
# A Final Word About August Housing

## *Housing Reports Were Generally Positive In August*

September 30, 2012 By William L. Pittenger, MAI, SRA

Last week we wrote about existing home sales in this space. The news was generally positive. Sales volume was 9.3% higher than a year ago at 4.82 million units. That was the highest volume of sales since May 2010. Inventories have returned to a relatively normal level and distressed sales are down slightly. We described our outlook as guarded only because the housing recovery remains fragile and some strong headwinds remain. The last week was a data rich one for housing as several key reports were released. Here is a summary.

New Home Sales declined 0.3% to an annualized 373,000 units. Nevertheless, sales are up 28% from a year ago. The median price of a new home nationwide is $256,900 which is up approximately 17% year over year. New home pricing is notoriously volatile and subject to wild swings based upon product mix.

Inventory remained essentially flat at 141,000 available units. That is 12% less than a year ago. While builders still struggle to compete against much lower priced existing homes, particularly foreclosure transactions, new home prices rose sharply in August. That appears to be the product of tight inventories.

Geographically, new home sales have been uneven across the country. The Northeast recorded the largest gain surging 20% in August alone. Year over year, sales in the Northeast are up 57%. Conversely, the South was the only region to show deterioration as new home sales declined 5%. Year over year, sales are up 65% in the west and 12% in the South. The Midwest posted a solid gain with sales up 2% over the month and 17% over the year. We expect new home sales to languish at or near their current level for the remainder of the year and into 2013. Employment needs to pick up and foreclosures need to clear before new home sales volume can show any appreciable gains.

Existing home prices accelerated year over year in the three month period ending in July. That is according to the widely watched and highly regarded S**&P/Case-Shiller Home Price Index**. That is in comparison to the three month period ending in June. The 20 city index gained 1.2% year over year while the 10 city index gained 0.6% compared to year ago levels. The gains were widespread. A larger number of metropolitan areas covered in the release saw gains . Year over year price gains ranged from a fractional increase in Cleveland and Los Angeles to a soaring 16.6% increase in Phoenix; a previously overbuilt and troubled metro. Only Las Vegas, Chicago, Atlanta and New York experienced declines. Atlanta was by far the biggest loser with prices down 9.9% year over year.

House prices, as measured by the **Federal Housing Finance Administration** (FHFA), continued to rise as well. The agency, which is also the conservator for mortgage giants Fannie Mae and Freddie Mac, reported that its purchase only index rose 0.2% in July. It is now 3.7% higher than July 2011. Monthly growth for June was revised down fractionally. Like the other indicators, the FHFA showed uneven results around the country.

**The Pending Home Sales Index** (PHSI) produced by the National Association of Realtors (NAR) declined 2.6% in August and gave back much of what it gained a month earlier. Nevertheless, the index is 10.7% higher than a year ago and trending near a two year high. Geographically, the Northeast was the only region showing an increase in pending sales. In the West, the index declined 7.2%. In the Midwest it fell 2.6% and in the South pending home sales fell 1.1%. All regions except the West showed results higher than a year ago.

**The Housing Outlook**

Most August housing reports were relatively positive and showed modestly rising prices and sales volumes. Nevertheless, our outlook remains guarded. While the housing free fall is over, we expect there to be more ups and downs over the next couple of years.

A forecast, by its very definition, implies using the most reliable known or reasonably knowable current information to make inferences about the future. For housing, and indeed, real estate in general, current conditions are not conducive to robust growth over the short and mid term. The headwinds are just too strong.

For example, there are still 12.5 million Americans unemployed and 40% of them, some five million, have been unemployed long term. The labor force participation rate has declined to 63.5% which is its lowest in 31 years. Wages are not increasing and, for the most part, have stagnated. Household wealth and home equity were decimated by The Great Recession. That suggests that many would-be buyers can't buy. Contributing to widespread wage stagnation are those persons who lost a job and regained employment during the recession. That group regained employment at compensation, on average, 20% less than the job they lost. Moreover, new jobs that are being created tend to be lower paying service jobs.

Finally, while shadow inventories and foreclosures have declined, the problem has not gone away. We expect foreclosures to continue to weigh heavily and negatively on housing which will lead to modest price decline again over the next few months.

The bottom line is that housing will bounce along the bottom for several more years with robust growth not likely again until 2016.

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