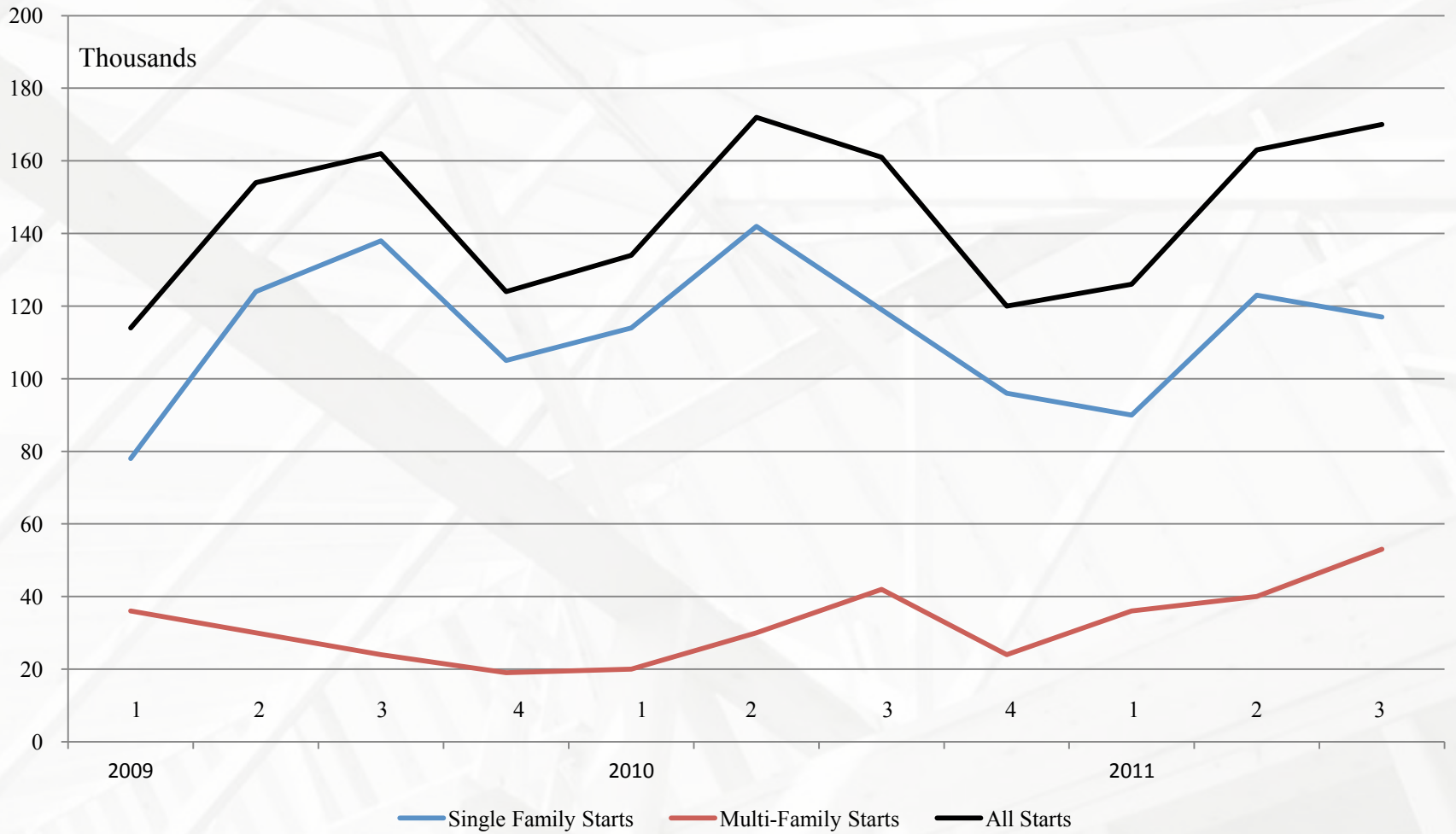
164,000: (≥ 5 units) decreased by -27.8% from November

From Dec 2011 to Dec 2010 – an increase of 69.1%

23,000: 2-4 MF unit building starts – December
8,000 MF unit starts in November

To date, from a utilization viewpoint, this sector is not
a large consumer of hardwood products;
but it is a good market for softwood products

