



## Housing Markets

With sales picking up, low inventories of both new and existing homes helped to firm prices and spur new single-family construction in 2012. Multifamily markets posted another strong year, with construction activity up sharply in response to tightening conditions. Rising home prices, along with steady job gains, helped to reduce the number of seriously delinquent borrowers and underwater homeowners, while also providing more owners the means to invest in discretionary improvement projects.

### REVIVAL OF HOMEBUILDING

By several measures, homebuilding made a comeback in 2012 (**Figure 6**). After falling another 8.6 percent in 2011, single-family starts were up 24.3 percent, to 535,300 units. Except in 2010 when temporary tax credits helped to boost starts, this was the first annual increase since 2005. Even so, homebuilding activity remained severely depressed, with starts in 2012 at about half the average annual levels in the 1980s and 1990s.

Meanwhile, multifamily starts jumped another 37.7 percent in 2012, to 245,300 units—the second straight year of double-digit gains. As a result, multifamily starts were more than double their 2009 cyclical low but, given the depth of the decline, still below annual averages from past decades.

The rebound in residential construction was widespread, with 91 of the top 100 metropolitan areas reporting increases in single-family permits in 2012. Moreover, permitting activity escalated over the course of the year. Nevertheless, single-family permits in each of the 100 largest metros lagged below annual levels averaged in the 2000s.

On the multifamily side, permitting increased in three-quarters of the top 100 metros. Marking its third year of growth, multifamily construction is well ahead of single-family construction on the path to recovery. While still below average annual levels in the 2000s in the majority (66) of metros, multifamily permitting in several areas exceeded this pace—in some cases, substantially. Indeed, Austin, Raleigh, and Bridgeport each issued permits for more new multifamily units in 2012 than in any year dating back to 1988. But given the low levels of permitting in the late 2000s, even in these cases multifamily production over the last five years is only back in line with historical averages.

### HOMES SALES ON THE REBOUND

According to the National Association of Realtors® (NAR), existing home sales increased 9.4 percent in 2011–12, to 4.66 million units. This was the largest percentage increase since 2003–04 and the fastest pace since 2007. And for the first time in seven years, new home sales also increased in 2011–12, rising nearly 20

FIGURE 6

## Housing Markets Turned a Corner in 2012

	2010	2011	2012	Percent Change	
				2010-11	2011-12
<b>Single-Family Home Sales</b>					
New (Thousands)	323	306	368	-5.3	20.3
Existing (Millions)	3.7	3.8	4.1	2.1	9.0
<b>Residential Construction</b>					
Total Starts (Thousands)	587	609	781	3.7	28.2
Single-Family	471	431	535	-8.6	24.3
Multifamily	116	178	245	54.0	37.7
Completions	652	585	649	-10.3	11.0
<b>Median Single-Family Sales Price</b>					
New (Thousands of dollars)	233.5	231.9	245.2	-0.7	5.7
Existing (Thousands of dollars)	182.3	169.6	177.2	-6.9	4.5
<b>Construction Spending</b>					
Residential Fixed Investment (Billions of dollars)	358.6	345.7	382.9	-3.6	10.8
Homeowner Improvements (Billions of dollars)	117.5	116.4	124.9	-0.9	7.3

Note: All dollar values are in 2012 dollars, adjusted for inflation by the CPI-U for All Items.

Sources: US Census Bureau, New Residential Construction; Bureau of Economic Analysis, National Income and Product Accounts; National Association of Realtors®, Existing Home Sales.

percent to 368,000 units. This rebound, however, is from 2011's low base so that the pace of new home sales in 2012 was still the third lowest (after 2010 and 2011) in records dating back to 1963. Still, sales continued to gain momentum in early 2013, with April marking the 19th consecutive month of year-over-year increases.

Additional good news is that distressed sales are on the decline. CoreLogic estimates that the share of distressed property sales dropped from 26.4 percent in 2011 to 23.3 percent in 2012. And within this category, lender-owned (REO) sales were down 18 percent while short sales (where the mortgage holder agrees to a sales price that is less than the outstanding loan balance) were up 26 percent and rising steadily over the year. Given that short sales typically carry less of a discount than REO sales, this shift helped to lift overall house prices and reduce REO inventories, especially in hard-hit markets.

