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Residential Sales Volume Up But Prices Down

Housing Recovery Intact But Still Fragile

August 27, 2012 By William L. Pittenger, MAI, SRA

Existing home sales volume increased 2.3% in July as compared to June according to the National Association of Realtors (NAR). Total volume at a seasonally adjusted annual rate (SAAR) was 4.47 million units. The gain was anticipated but it was not enough to make up for the decline a month earlier when sales declined 5.4%. Sales still remain below April and May levels but are up 10.4% from volume (4.05 million) reported a year ago.

At the same time, the **median price** for all housing types (single family, condo, co-op and townhouse) was $187,300. That is down fractionally from $188,000 in June but still solidly above (+9.4%) the $171,200 recorded 12 months ago. The July year over year gain was the strongest since January 2006 at the peak of the market. That gain is signaling more confidence in the housing markets. The median single family detached home price was slightly higher at $188,100 which was 9.6% higher than a year earlier. The detached sector accounted for 3.98 million transactions which was about 2.1% higher than in June and 9.9% higher than a year ago.

Geographically by census region, the Northeast performed the best with 7.4% (+580,000) more sales than a year ago and a 3.5% higher median price of $254,200. The Midwest gained 2.0% more sales in July (1.04 million units) and a $154,100 median price which was 5.8% higher than a year earlier. In the South, existing home sales rose 2.3% to 1.77 million units on a 6.6% increased median price of $162,000. Finally, volume in the West was essentially unchanged at about 1.08 million units however the median price soared upward 24.6% year over year to a median price of $238,600. All volumes cited are seasonally adjusted annual rates (SAAR).

First time buyers accounted for 34% of all July transactions and all **cash purchases** were 27% of the total, down from 29% in June. **Investors** accounted for 16% of the all cash purchases.

Months of inventory were essentially unchanged at 6.4 months which is reasonable and consistent with long term historical levels in the existing home sector. Inventory levels have largely been stable for the last six months. Last year at this time, months of inventory stood at 9.1 months. Total inventory in July stood at 2.4 million units. Sales also appear to be occurring faster. Around 33% of sold homes had been on the market for 30 days or less and 21% for six months or longer.

There appears to be a **shortage of inventory** in the lower price ranges and that may be pushing the median price up. That will correct itself, in part, as new distress properties hit the market later in the year. Most distressed properties (but certainly not all) tend to be concentrated in the lower price ranges. Nevertheless, tight inventories in a generally underperforming market is unusual and is likely driven by several factors. One is foreclosure timing followed by investors who are quick to purchase lower priced assets as they come to market. In our view, underwater mortgages probably play a significant role. Nationwide, over 22% of homeowners are underwater. That figure rises dramatically in at least 10 states including Nevada at 61.2%; Florida at 45.1%; Arizona at 43.4% and the list goes on. Move up buyers who might be logical purchasers have been sidelined due to inability to sell their existing homes as a result of owing more on their existing mortgage than the home is worth. Additionally, even if they could sell, there is often not enough equity to provide cash for a new down payment. This latter constraint has no easy fix.

In July, **distressed properties**, generally foreclosures and short sales , accounted for around 24% of sales. They were divided equally between foreclosures and short sales at 12% each. Additionally, foreclosures

HOUSING STATS AT A GLANCE

Existing Home Sales Volume
4.47 million units (SAAR)
Median Price $187,300

SFR Detached 3.98 million units
Median Price $188,300

First Time Buyers 1.52 million
34% of Total Sales

Cash Purchases
27% of Total | 16% Investors

Distress Sales 1.07 million units
24% of Total Sales

Months of Inventory 6.4

Distress Transactions 1.07 million
24% of Total

Distress Gap Foreclosure 17%

Distress Gap Short Sale 15%

New Home Sales 372,000 (SAAR)

Median Price $224,600

Months of Supply 4.6

Housing Starts 746,000
-1.1%

Housing Completions 668,000
+7.1%

Building Permits 812,000
+6.8%

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sold at prices which, on average, were 17% less than otherwise similar but non-distressed properties. Short sales sold on average for 15% less. The gap between distressed and non-distressed transactions is narrowing as lenders and servicers become more efficient at moving transactions through the pipeline.