U.S. Quarterly Housing Starts: 2009 – 2011



Source: U.S. Department of Commerce-NAICS 23, Construction

Commentary on Housing

Housing Permits

December building permits – privately-owned housing:
679,000 units (SAAR)

-0.1% below November rate of 680,000

7.8% above December 2010 estimate of 630,000

SF authorizations

444,000: 1.8% above the revised November figure of 436,000

MF authorizations

5 units or more: 209,000 in December

-6.3% below the revised November estimate of 223,000

Commentary on Housing

Housing Completions

December housing completions – privately-owned:
605,000 units (SAAR)

9.2% above revised November rate of 554,000

7.1% above December 2010 estimate of 565,000

SF completions

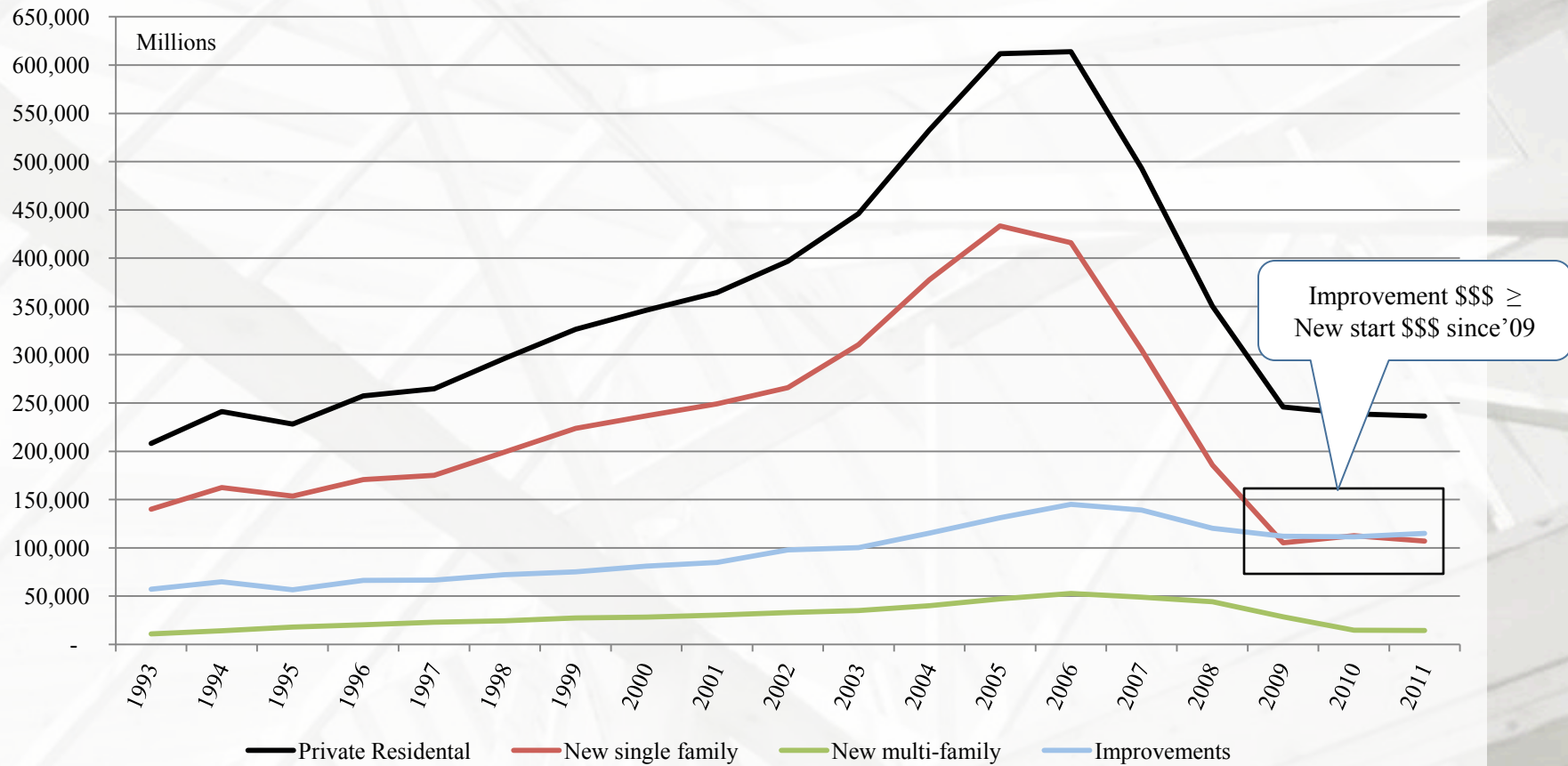
448,000: -0.9% below the revised November figure of 452,000

