National Association of Home Builders

Eye on the Economy: Existing Home Sales Improving

BY DAVID CROWE *ON* SEPTEMBER 3, 2014 • (0)

Existing home sales increased 2.4% in July, tallying the fourth consecutive month of increase. While the pace of existing home sales remains 4.3% below the July 2013 rate, the steady improvement for resales is positive news for the new home market because prospective repeat homebuyers must sell their existing home before buying a newly built residence.

The National Association of Realtors (NAR) reported July total existing home sales at a seasonally adjusted rate of 5.15 million units combined for single-family homes, townhomes, condominiums and co-ops, up from a downwardly revised 5.03 million units in June.

Although the first-time buyer share increased for the third consecutive month to 29% in July, the share continues to lag far behind the historical average first-time buyer share of about 40%. Housing market improvements caused the distressed sales share to fall below 10% for the first time since NAR began tracking the series in October 2008.

The outlook for existing sales is positive due to a number of improving factors. The NAR pending home sales increased 3.3% in July, climbing four of the last five months. Consumer confidence increased in August for the fourth consecutive month. Second quarter GDP growth was revised up to a strong 4.2% expansion rate. And while the growth rate is slowing, home prices (according to the Case Shiller index) rose 6% on a year-over-year basis for the August report.

In contrast to existing sales, numbers from the Census Bureau and HUD indicated that new home sales fell 2.4% in July to an annual rate of 412,000, down 10,000 from an upwardly revised June figure of 422,000. The last three months of sales averaged the same as the annual figure for 2013 — 429,000. This is a slower pace than the first two months of the year that averaged 445,000 and the last quarter of 2013 that averaged 446,000. Most of the July drop was concentrated in the West, which declined 16,000 sales on an annual basis.

New home sales conditions remain positive however as interest rates remain low. Federal Housing Finance Agency (FHFA) data indicate the average effective contract interest rate for new home sales was 4.25% in July. In addition, the recent decline in new home sales stands in opposition to other trends, including a rise in the NAHB/Wells Fargo Housing Market Index of builder confidence in August. New home starts were up 8.3% in July as well.

Individual submarket conditions varied during the second quarter. The market share and count of custom home building (homes built on an owner's lot) both increased during the second quarter. The townhouse market was relatively flat for the quarter, as the first-time buyer continues to be underrepresented. The single-family built-for-rent sector remains off cycle highs, as the rest of the single-family construction market expands.

On the other hand, the multifamily built-for-rent (94% of multifamily construction) submarket reached new market share highs as the condo market continues to lag. This situation is holding down the size of the typical newly built multifamily unit as well. Developers continue to report positive market conditions for multifamily. The NAHB Multifamily Production Index posted a gain of five points to a reading of 58 for the second quarter, marking the 10th straight quarter with a reading of 50 or above. Any number over 50 indicates that more respondents report conditions are improving than report conditions are getting worse.

NAHB and FDIC survey data indicate that one industry headwind – acquisition, development and construction (AD&C) loans – continues to improve, albeit slowly. In the second quarter of 2014, the NAHB AD&C survey indicated ongoing easing conditions. A similar Federal Reserve survey also exhibited easing conditions for overall business-related real estate lending. Mirroring the survey, FDIC data revealed 5.4% growth for the second quarter of the stock of outstanding residential AD&C loans. The current stock is 16% higher than a year ago, indicating an expansion of credit but one occurring slower than the growth in home building. The lending gap is being made up from other, nontraditional sources of business capital.

In analysis news, NAHB economists recently explored the declining trend in new home median lot sizes, which fell to 8,720 square feet for 2013, among the lowest on record. NAHB also detailed a Federal Reserve Survey that examined household economic conditions. The data reveal that despite the home price gains of the last few years, a significant share (46%) of households thought the value of their home was lower than the value in 2008. Finally, NAHB examined recently published Fair Market Rent (FMR) estimates (used for the Housing Choice Voucher program) from the Department of Housing and Urban Development. Of the 2,557 U.S. areas on the list, FMRs increased in 1,718, declined in 822, and were unchanged in 17.