Seacoast NATIONAL BANK

Real Estate Economic News and Insight

Economic Perspectives

New home equilibrium coming into view

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New home sales nationally rose 9.6% in July. The Census Bureau and the Department of Housing and Urban Development jointly reported that July sales rose to 433,000 units at a seasonally adjusted annual rate. That follows an upwardly revised June rate of 395,000 sales. Sales for April, May and June were all revised up. July's increase was the fourth consecutive monthly increase and the strongest showing since September 2008. The last time monthly sales rose so significantly was in February 2005. Sales are now up 32% since their January trough but down 69% from their bubble peak of nearly 1.4 million units nearly four years ago. Looking forward, we expect sales to decline again temporarily after the $8,000 tax credit available to some first time home buyers expires in November. From there, pent up demand, renewed affordability and historic low interest rates will fuel modest volume increases. Nevertheless, sales volume is likely to remain under 900,000 units for several years even after recovery.

The new home report follows other housing reports including the National and Florida Associations of Realtors, Federal Housing Finance Agency and S&P Case Shiller — all of which were more positive than they have been for nearly three years.

The number of new homes for sale declined to 271,000 units in July. That is the 27th consecutive month of decline and the lowest level since March 1993. During more normal times, when supply and demand are in balance, inventory hovers near the 300,000 mark. This inventory decline is a fundamental reason why housing permits and construction starts are beginning to rise (see Economic Perspectives, August 25, 2009).

At the same time, the number of *finished* new homes is declining. Finished home inventory dropped to 120,000 units in July. Inventory remains slightly bloated. In a normal market, that figure would be below 100,000. The record high was 199,000 units in January 2008. Inventory has steadily fallen since then.

Months of supply of new homes fell from 8.5 to 7.5 months. The noteworthy bad news in the report is that the time to sell a new home rose from 0.6 months to an all time high (since 1963) of 12.4 months despite the strong up tick in demand.

The median new home price was $210,100 in July. That compares to $181,600 for an existing home. The price difference between a new home and an existing one has narrowed but existing homes continue to outsell new homes by a huge (and growing) margin.

The story is similar in Seacoast core markets. In Indian River County, new home inventory has declined for 11 consecutive quarters, from a peak of nearly 2,000 units to only 500 at the end of the second quarter of 2009. That is still a 10.7 month supply at the current sales pace. New construction starts also declined from a peak near 2,000 in the second quarter of 2005 to only 250 today — an approximate 88% decline.

St. Lucie County built longer into the downturn reaching a peak of 2,500 units in late 2006. Inventory currently stands at about 800 units which is still a 17 month supply at the currently slow sales pace. There were only 112 new construction starts in the second quarter — down 96% from its 2006 peak.

Martin County inventory has only 225 finished units, down 76% from its late 2006 peak. Current supply is about 10 months at the current sales pace. There were only 60 new starts in the second quarter, down 96% from the early 2006 peak.

Palm Beach County inventory has declined every quarter since the second quarter of 2005 to about 1,200 units representing an approximate 8.5 month supply. Starts are down 92% since the peak in 2005 to only 758 starts in the second quarter of 2009.

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The wild card in the residential sector is the $8,000 maximum tax credit being offered to some first time home buyers. The credit will expire in November. While sales are very likely to decline, the big unknown is how much? There is very limited data currently available to show us how many transactions qualify. If history is a guide and barring other currently unforeseen economic shock sales decline will likely be modest. Builders and brokers continue to lobby Congress for a much needed extension of the credit. To read more about the tax credit, click here.