MF completions

5 units or more – 147,000 in November

51.5% above the revised November estimate of 97,000

Construction Spending



Total U.S. home construction spending, in December, was \$241.2 million (SAAR), +1.5% over November - - the highest level in almost two years. November was revised downward to a 0.4% increase instead of a 1.2% gain.

Private residential construction rose 0.8% month-to-month - - 4.9% over 2010. The estimate of remodeling expenditures was \$114 million in December. Note that Census has not directly reported remodeling expenditures in a number of years; thus, an estimate that is based on US-DOC Construction data.

Source: U.S. Department of Commerce-NAICS 23, Construction

Commentary on Housing

New Single-Family Home Sales

December 2011 new SF home sales: 307,000 (SAAR)

-2.2% below the revised November rate of 314,000

-7.3% below the December 2010 estimate of 331,000

New home sales are still miserable –
but are not adding significantly to overall supply.

Commentary on Housing

New Home Sales

Median new home sales price in December: \$210,300

Average December home sales price: \$266,000

Estimate of new homes for sale at December's end: 157,000 (SAAR)

6.1 months inventory at current sales rate

Projections for 2012 – New Housing Starts & Sales

	Single Family Starts	Total Starts	New Home Sales
Merrill Lynch	427,000		304,000
Fannie Mae	473,000	704,000	336,000
Wells Fargo	457,000	690,000	350,000
John Burns		717,000	359,000
NAHB	501,000	709,000	360,000
Tom Lawler	515,000	740,000	365,000
Capital Economics		700,000	
Moody's	687,000		530,000

Commentary on Housing

Existing Sales

National Association of Realtors (NAR):

December 2011's sales estimate (SAAR) – 4,610,000 homes

An increase of 5.0% from the November estimate of 4.39 million
3.6% greater than the 4.45 million from December 2010

Existing housing inventory at December's end: 2.38 million homes

– a 6.2-month supply at the current sales pace,
lowest quantity of homes since March 2005

