

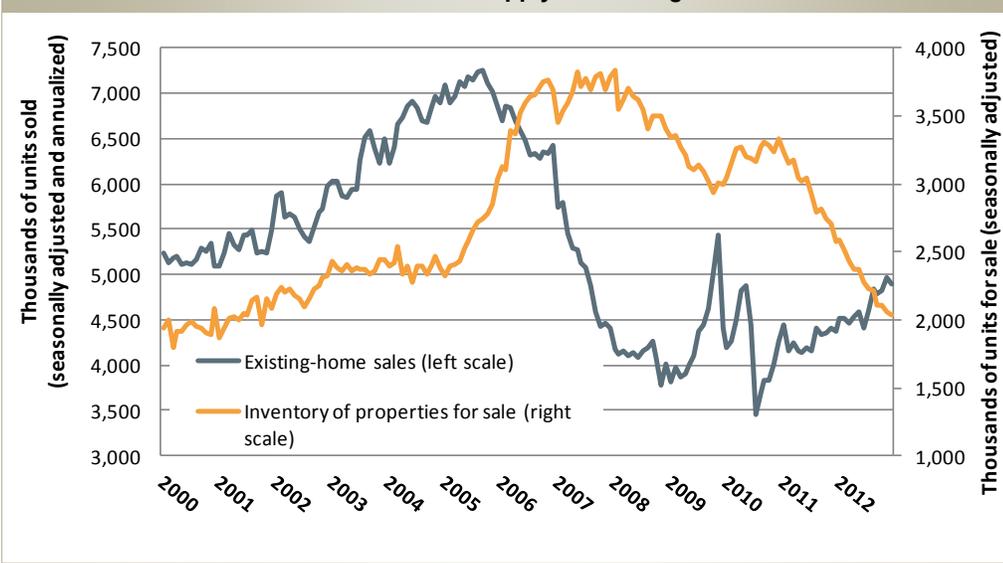
## Encouraging Signs on the U.S. Residential Real Estate Market

*The U.S. housing market seems to have finally emerged from its slump. For many months now, an increase in the number of existing-home sales and in property prices, as well as the recovery of housing starts, suggest that a cycle of growth is now underway.*

After experiencing very difficult years, many statistics suggest that the American real estate market has climbed out of its hole to finally embark on a path of growth. According to data from the National Association of Realtors (NAR), the number of sales concluded in 2012 was the highest since 2007 and the 9 per cent increase registered in 2012 was the largest in eight years. The median price of properties, which grew by 6 per cent in 2012, marked the first price increase in the United States since 2006. In addition, the number of housing starts increased by 28 per cent in 2012, the largest jump since 1983.

The increase in demand for housing can be explained by an improvement in the job market, an increase in American consumers' confidence in the economy, as well as low interest rates and an improvement in households' financial situation. As for supply, the low number of new constructions in recent years and homeowners' reluctance to sell their property at a time when prices have barely started to climb has resulted in a drop in the number of properties available. Thus, the increase in demand, coupled with a decrease in supply, has finally put upward pressure on prices.

**Chart 1: Residential Sales and Supply of Existing Homes in the U.S.**



Source: NAR and QFREB calculations <sup>1</sup>

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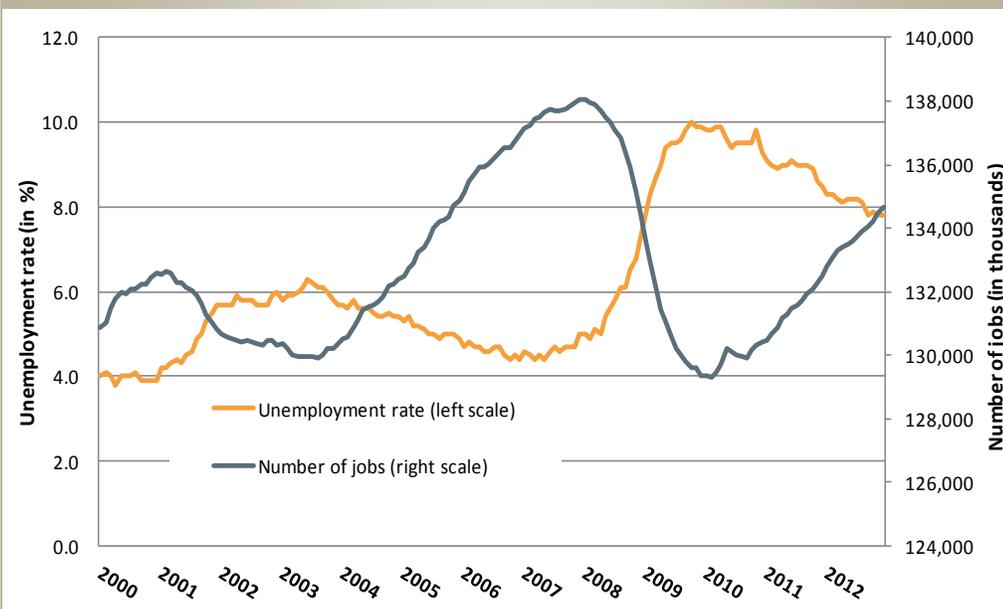
<sup>1</sup> We seasonally adjusted the monthly series of inventory of properties for sale, and the NAR seasonally adjusted the series of sales of existing homes.

