The Mortgage Corner

Housing Affordability Up, Inventories Still Shrinking

By **Harlan Green** / Special to CASA

THE NATIONAL ASSOCIATION OF HOME BUILDERS (NAHB) reported exceptionally low interest rates helped ensure a slight gain in nationwide housing affordability amid relatively stable house prices in the final quarter of 2012, according to the just released National Association of Home Builders/Wells Fargo Housing Opportunity Index (HOI).


Harlan Green

In all, 74.9 percent of homes sold between the beginning of October and end of December were affordable to families earning the U.S. median income of $65,000. This was up nearly a percentage point from the 74.1 percent of homes sold that were affordable to median-income earners in last year's third quarter.

Interest rates have risen about one-quarter percent from their recent lows, to average 3.50 percent for 30-year fixed rate conforming loan amounts in California with zero points origination fees. Even so-called High-Balance 30-year fixed conforming amounts are averaging 3.75 percent with zero points origination fees, still phenomenally low, thanks to the Federal Reserve's QE buying programs.

"The most recent housing affordability data should be encouraging to many prospective home buyers, because it shows that homeownership remains within reach of median-income consumers even as most local markets appear to be on a recovery path," said NAHB Chairman Rick Judson. He noted that the most recent reading of the NAHB/First American Improving Markets Index found that 259 out of 361 metros currently qualify as improving, including representatives from all 50 states and the District of Columbia.

This is while total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums, and co-ops, increased to a seasonally adjusted annual rate of 4.92 million in January from a downwardly revised 4.90 million in December, and are 9.1 percent above the 4.51 million-unit pace in January 2012.

NAR chief economist Lawrence Yun said tight inventory is a major factor in the market. "Buyer traffic is continuing to pick up, while seller traffic is holding steady," he said. "In fact, buyer traffic is 40 percent above a year ago, so there is plenty of demand but insufficient inventory to improve sales more strongly. We've transitioned into a seller's market in much of the country."

Total housing inventory at the end of January fell 4.9 percent to 1.74 million existing homes available for sale, which represents a 4.2-month supply at the current sales pace, down from 4.5 months in December, and is the lowest housing supply since April 2005 when it was also 4.2 months, but also close to 2000 levels.

Listed inventory is 25.3 percent below a year ago when there was a 6.2-month supply. Raw unsold inventory is at the lowest level since December 1999 when there were 1.71 million homes on the market.

"We expect a seasonal rise of inventory this spring, but it may be insufficient to avoid more frequent incidences of multiple bidding and faster-than-normal price growth," Yun explained.

The question yet to be answered is whether the declining prices of foreclosure sales will increase the housing supply in months to come.

Harlan Green has been the 11-year Editor-Publisher of PopularEconomics.com, a weekly syndicated financial wire service. He writes a Popular Economics Weekly Blog. He is an economic forecaster and teacher of real estate finance with 30-years experience as a banker and mortgage broker.