Commentary on Housing

NAR Existing Sales

December's median existing-home price: \$164,500
-2.5% below December 2010

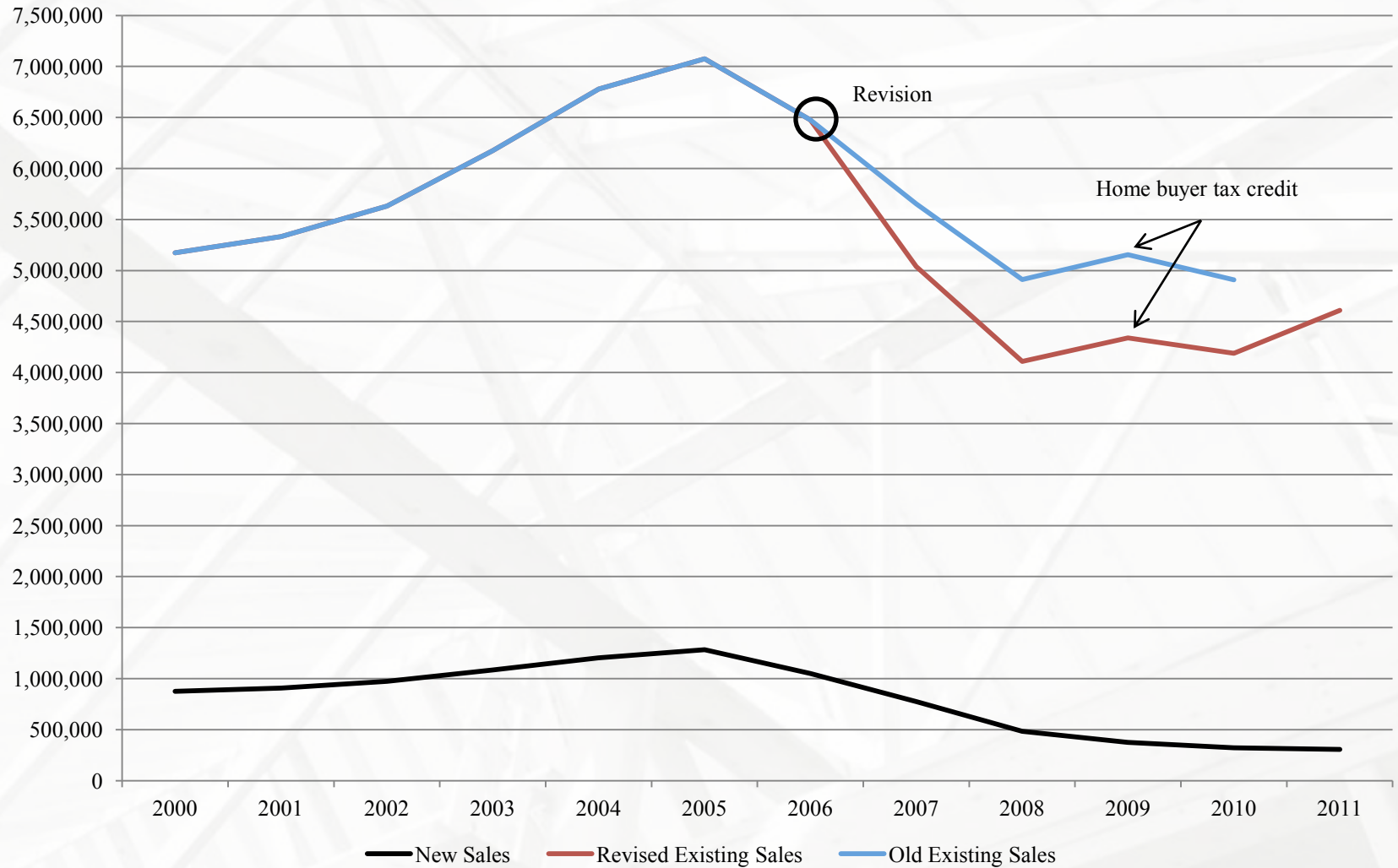
Distressed sales: 32% of existing home sales
(foreclosures: 19% and short-sales: 13%)

> 29% in November 2011 and < 36% in December 2010

Robert Shiller: On reaching the bottom in housing prices,

“...will it (prices) resume the downward trend? I think it could, maybe not rapidly, but I think there could be further house price declines.”