Listings were up 1.3% in July over June but are down almost 24% year over year. The decline is probably the result of fewer distress transactions *currently* entering the pipeline. This appears to be a matter of timing and not a trend as servicers are working through the backlog that occurred before settlements were reached with state attorneys general and federal regulators. The anticipated foreclosure volume has just not yet hit the market.

The timing issue implies that sales volumes will increase but the distress nature of the transactions may again put downward pressure on prices. The good news is that mortgage delinquencies are abating and the anticipated foreclosure surge later this year appears to be the last major wave barring, of course, currently unforeseen economic shock.

New Home Sales. Fast on the heels of the NAR existing home sales report came the Census Bureau reports on new home sales and new residential construction for July. New home sales rose 3.6% to 372,000 units on a seasonally adjusted annual basis (SAAR) in July as compared to a month earlier. The volume soared 25.3% higher than a year ago. The originally reported June annualized total of 350,000 units was also revised upward to 359,000. New home sales volume hit a bottom in late 2011 and sales have been trending modestly upward ever since.

Months of supply stood at 4.6 in July. That is down from 6.7 months a year ago and 8.5 months in mid 2009 at technical start of economic recovery. New home supply remains historically tight as inventories are 31.3% lower than a year ago.

At the same time, the **median price of a newly constructed home** declined to $224,600 from $227,000 a month earlier. The median price is down about 2.4% over the year. Pricing in general remains weak. As we reported earlier, the median price of an existing home in July was $187,300 ($188,100 for single family detached). It too was down fractionally on rising volume. Builders continue to struggle to compete with lower priced existing homes and especially distressed homes where the prices are very significantly lower. Builders are also wrestling with an absence of economic feasibility meaning that most homes constructed today are actually worth less upon completion than their cost to construct. Nevertheless, new home sales are trending in the right direction but they are starting from a very low level.

Housing starts declined to 746,000 units (annualized) in July. That is down from 754,000 units a month earlier but up 22% over the year. Starts have been averaging about 697,000 annualized units for the last 12 months. Moreover, the 12 month average has increased every month since August 2011. Single family detached construction starts declined by 6.5% in July while multifamily starts increased by 12.4%. Geographically, housing starts declined in three of the four census regions. Only the Midwest saw an increase month to month (+17%). The regions with the largest housing markets (South and West) saw the largest declines.

Building permits increased 6.8% over the month to 812,000 with both single and multifamily permit levels rising. Permitting is tracking at its strongest pace August 2008. July year to year comparison was strong rising some 30%. Since July 2010, permit volume has risen 51%.

Housing completions increased 7.1% over the month and 5% over the year. Completions have increased in five of the last six months with the multifamily sector driving most of the improvement (see August 22nd FOCUS Commentary). The single family sector remains relatively stable.

The National Association of Home **Builders Housing Market Index** is showing improvement. It has done so for four consecutive months. The index measures present sales; expected sales in the next six months and traffic from potential buyers. While all three components are near five year highs, most of the improvement was driven by the present sales index reading followed by the potential buyer traffic reading. The expected sales reading hovered around neutral.

Builder confidence is improving but more homebuilders report conditions as poor than report them as good. Home building conditions remain sluggish. As an aside, The Conference Board recently reported that the share of consumers planning to buy a home had dropped to its lowest level in six months.

Rental housing is playing a significant role in the housing market as recession driven home buyer impairment as well as government policy moves push more consumers to rental housing. First, many new households are headed by young adults which is the demographic least likely to pursue homeownership. Second, many former homeowners, some of whom (perhaps arguably) should not have been owners and were subsequently foreclosed upon, have necessarily returned to rentals. Third, slow income growth of the last few years means many potential homeowners do not have the financial capacity to purchase or perhaps to operate and maintain a residence. Indeed, from 2000 to 2008 real per capita income grew at an annualized rate of 2%. During 2010 and 2011, the rate was less than half that at 0.8%. Finally, there is a stunning lack of confidence among consumers as revealed by nearly every key consumer sentiment or confidence survey.

Outlook. The housing sector as a whole is clearly improving and showing much needed signs of life. Nevertheless, the sector is climbing out of a very deep hole and the climb is still likely to be long, slow and torturous. While the freefall certainly appears over, barring, of course, unforeseen economic shock, the damage was significant and recovery will take time.