Investors had a significant market presence in 2012, accounting for one in five sales nationwide according to NAR, although the shares in several metros were much higher. CoreLogic reports that home sales to non-owner occupants (a proxy for investor and second-home sales) made up approximately 30 percent of sales in Riverside, 26 percent in Sacramento, and 25 percent in Phoenix. Many of these sales were to institutional investors, who moved aggressively into formerly high-growth but recently high-distress cities such as Atlanta, Las Vegas, and Phoenix

last year. In these metros, institutional investor sales rose from about 14–18 percent of investor sales entering 2012 to 20–26 percent by the end of the year. The importance of investors in driving home sales is evident in the high share of all-cash transactions, which hovered around 30 percent throughout 2012—well above the 20 percent share averaged as recently as 2009. At the same time, NAR data also indicate that first-time buyers have yet to emerge as a strong source of demand, with their estimated share of annual sales only edging up from 37 percent in 2011 to 39 percent in 2012.

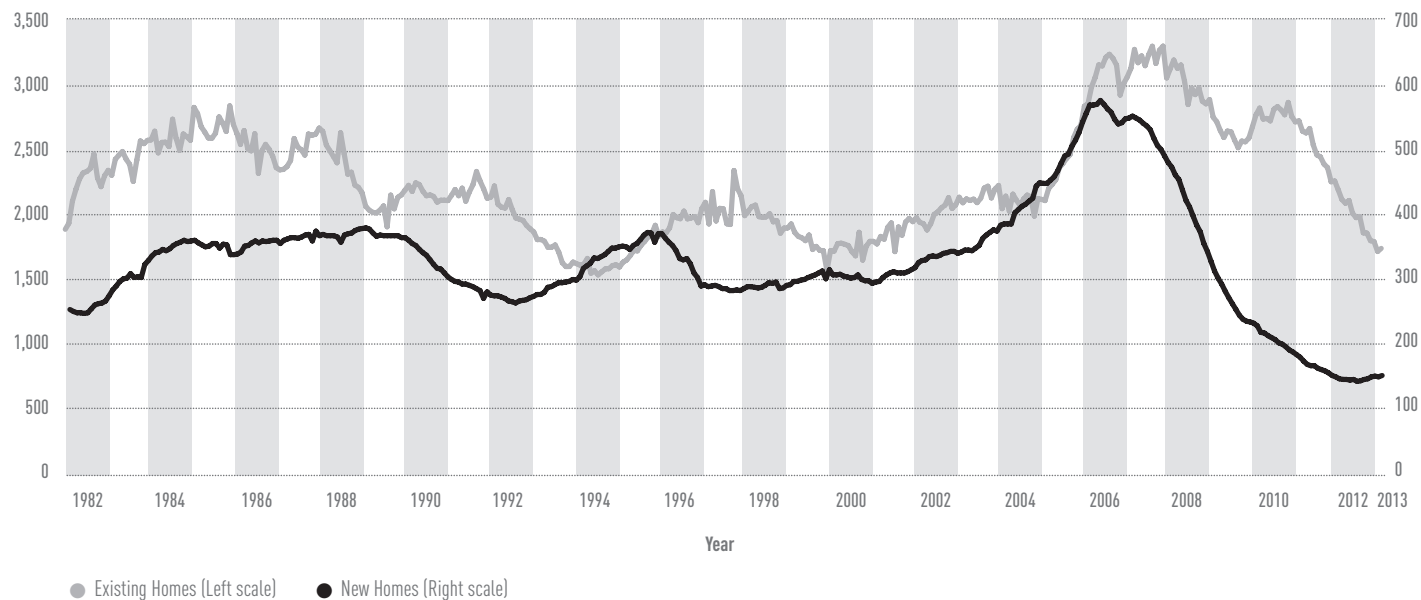
### THE SHRINKING FOR-SALE INVENTORY

Supplies of both new and existing homes for sale remain extremely tight (**Figure 7**). The total inventory of new homes for sale was stuck at historical lows throughout 2012, holding near 150,000 units. The stock of new homes completed but not yet sold, however, dropped 27 percent to just 43,000 by December 2012. At that time, the typical new home for sale had been on the market for just 4.7 months, down from 6.7 months in December 2011 and marking the briefest period since December 2006. The supply of existing homes for sale also fell precipitously, with NAR reporting a 24 percent drop from January 2012 to January 2013. The number of existing homes on the market entering 2013 totaled just 1.8 million, more than 500,000 less than a year earlier and the lowest level since 2001.

