New Home Sales Rise While Construction Declines

Recovery Still In Process Although Sales Pace Has Slowed Modestly

January 3, 2013 | By William L. Pittenger, MAI, SRA

Sales of newly constructed homes rose 4.4% to 377,000 units in November from the revised October rate of 361,000 units. That is the greatest number of sales since early 2010 when sales activity was being fuelled by tax credits. As we saw then, however, the stimulus driven sales volume was not sustainable as sales plunged 80% to an all time low of 280,000 units in May 2010 after expiration of the tax credits.

The November total of 377,000 units was 15% higher than November 2011 when sales totaled 327,000 units. Sales have also rebounded nearly 35% from the all time low. While the percentage gains seem impressive, new home sales are emerging from a very deep trough and still have a very long way to rise before reaching a sales pace of around 700,000 units which is typically considered healthy. For historical perspective, new home sales reached an annualized high of 1,389,000 units in July of 2005 during the housing bubble before falling 80% to the trough of 280,000 units in May 2010.

The median price of all new homes sold in November was $246,200. The median is the point at which half the sales prices are higher and half are lower. The *average* of all sale prices was $299,700. For comparison, the median price of an *existing* home sold in November was much lower at $180,600. While distress sales (foreclosure and short sales) of existing homes have fallen sharply over the last year or so, builders of new homes still have difficulty competing with deeply discounted sale prices of existing homes. Nevertheless, strong and consistent sales of existing homes combined with slow but steadily improving new home sales performance support our view that the long anticipated housing recovery is finally in process and is sustainable. Despite meaningful recovery, sales are stilly likely to fluctuate within a relatively narrow range for the next couple of years. Moreover, sales of new homes are likely to languish until employment, income, home equity and household wealth show more robust improvement. The same metrics impact existing home sales but are more pronounced in the new home sector.

Residential construction and permitting activity grew modestly in November. Residential building permits rose to 899,000 from 866,000 units in November (+3.81%). Permitting activity a year ago was 709,000 The single family detached component declined slightly from a revised 566,000 units in October to 565,000 units in November.

Housing starts totaled 861,000 in November. That is down three-percent from the revised October figure of 888,000 but up 21.6% from a year earlier. The single family detached component declined 4.1% over the month to 565,000 units. The multifamily component (defined as buildings with five units or more) totaled 285,000. The multifamily sector has been and remains strong but is showing signs of weakening fundamentals. Owners have achieved what is arguably maximum occupancy approaching 96% and are now trying to sustain revenue growth by raising rents. That will be difficult to sustain in the face of stagnating wages.

Completions in November totaled 677,000 units and were 9.7% below the revised October total of 750,000 units. The single family sector dominated completions at 520,000 units or 30% of total completions but it too was down fractionally from October. There were an estimated 150,000 multifamily completions in November.

The modest volatility does not appear to be a trend reversal. Instead, much of the downward movement is likely seasonal. There are some potential headwinds though. Persistently high unemployment combined with the recent fiscal cliff legislation, (which was signed into law by the President on January 2nd), restrain disposable income and will likely dampen housing demand.

NOVEMBER 2012 NEW HOME STATS AT A GLANCE
Seasonally Adjusted Annual Rates (SAAR)
Released December 27, 2012

New Home Sales
377,000
+4.4% Month over Month
+15.3% Year over Year

October Revised Total New Homes
361,000

Months of Supply In November
4.7
149,000 Available
-4.0% Year over Year

Median Price
$246,200
+15% Year over Year

Building Permits
899,000
+3.6% Month over Month
+26.8% Year over Year

Housing Starts—All Types
861,000
-3.0% Month over Month
+21.6% Year over Year

Single Family Starts
565,000
-4.1% Month over Month

Five Unit Plus Building Starts
150,000

Housing Completions
677,000
+9.7% Month over Month
+16.1% Year over Year

Single Family Completions
520,000
-2.4% Month over Month

SOURCE: Census & HUD

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