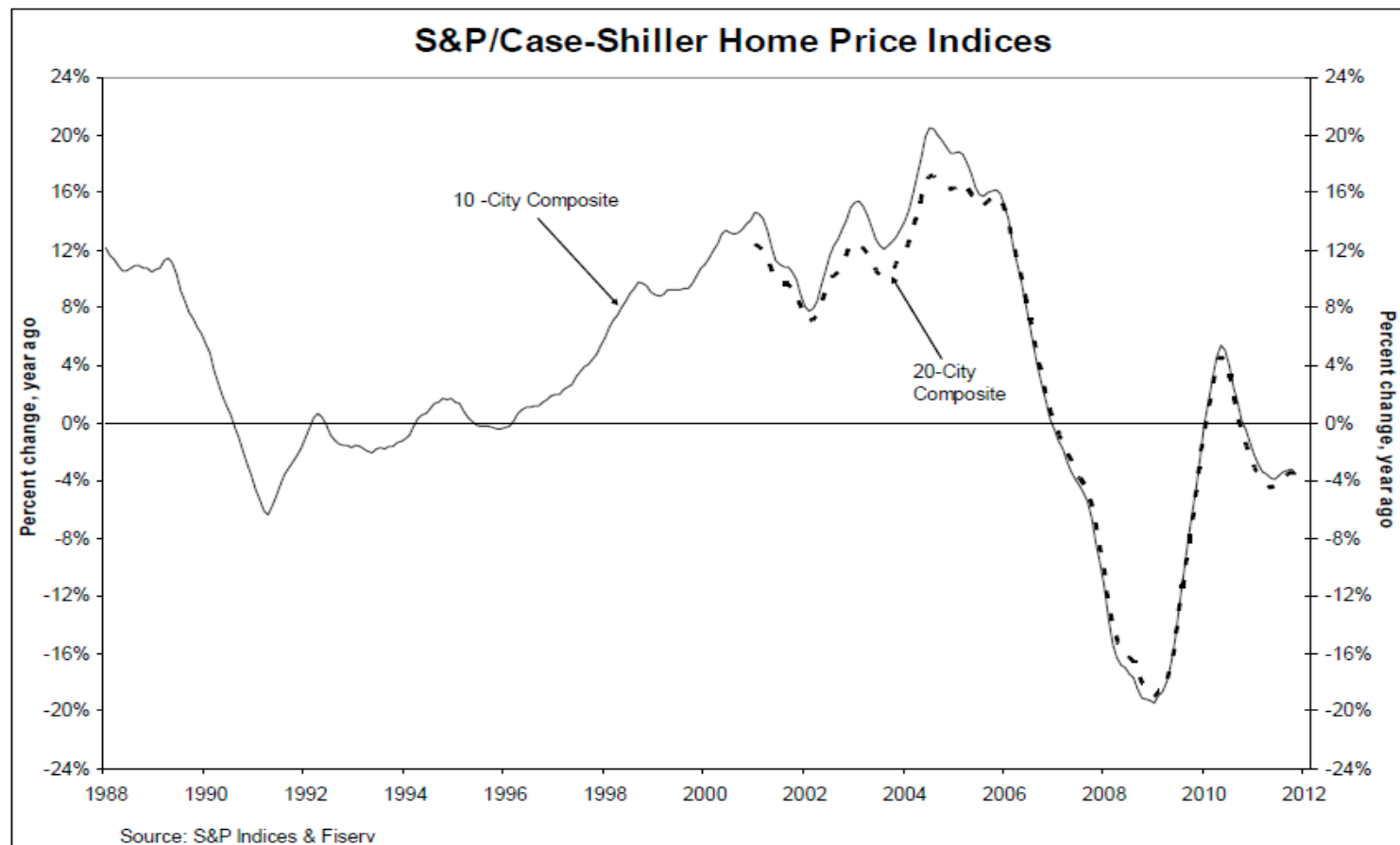
Commentary on Housing



Existing and new home sales: 1967 to 2011

Source: U.S. Department of Commerce-NAICS 23, Construction and NAR®

Commentary on Housing

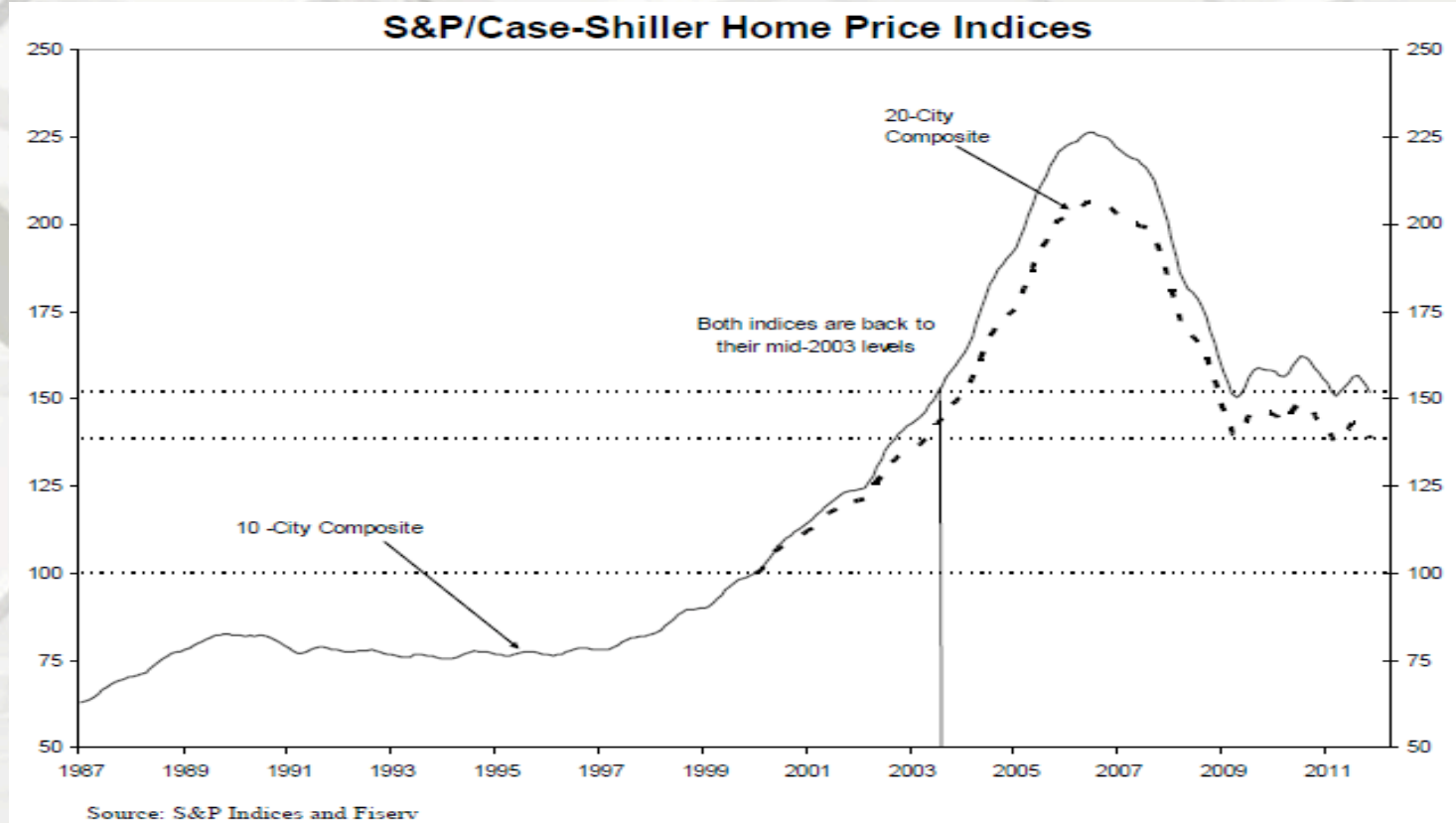


S&P/Case-Shiller³ Home Price Indices through November 2011:

“Declines of 1.3% for the 10- and 20-City Composites for November over October”

