

Securitization & Real Estate Update 2/16/07

I. Homeowner Vacancy Rates Reach New High according to Census Bureau data

February 16, 2007

On January 29th, the U.S. Census Bureau reported that estimated homeowner vacancy rates, defined as the proportion of the homeowner inventory that is vacant for sale, had risen to 2.7% during the 4th quarter of 2006, the highest level ever reported since the bureau began tracking this figure (3Q 1956). The estimate of 2.1 million homes across the U.S. classified as vacant for sale during 4Q 2006 is up a whopping 34% from 1.57 million in the 4th quarter of 2005! Adding to the rough news in the housing sector, RealtyTrac's most recent report (Feb 12) showed a 19% increase in foreclosures during the month of January 2007, and U.S. housing starts dropped to the lowest level seen since August 1997. Using the annual data that was released by the Census on February 13th of this year,¹ and relating that with the National Association of Realtors most recent home price data, we hope to provide some insight as to which states and Metropolitan Statistical Areas (MSAs) have seen/may see some pricing pressure on their housing inventory due to these vacant for sale units.

II. Discussion - What a Difference One Year Makes

The following table shows the differences in homeowner vacancy rates between 2005 and 2006 in various states:

Changes in Homeowner Vacancy Rate (%) by State: 2005 vs 2006				
State	2005 (%)	2006 (%)	Δ (%)	Homeownership (%)
Largest Increases				
Florida	2.0	4.3	+2.3	72.4
Arizona	1.2	3.0	+1.8	71.6
Washington D.C.	2.0	3.7	+1.7	45.9
Kentucky	2.2	3.4	+1.2	71.7
Delaware	1.7	2.6	+0.9	76.8
Idaho	1.4	2.2	+0.8	75.1
Indiana	2.4	3.2	+0.8	74.2
Largest Declines				
Kansas	2.7	2.1	-0.6	70.0
Wisconsin	1.6	1.2	-0.4	70.2
Texas	2.6	2.2	-0.4	66.0
Arkansas	2.3	1.9	-0.4	70.8
Rhode Island	1.6	1.3	-0.3	64.6
North Dakota	1.3	1.1	-0.2	68.3
New York	2.0	1.8	-0.2	55.7
Other Notables				
California	1.2	1.9	+0.7	60.2
Massachusetts	1.1	1.8	+0.7	65.2
Virginia	1.3	1.8	+0.5	71.1
New Jersey	1.2	1.6	+0.4	69.0
Illinois	1.9	2.3	+0.4	70.4
Pennsylvania	1.6	1.6	0.0	73.2
United States	1.9	2.4	+0.5	68.8

Source: U.S. Census Bureau

¹ The Census Bureau's quarterly data unfortunately does not contain detail on states and MSAs, rather, it only gives information nationally, and within census regions. The annual data, however, does contain information on states and individual MSAs, and that is what we will use for the remainder of the report.

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Jumping off the page immediately are Florida, Arizona, and District of Columbia, where homeowner vacancies increased by 2.3% (to 4.3%), 1.8% (to 3.0%), and 1.7% (to 3.7%), respectively, leaving them all well above the 2006 average national homeowner vacancy rate of 2.4%. Though all three were in the top 25% of states (including D.C.) for home price appreciation (HPA) during the last 12 months, and in the top 7 over the past 5-year period, their last quarterly HPA number was right on top of the U.S. average – indicating that their HPA rates have been slowing considerably.²

Drilling Down into the MSAs

The following table shows the same data as the section above, this time for selected MSAs among the top 75 in the country:

Changes in Homeowner Vacancy Rate (%) by State: 2005 vs 2006				
State	2005 (%)	2006 (%)	Δ (%)	Homeownership (%)
Largest Increases				
Orlando, FL	2.0	5.2	+3.2	71.1
Bridgeport-Stamford-Norwalk, CT	1.3	4.3	+3.0	70.4
Phoenix-Mesa-Scottsdale, AZ	1.0	3.1	+2.1	72.5
Sacramento-Arden-Arde-Roseville, CA	1.2	3.3	+2.1	64.2
Tampa-St. Petersburg-Clearwater, FL	1.8	3.5	+1.7	71.6
Jacksonville, FL	3.3	4.9	+1.6	70.0
Kansas City, MO-KS	2.6	4.1	+1.5	69.5
Largest Declines				
Tulsa, OK	3.3	1.9	-1.4	67.9
Baton Rouge, LA	2.3	0.9	-1.4	65.0
Las Vegas-Paradise, NV	3.8	2.8	-1.0	63.3
Austin-Round Rock, TX	2.4	1.5	-0.9	66.7
Dayton, OH	3.9	3.1	-0.8	64.6
Houston-Baytown-Sugar Land, TX	3.5	2.8	-0.7	63.5
Raleigh-Cary, NC	2.3	1.6	-0.7	71.1
Other Notables				
New York-Northern NJ-Long Island, NY	1.9	1.8	-0.1	53.6
Los Angeles-Long Beach-Santa Ana, CA	0.9	1.2	+0.3	54.4
Chicago-Naperville-Joliet, IL	1.9	2.3	+0.4	69.6
Philadelphia-Camden-Wilmington, PA	1.7	1.7	0.0	73.1
Dallas-Ft. Worth-Arlington, TX	2.2	2.3	+0.1	60.7
Miami-Fort Lauderdale, Miami Beach, FL	2.3	3.4	+1.1	67.4
Washington-Arlington-Alexandria, DC-VA-MD-WV	1.3	2.1	+0.8	68.9
United States	1.9	2.4	+0.5	68.8