FIGURE 7

## Inventories of Homes for Sale Stand Near Record Lows

Units (Thousands)



Sources: National Association of Realtors®, Existing Home Sales; US Census Bureau, New Residential Sales.

With inventories down and sales accelerating, the supply of homes for sale is now well below the six-month level that traditionally signals a seller's market. The stock of new homes for sale fell from a seasonally adjusted 5.3 months in January 2012 to 4.0 months in January 2013, the lowest reading since October 2004. Inventories of existing homes for sale were nearly as limited, dropping from 6.2 months in January 2012 to just 4.3 months in January 2013.

Limited supplies of homes on the market largely reflect the unwillingness or inability of owners to sell. If recent trends continue, however, these conditions may start to change. According to the Fannie Mae National Housing Surveys for the past 12 months, a solid majority of householders reported that they thought that it was a good time to buy. The share stating that they considered it a good time to sell, however, was just 26 percent in March 2013—far below the typical 50–60 percent share, but still double the share a year earlier. As home prices rise to levels that are more acceptable to sellers waiting on the sidelines, more homes will go on the market. And each uptick in prices provides investors in single-family rentals an incentive to switch the properties to the for-sale market.

### FALLING VACANCY RATES

The number of vacant units declined sharply in 2012. According to the Housing Vacancy Survey, the overall supply of vacant

units both for sale and for rent dropped by 607,000 or 10.2 percent (**Figure 8**). Unlike in recent years, most of the decline came on the for-sale side, where vacancies tumbled 18 percent (346,000 units). As a result, the average number of vacant for-sale homes in 2012 was lower than in any year since 2005 and some 674,000 units below the 2008 peak. While the number of vacant rental units fell just 6 percent, this still amounted to a substantial 263,000 drop for the year. This brought the total decline in the number of vacant for-rent units since the peak to 609,000.

At the same time, however, a large inventory of vacant homes was still held off market in 2012. Indeed, this supply increased by 167,000 units (2.3 percent) to a record high of 7.4 million, or fully 5.6 percent of the housing stock. By comparison, the share of vacant units held off market averaged just 4.6 percent in the 1990s and 2000s, implying a current excess of 1.4 million units. Nearly all of the increase in vacant units held off market was concentrated in the South and West—the regions most affected by the foreclosure crisis. It remains to be seen whether the uptick in prices will bring more of these homes back on the market.

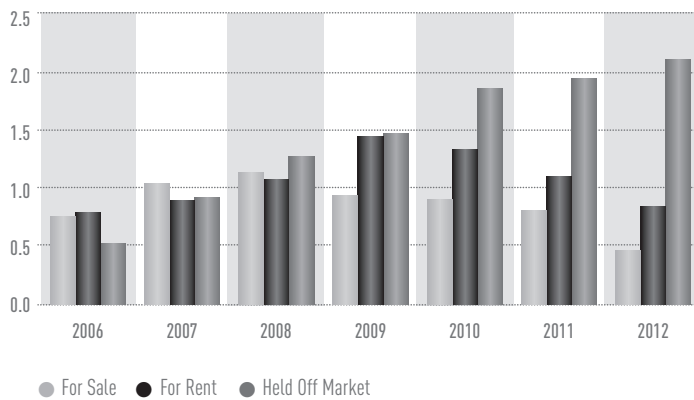
### HOUSING PRICES ON THE RISE

After across-the-board declines in 2011, all major house price indexes—CoreLogic, S&P/Case-Shiller, Zillow, and FHFA—regis-

FIGURE 8

### While Vacant For-Sale and For-Rent Units Fell in 2012, Vacant Off-Market Units Climbed to a New Record High

Change in Vacant Units Since 2000 (Millions)