“For the 2nd consecutive month, 19 of 20 cities had home price decreases”

Commentary on Housing



“Average home prices across the U.S. are at mid-2003 levels.

From the June/July 2006 peaks through November 2011:

The peak-to-current decline for the 10-City Composite and 20-City Composite is -32.9%.

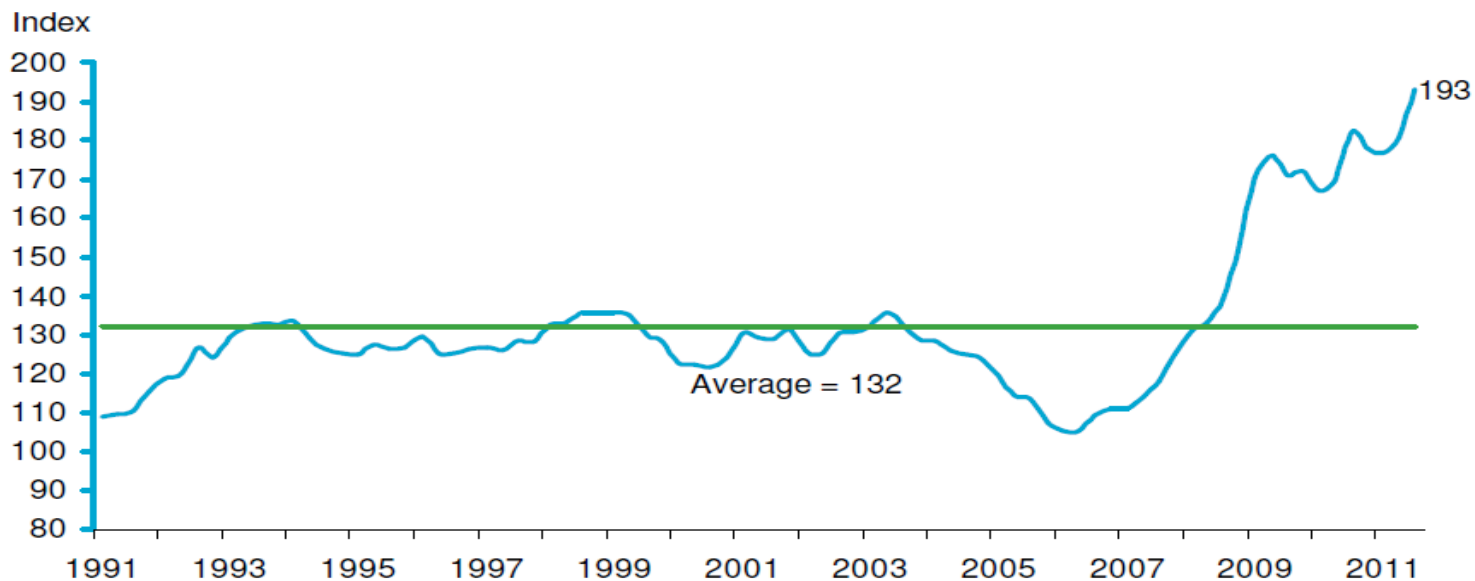
The recovery from recent lows are +1.0% and +0.6%, respectively - - as of November 2011”