Source: U.S. Census Bureau

Somewhat unsurprisingly, four of the 16 MSAs which saw their homeowner vacancies rise by more than 1% were in Florida, including Orlando, which topped the list at +3.2%. Also noteworthy in the list is the Phoenix MSA - where home prices have doubled over the last 5-year period – showing a 2.1% escalation in its homeowner vacancy rate.

Miscellaneous Highlights from the Census Report

- Homeowner vacancies were higher in "principal cities" versus suburbs by a wide margin in 4Q 2006 (3.6% versus 2.4%), though this was also true in 4Q 2005 (2.7% versus 1.7%)
- The South and Midwest regions had the highest homeowner vacancy rates, at 3.0% and 2.9%, versus the West and Northeast, at 2.4% and 2.0%. Note also that homeownership rates are higher in the Midwest and South (73.0% and 70.8%) than in the West and Northeast (64.5% and 65.3%)
- Amazingly, the reported homeowner vacancy rate had been in the range of 0.9% - 1.9% from the 3rd quarter of 1956 through the 3rd quarter of 2005. The last five quarters have seen the vacancy rate steadily increase from 2.0% in 4Q 2005, to 2.7% in 4Q 2006.

² According to 3Q 2006 OFHEO data. 4th Quarter 2006 Home Price Appreciation figures are scheduled to be released by OFHEO in late February / early March.

National Association of Realtors 4th Quarter Report

On February 15th, the National Association of Realtors (NAR) released their 4th quarter 2006 home price figures for the 149 single-family home markets that they cover. According to their report, prices dropped 2.7% compared to the 4th quarter of last year, which represents the steepest decline on record. 73 MSAs reported a decline in median home price; while only 71 saw home price appreciation (5 were unchanged). It appears that the outstanding inventory of unsold homes across the nation has led to pricing pressure in many markets (and likely contributed to the low housing starts number). However, a statement from NAR's chief economist David Lereah provides some hope for a turn-around: "Examination of data within the quarter shows home prices stabilizing toward the end. When we get the figures for this spring, I expect to see a discernable improvement in both sales and prices."

Below we show the performance of the same MSAs as in the section above, with the change in vacancy and change in home price side-by-side:

NAR 4 th Quarter 2006 Home Prices				
State	Median Price 4Q 2005 (\$000s)	Median Price 4Q 2006 (\$000s)	% change in price	Vacancy Change 2005/2006
Largest Increases				
Orlando, FL	261.8	272.1	+3.9	+3.2
Bridgeport-Stamford-Norwalk, CT	468.5	445.7	-4.9	+3.0
Phoenix-Mesa-Scottsdale, AZ	268.4	262.2	-2.3	+2.1
Sacramento-Arden-Arde-Roseville, CA	380.9	365.1	-4.1	+2.1
Tampa-St. Petersburg-Clearwater, FL	223.0	229.7	+3.0	+1.7
Jacksonville, FL	182.2	180.4	-1.0	+1.6
Kansas City, MO-KS	156.5	153.1	-2.2	+1.5
Largest Declines				
Tulsa, OK	120.0	128.5	+7.1	-1.4
Baton Rouge, LA	153.8	173.4	+12.7	-1.4
Las Vegas-Paradise, NV	315.9	313.5	-0.8	-1.0
Austin-Round Rock, TX	167.0	175.2	+4.9	-0.9
Dayton, OH	112.8	119.5	+5.9	-0.8
Houston-Baytown-Sugar Land, TX	146.3	148.6	+1.6	-0.7
Raleigh-Cary, NC	197.7	226.3	+14.5	-0.7
Other Notables				
New York-Northern NJ-Long Island, NY	454.1	464.4	+2.3	-0.1
Los Angeles-Long Beach-Santa Ana, CA	568.4	586.5	+3.2	+0.3
Chicago-Naperville-Joliet, IL	265.6	268.1	+0.9	+0.4
Philadelphia-Camden-Wilmington, PA	215.1	222.3	+3.3	0.0
Dallas-Ft. Worth-Arlington, TX	150.2	144.3	-3.9	+0.1
Miami-Fort Lauderdale, Miami Beach, FL	391.2	366.8	-6.2	+1.1
Washington-Arlington-Alexandria, DC-VA-MD-WV	432.9	421.6	-2.6	+0.8
United States	225.3	219.3	-2.7	+0.5

Source: U.S. Census Bureau, National Association of Realtors

There are a few surprises in this table, but for the most part, MSAs that saw the largest increases in vacant for sale properties experienced price declines (except for Orlando and Tampa), and vice versa (except for Las Vegas). Obviously there are other forces at work that effect home prices besides the percentage of vacant for sale properties, but there does appear to be some correlation between the two figures, as we would expect.

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