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The Mortgage Corner

Housing Affordability Still at Highs

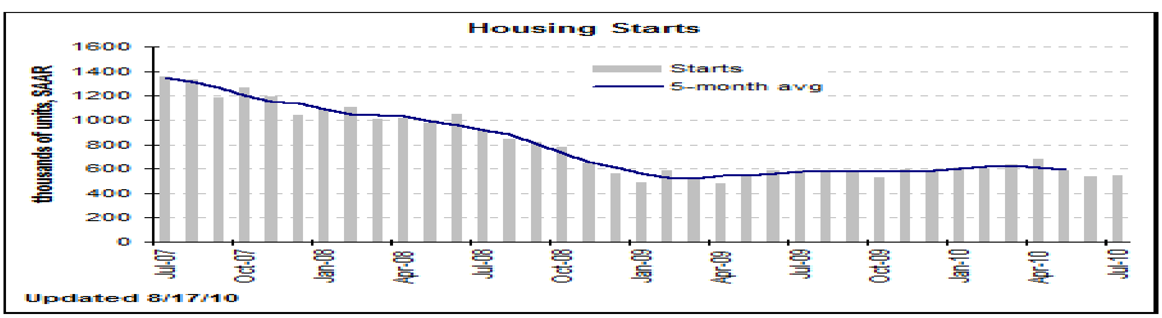
Bolstered by favorable interest rates and low house prices, housing affordability remained near its highest level nationwide for the sixth consecutive month since the series was first compiled nearly two decades ago, according to the National Association of Home Builders/Wells Fargo Housing Opportunity Index (HOI) released today. And both housing construction and new-home sales are beginning to rise again after a lull.

The HOI indicated that 72.3 percent of all new and existing homes sold in the second quarter of 2010 were affordable to families earning the national median income of $64,400. The index for the second quarter was slightly more affordable than the previous quarter and almost equaled the record-high 72.5 percent set during the first quarter of 2009. Until 2009, the HOI rarely topped 67 percent and never reached 70 percent.

> "Homeownership is within reach of more households than it has been for almost a generation," said NAHB Chairman Bob Jones. "Interest rates continue to hover at historic low levels, the economy is beginning to rebound and with house prices starting to stabilize, conditions are beginning to draw home buyers back into the market, which is a positive step on the path to recovery."

Syracuse, N.Y., was the most affordable major housing market in the country, edging out Indianapolis-Carmel, Ind., which had held the top ranking for nearly five years. In Syracuse, 97.2 percent of all homes sold were affordable to households earning the area's median family income of $64,300.

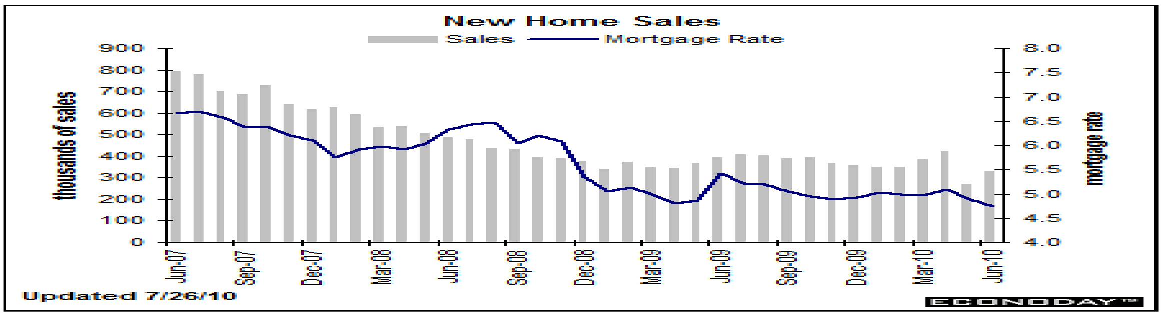
Housing starts also posted a modest comeback in July, rising 1.7 percent after an 8.7 percent decrease in June. The July annualized pace of 0.546 million units came in below the median forecast for 0.565 million units and is down 7.0 percent on a year-ago basis.