Commentary on Housing



Housing affordability continued to rise in the third quarter of 2011

Housing affordability



Note: An index of 100 indicates a median income family has exactly enough income to qualify for a mortgage on a median-priced home. An index above 100 signifies that a median income family has more than enough income to qualify for a mortgage on a median-priced home. Data seasonally adjusted.

Source: National Association of Realtors. 2011 data as of September 30, 2011.

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Housing affordability still increasing – good for future sales

Commentary on Housing

Shadow Inventory Estimates

- 1.5 million units (September 2011) – RealtyTrac
- 1.6 million units (October 2011) – CoreLogic
- 3.0 million units (November 2011) – Barclays Capital
- 4.0 million units (September 2011) – LPS Applied Analytics
- 4.0 million units (September 2011) – Capital Economics
- 9.8 million units (January 2012) – Michael Olenick, Legalprise
- 8.2 to 10.3 million units (January 2012) – Laurie Goodman, Amherst Securities

Obviously, there's quite a divergence – in any case, this inventory will have to be worked through before we arrive at a 'healthy' housing market

Commentary on Housing

Distressed Homes

CoreLogic: 11 million (23%) of regular home mortgages – underwater

Zillow: > 13 million (28%) of regular home mortgages – underwater

RealtyTrac: 3.5 million homeowners are behind in their payments and 1.5 million homes are in the foreclosure process, *and*

1 in every 634 home units received a foreclosure filing in Dec 2011

New York Federal Reserve: 3.6 million foreclosures in the next couple of years

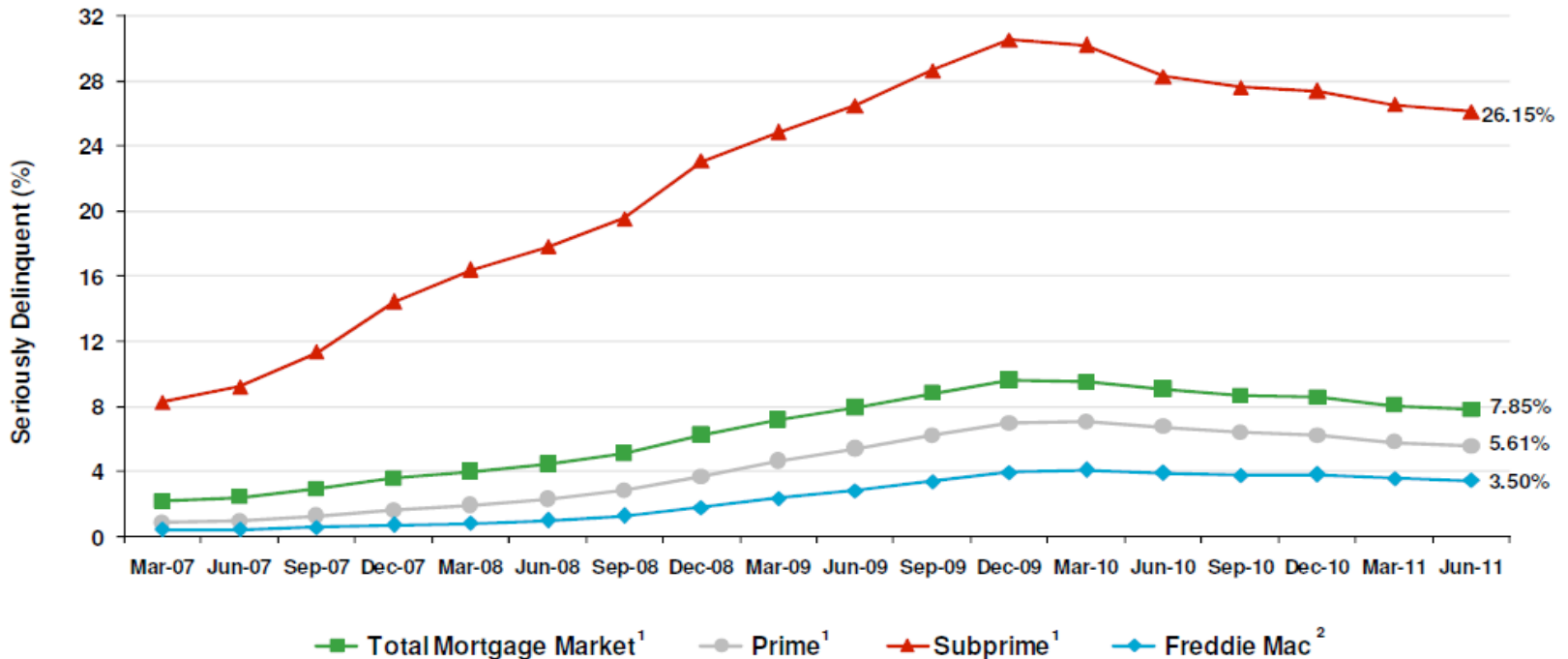
Note: US DOC estimates there are 46.7 million regular home mortgages (not including home equity and second mortgages)