## Confidence Improves and Job Market Becomes More Vigorous

The employment situation in the United States is far from being as favourable as it was in early 2008, when the number of jobs exceeded 138 million and the unemployment rate sat at approximately 5 per cent. However, significant gains have been observed in recent months. Since hitting its low point in February 2010, the employment level has increased almost every month and, at the end of 2012, more than half of the 9 million jobs lost during the crisis had been recovered. The unemployment rate has also evolved favourably, dropping from a peak of 10 per cent in October 2009 to 7.8 per cent in December 2012. The improved performance of the job market was accompanied by an increase in American consumer confidence, which grew from 25 points in February 2009 to 67 points in December 2012.

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Chart 2: U.S. Employment Market



Source : Bureau of Labor Statistics

Low interest rates have also contributed to the increase in home sales in recent months. The interest rate for a 30-year term mortgage ended 2012 at a historic low of 3.35 per cent and stood at approximately 3.5 per cent<sup>2</sup> in February 2013. In addition, consumer bankruptcies are on the decline and the proportion of mortgages in arrears of 90 days or more decreased in 2012, although it remains much higher than before the financial crisis<sup>3</sup>. It is therefore in a context of employment growth, increased consumer confidence, historically low interest rates and an improvement in the financial situation of American households that the demand for residential properties is intensifying.

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<sup>2</sup> Source: Freddie Mac

<sup>3</sup> Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax

### Supply of Properties Decreases and Market Conditions Tighten

According to NAR, there were 1.83 million existing homes for sale at the end of 2012, a 21 per cent decrease compared to the same period one year earlier. In fact, this was the lowest supply of properties in eleven years. The drop in supply, coupled with the increase in sales, led to a sharp decrease in the number of months of inventory, which dropped from 9.3 months in April 2011 to 4.5 months in December 2012<sup>4</sup>. In other words, it would have taken 4.5 months to sell the entire inventory of existing homes at the end of 2012, at the pace of sales at that time.

The significant decrease in the number of months of inventory, which results in tighter market conditions, can partly explain the strong increase in prices in 2012. The median price of residential properties grew by 6 per cent in 2012, after decreasing by 4 per cent in 2011 and remaining stable in 2010. The last price increase dates back to 2006, when a slight increase of 1 per cent was observed. Moreover, the S&P/Case-Shiller property price index, which is calculated using the repeat sales method, also reported a significant increase in property prices in the United States, particularly in the fourth quarter of 2012, as this index rose by 7.3 per cent compared to the fourth quarter of 2011.

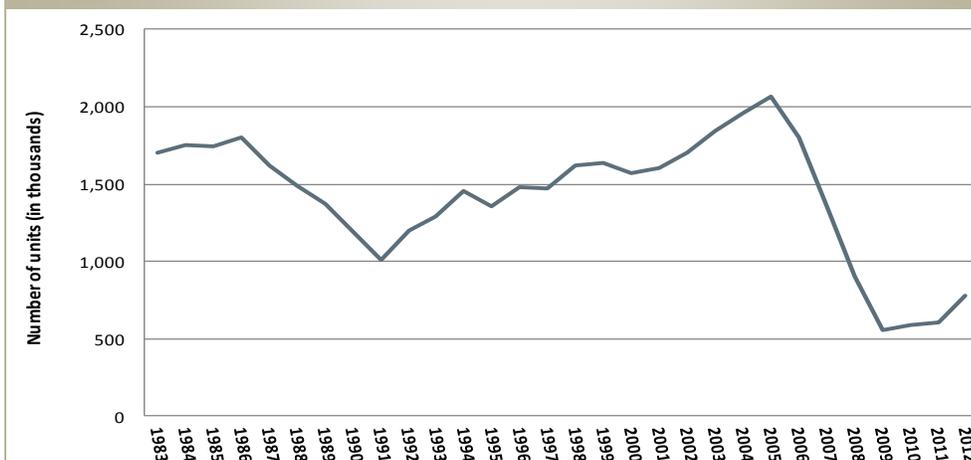
Another factor contributing to the increase in property prices is the decreasing proportion of distressed sales. Distressed sales are concluded at a sale price following a current or completed foreclosure of a property. According to NAR, the proportion of distressed sales among total sales fell from 32 per cent in December 2011 to 24 per cent in December 2012. This is a significant decrease compared to the peak of 40 per cent observed in March 2011. Because a distressed sale can be concluded at a price that is up to 20 per cent lower than a sale in normal conditions, the drop in distressed sales has a significant impact on the evolution of prices.