The July improvement was led by a 32.6 percent bounce back in multifamily starts, following a 33.3 percent drop in June. The single-family component is still weighed down by inventories-declining 4.2 percent after dipping 1.7 percent in June.

By region, the gain in starts was led by a 3.9 percent rebound in the South. Other regions declined-the Northeast, down 25.9 percent; the West, down 4.9 percent; and the Midwest, down 1.1 percent.

New-home sales also recovered form recent lows. The June pace recovered to an annualized 330,000 from a revised 267,000 for May and revised 422,000 for April. While the comeback is welcome, the bad news is that May's record drop was revised down notably from the initial estimate of a 33.0 percent decline. The latest figure is down 16.7 percent on a year-ago basis.

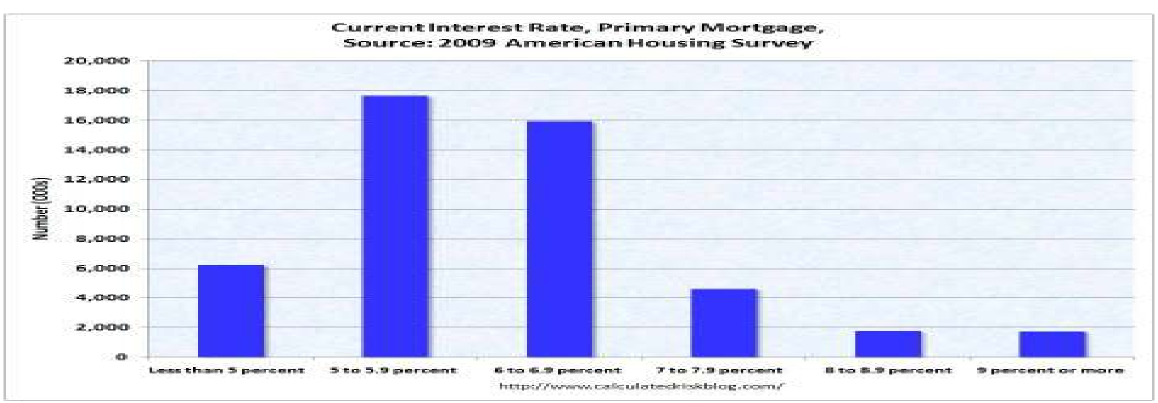


Monthly supply has seen sharp movement in recent months as that ratio is moved more by sales than by the number of homes on the market. Supply on the market eased somewhat to 7.6 months after surging to 9.6 in May. April had been pushed down to 6.1 months' supply as sales bumped up to meet the signing deadline for tax credits. The median home price slipped 1.4 percent to $213,400. Year-on-year, the median price in June is down 0.6 percent. The bottom line is that the elevated inventory levels of new homes is helping keep prices low.

Another interesting statistic put out by Calculated Risk is the distribution of mortgage interest among homeowners.

A just released Census Bureau housing survey showed:

- 76.4 million owner occupied housing units in 2009.
- 24.2 million were owned free and clear (no mortgage). That is 31.7 percent.
- 26.8 million primary mortgages were originated in 2004 or earlier.
- 12.7 million primary mortgages were originated prior to 2000.
- 24.1 million primary mortgage had interest rates above 6 percent.



4141 State St., #E13 Santa Barbara, CA 93110 Editor@populareconomics.com
http://populareconomicsweekly.blogspot.com

This is while the 30-year conforming fixed-rate mortgage averaged 4.42 percent for the week ending Aug. 19, a record low since Freddie started tracking the rate in 1971. And, there were at least 10.9 million homeowners with 2nd mortgages and another 800 thousand the 3 or more mortgages.

This all means that the new affordability is not available to everyone. Only 6.2 million of primary mortgages were under 5 percent (as of 2009). This will increase in 2010, but quite a few homeowners had primary mortgage interest rates above 6 percent. And the BEA recently reported that the effective rate on all mortgages was still above 6 percent in Q2.