Commentary on Housing

Mortgage market and Freddie Mac serious delinquency rates



Single-family Serious Delinquency Rates



¹ Source: National Delinquency Survey from the Mortgage Bankers Association. Categories represent first lien single-family loans. Data not yet available for third quarter of 2011.

² See "MD&A – RISK MANAGEMENT – Credit Risk – Mortgage Credit Risk – Credit Performance – Delinquencies" in Freddie Mac's Form 10-K for the year ended December 31, 2010, for information about the company's reported delinquency rates. The single-family seriously delinquent rate at September 30, 2011 was 3.51%.

Commentary on Housing

Financing Problems – Existing Home Sales

Contract failures reported by 33% of NAR members (December)

Failures were 9% in December 2010

Contract cancellations are largely caused by:

Declined mortgage applications

Loan underwriting failures – due to appraisal values below the negotiated price

Commentary on Housing

Financing Problems – New Homes

Risk compensation is one factor:

- the issuing of a mortgage rests on a substantial down payment
- or lend to those with the very best credit scores

“Strict credit scoring criteria and the elevated number of contract cancellations will prevent a significant and sustained recovery.

In most cases, a minimum FICO score of 700 is now required to obtain a conventional mortgage¹”.

Result: Contract cancellations for some major builders exceeded 30% in 2011

Conclusion

Even with the lowest mortgage rates in history, and greater affordability (price and mortgage interest rate) → housing sales are lukewarm, at best

New housing starts are showing signs of life – though there's a long way to go

- MF units are still the driver in overall starts

- SF starts are about $\frac{1}{4}$ of what is needed for a thriving forest products industry

Single-family permits are increasing and Multi-family permits are volatile – though an overall increase

Single-family completions: Increasing

Multi-family completions : Increasing rapidly

Construction spending is increasing slightly

and estimates indicate that improvements (i.e., remodeling) is on par with new SF construction or greater

Conclusions

Existing sales: ‘muddling along’ – even with low-interest rates

Lowest quantity of available existing homes since 2005 – a positive

Private investors are the apparent driver of foreclosure, REO, existing, and new home sales

When the economy improves ...

hopefully jobs and family formations will increase
combined with pent-up demand

... should bode well for the forest products industry

However, many experts including Robert Shiller, believe that home prices still have further to decline – which may negatively affect consumer psyche.

Decreasing prices, in combination with an unknown Shadow Inventory and foreclosures, a lackluster economy, a decreasing employment participation rate, and sluggish consumer confidence...

...may indicate that a meaningful recovery is several years away.

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