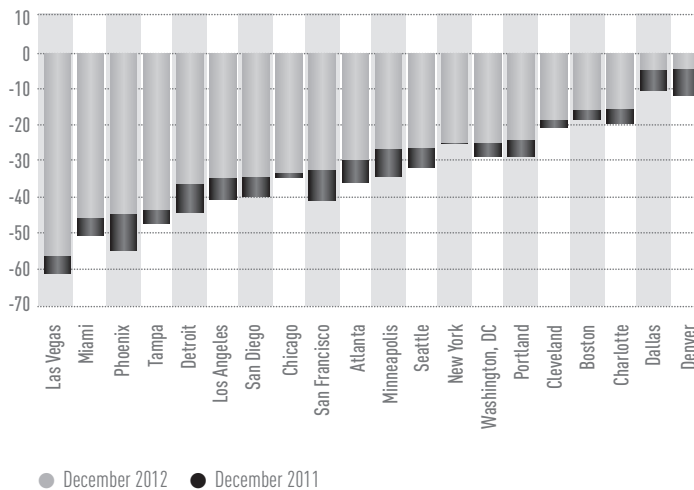


Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

FIGURE 9

### House Prices Rebounded Widely in 2012, But Remain Well Below Peak Levels

Difference from Peak Price (Percent)



Source: JCHS tabulations of the S&P/Case-Shiller home price index.

tered significant increases in 2012. With the pace of appreciation accelerating, the CoreLogic and Case-Shiller indexes moved up by more than 7 percent over the year. Meanwhile, Zillow's estimates for all housing units and the FHFA expanded-data house price index ended the year with more modest gains of 5.4–5.5 percent.

Median sales prices, which track the price of the typical home sold, rose even more sharply. By December 2012, the price of a typical existing home sold had climbed 10.8 percent and that of a typical new home fully 18.2 percent from a year earlier. For new homes, adjusting for constant quality, sales prices were up 6.4 percent year-over-year in the fourth quarter of 2012.

The upturn in house prices occurred across much of the country. CoreLogic reports that home prices in all but two states, along with 94 of the top 100 metropolitan areas, were on the rise as of April 2013. The pace of appreciation in 2012 ranged widely, with the largest gains in Phoenix (up 23.1 percent) and San Jose (up 18.0 percent). More moderate increases occurred in Dallas (up 4.2 percent) and Houston (up 3.9 percent). At the same time, however, prices were flat in Philadelphia (down 0.2 percent) and fell in Chicago (down 1.7 percent).

In general, metros with the strongest house price appreciation in 2012 fall into two groups. The first includes economically resilient markets facing a combination of very low inventories and relatively strong employment growth. Austin and Denver fit into this category, with just 1.7 months and 2.7 months supply of housing for sale. Sales prices thus climbed 9.5 percent in Austin and 7.0 percent in Denver from December 2011 to December 2012. In other metros such as Phoenix, Atlanta, and Miami, strong investor sales combined with shrinking supplies to drive up prices. Even after significant increases in 2012, however, home prices in these hard-hit markets remained well below peaks (Figure 9).

#### CHIPPING AWAY AT NEGATIVE EQUITY

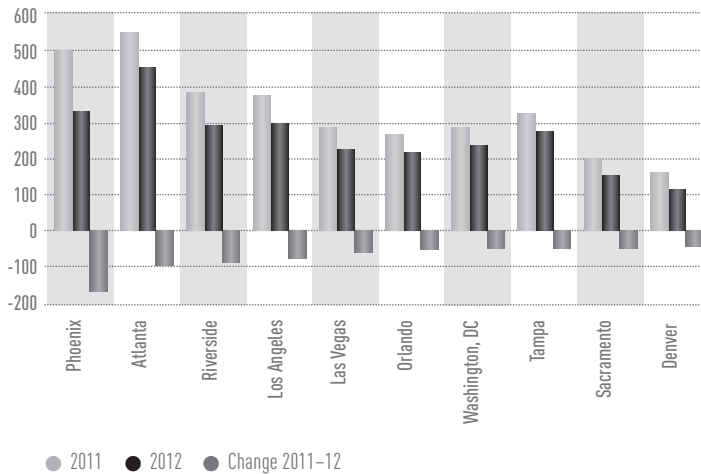
Rising prices provided some relief to homeowners owing more on their mortgages than their homes were worth. Nationwide, the number of underwater homeowners fell 1.7 million, to 10.4 million, between the fourth quarter of 2011 and the fourth quarter of 2012. Improvements in some of the most troubled metros were significant (Figure 10). In Phoenix alone, the number of underwater mortgages dropped by more than 150,000, reducing the share of borrowers with negative equity from 54.5 percent in the fourth quarter of 2011 to 36.6 percent in the fourth quarter of 2012. The number of underwater mortgages also dropped by nearly 100,000 in Atlanta, and was down more than 20 percent in Los Angeles and Las Vegas.