### Residential Construction Sector Once Again Contributes to Economic Growth

Another sign of improvement on the U.S. residential real estate market is increased activity in the construction sector: housing starts have increased every month since September 2011 and the residential investment sector<sup>5</sup> contributed to American economic growth throughout 2012, a first since 2004<sup>6</sup>.

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**Chart 3: Housing Starts in the U.S.**



Source: U.S. Census Bureau

Another factor contributing to the increase in property prices is the decreasing proportion of distressed sales.

<sup>4</sup> Source: NAR

<sup>5</sup> The residential investment sector includes the construction of single-family homes and multi-family dwellings, renovation spending, the production of prefabricated houses and real estate broker fees.

<sup>6</sup> Source: Bureau of Economic Analysis (BEA)

The 779,900 residential dwellings for which construction began in 2012 represent the highest level since 2008. However, this number is 50 per cent lower than the historical average, which is 1,500,000 housing starts per year.

The increase in housing starts in 2012 was particularly strong for dwellings with five or more housing units, which could be the result of a higher demand for rental units. In fact, the vacancy rate for rental properties with five or more units fell from 11.6 per cent in 2010 to 9.3 per cent in 2012, while the homeownership rate, which reached a record level of 69 per cent in 2004, weakened to 65.5 per cent in 2012, a rate that is comparable to that observed in the mid-1990s<sup>7</sup>.

The number of housing starts is expected to continue increasing in the coming months, given the consistent increase in the number of residential building permits since June 2011, with particularly large increases throughout 2012<sup>8</sup>. In addition, the upward trend observed in 2012 in the number of new households should also support future growth of housing starts<sup>9</sup>.

### Real Estate Market No Longer in State of Lethargy, But There's Still a Long Way to Go

In conclusion, many statistics on the U.S. real estate market have showed an improvement in 2012. The increase in the number of existing home sales is supported by a slightly more active job market, an increase in consumer confidence and a better financial situation for consumers. At the same time, the increase in prices is fueled by a demand that is growing faster than the supply of properties, and by a significant decrease in the number of distressed sales. As for the construction of new dwellings, the growth in the number of households will support the increase in the number of housing starts. Thus, the U.S. real estate market should continue its upward cycle in the coming years.

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#### Impact of the Housing Crisis in Numbers

Indicator	Cycle high point	Cycle low point	Difference between cycle high point and low point
Sales*	7,260,000 (September 2005)	3,450,000 (July 2010)	-3,810,000 sales (-52%)
Months of inventory	3.6 (January 2005)	11.9 (July 2010)	8.3 months
Residential median price	\$221,900 (2006)	\$166,100 (2011)	-\$55,800 (-25%)
Housing starts*	2,273,000 (January 2006)	478,000 (April 2009)	-1,795,000 units (-79%)
Homeownership rate**	69.4% (second quarter 2004)	65.3% (fourth quarter 2012)	-4.1 percentage points
Employment (in thousands) **	138,056 (January 2008)	129,320 (February 2010)	-8,736 jobs (-6%)
Unemployment rate**	4.4% (October 2006)	10% (October 2009)	5.6 percentage points
Consumer confidence	111.9 (July 2007)	25.3 (February 2009)	-86.6 points

\*Seasonally adjusted and annualized data

\*\*Seasonally adjusted data

Note: This table was created from data available on February 1, 2013.

If you have any questions or comments about the content of this article, please contact us by email at: [stats@fcij.ca](mailto:stats@fcij.ca).

<sup>7</sup> Source: U.S. Census Bureau

<sup>8</sup> Source: U.S. Census Bureau

<sup>9</sup> According to data from the U.S. Census Bureau, the number of households increased by 1.3 per cent in 2012, the largest increase since 2005.

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