At the same time, however, CoreLogic estimates that as of the fourth quarter of 2012, slightly more than two out of every five owners with negative equity had mortgages that were more than 25 percent larger than what their homes were worth. Owners with negative equity obviously have little incentive to sell because they would be unable to pay off their loans, but those with low equity are also generally reluctant to sell because they would lack sufficient resources to buy other homes. These conditions have slowed the housing market recovery by constricting both the supply of homes for sale and the pool of potential homebuyers (given that sellers often buy again).

FIGURE 10

### The Number of Underwater Mortgages Fell Sharply in Several of the Hardest-Hit Markets in 2012

Negative Equity Mortgages (Thousands)

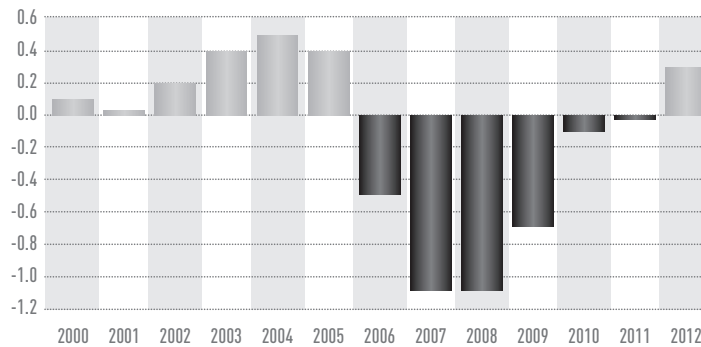


Notes: Negative equity or underwater mortgages are defined as residential loans that exceed the estimated values of the properties. The markets shown are the 10 metros reporting the largest reductions in negative equity mortgages in 2011-12. Source: CoreLogic®, Negative Equity Reports.

FIGURE 11

### After Six Years as a Drag on Growth, Residential Investment Helped to Boost the Economy in 2012

Residential Fixed Investment Share of Real GDP Growth (Percentage points)



Source: JCHS tabulations of BEA, National Income and Product Accounts (NIPA).

#### THE ROLE OF REMODELING

For the first time since 2005, residential fixed investment (RFI)—which includes home improvement spending as well as both single- and multifamily construction—contributed positively to gross domestic product (GDP) in 2012 (Figure 11). Growth in RFI

helped to lift real GDP in all four quarters, adding 0.3 percentage point to gains for the year. Given that real GDP expanded just 2.2 percent in 2012, RFI’s contribution amounted to a healthy 12 percent of the total increase in the economy.

All three major categories of residential investment made headway last year. Multifamily construction spending, while making up only 8 percent of the total, grew the most in 2012—up 42 percent from 2011 levels. Single-family construction spending increased much more modestly, but accounted for 47 percent of overall RFI growth in 2012. Much of the strength also came from homeowner improvement spending, which contributed more than 45 percent of total residential investment expenditures in 2012—well above the 25 percent share averaged in the decades before the housing crash.

After a mild start, improvement spending accelerated in the second half of 2012 and ended the year up 7.3 percent. Since many owners draw on their home equity to finance major projects, the remodeling market may have benefited from the slight uptick in home equity loans and cash-out refinances in 2012. Going forward, the Joint Center’s Leading Indicator of Remodeling Activity points to a continuation of this strong momentum through 2013 as improvements in the housing and job markets give owners more confidence to make substantial investments in their homes.

#### THE OUTLOOK

After several years as a drag on the economy, the housing sector contributed positively to GDP in 2012. The rebound in sales drove down inventories of homes on the market to near-record lows, spurring new construction and strengthening home prices in metropolitan areas across the nation. But even with these gains, real spending on single-family construction, the largest component of residential investment, remained deeply depressed in 2012. Since starts have such a long way to go to reach normal levels, the housing sector has plenty of room to improve on last year’s contribution to economic growth. However, a sudden rebound in demand to more normal levels, combined with continued growth in multifamily construction, could challenge the capacity of homebuilders and materials suppliers to ramp up quickly.

Given the depth of the housing market downturn, several challenges to a strong and sustainable recovery remain. Demand is closely linked with jobs and incomes, which are taking longer to rebound than in any previous cycle. While trending downward, the numbers of underwater homeowners, seriously delinquent loans, and excess vacancies are still in the millions. It will take several years for market conditions to return to normal. Until then, the housing recovery is likely to unfold at a moderate pace.