HOUSING MARKET
First Half 2010 Recap

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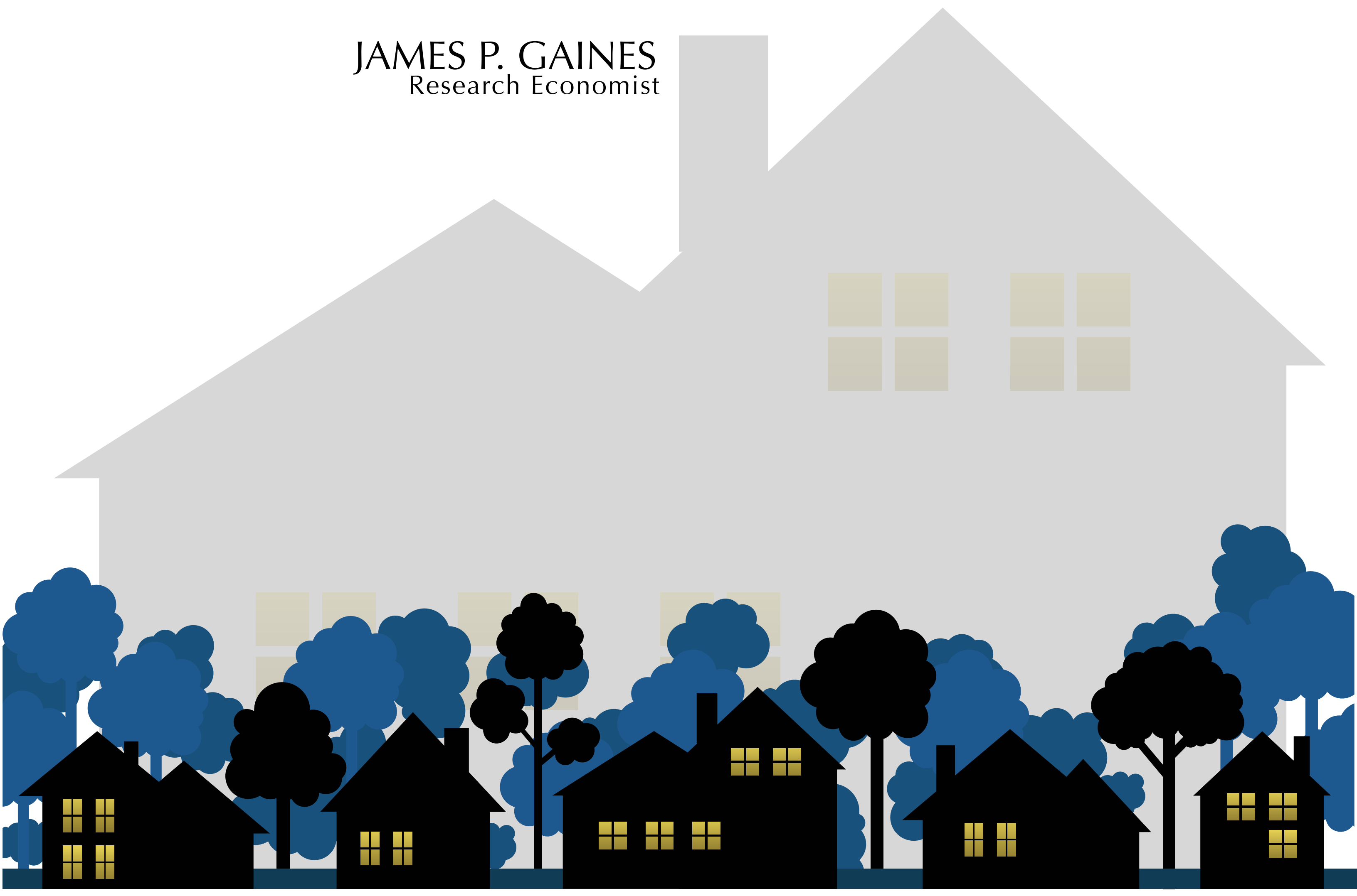

REAL ESTATE CENTER
AT TEXAS A&M UNIVERSITY

REPORT 1945

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The economy produced tepid improvement during the first six months of 2010 as GDP grew an uninspired 2.7 percent. Employment remains stagnant to falling with June total employment down 0.1 percent from a year earlier, and the unemployment rate continues to hover around 10 percent. The Texas economy showed early signs of recovery as June employment increased 0.9 percent from a year earlier, and the state's unemployment rate fell slightly to 8.2 percent.

The housing market during the first half of 2010 showed marked improvement over the same period in 2009 largely attributable to unprecedented government stimulation. Year-over-year data comparisons for the first six months of 2010 with the same period in 2009, when the original tax credit was just getting under way, suggest an improving market. However, sustainability during the second half of the year with no incentives remains questionable.

Existing single-family home sales for the first half of the year nationally were up 12.4 percent to just under 2.3 million units. Since the tax credit originally mandated a sale closing no later than June 30, sales in March, April and May were significantly higher than the same months a year earlier (17 percent, 24 percent and 16 percent, respectively). The increased pace of sales lowered the months inventory from 8.9 to 8.6, still a relatively high level. Preliminary July 2010 single-family sales fell a whopping 26.5 percent from July 2009, and the lower sales level caused the months inventory to soar to 11.9 months.

New home sales during the first half of the year did not fare as well as the existing home market. Sales during the first six months totaled 184,000 units, down 1.6 percent from the total sold during the first six months of 2009. The tax credit spurred a brief surge in new home sales in March and April (a 16 percent and 28 percent jump from March and April 2009).

But the market could not sustain the increases as May and June sales fell 23.5 percent and 19 percent, respectively. Timing of construction to meet the original tax credit closing deadline as well as extremely competitive prices for existing homes, foreclosures and other distressed properties limited new home construction.

Although the inventory of new homes for sale continued to shrink to around 210,000 units, the diminished sales produced a 7.6 months inventory.

In anticipation of the spurt of sales activity from the tax credit, new home starts and permits increased substantially over 2009 levels during the first five months of the year and then leveled off or declined. Total single-family starts increased 26.9 percent through June, but July's starts were 16.6 percent less than July 2009, and new single-family home permits declined 17.7 percent. Likewise permitting started strong during the first several months of the year, but retrenched in July.

Like the U.S. housing market, Texas' local housing markets felt the impact of the tax credit and the aftermath of its withdrawal. On a total year-to-date basis for the first six months of 2010, Texas home sales totaled 109,581, a healthy increase of 11.1 percent over the first half of 2009. Monthly sales of homes in Texas increased precipitously in March, April and May (total sales were up 13 percent, 14.5 percent and 11 percent, respectively), but June's sales fell nearly 1 percent and July's sales dropped more than 25 percent from July 2009.

It appears that Texas housing sales, like U.S. sales, peaked in May rather than the typical June or July cyclical high. Sustaining the momentum from the first half of the year into the second half may be difficult.

The decline in July sales and a surprisingly large increase in the number of properties offered for sale in June and July caused the number of months of inventory to rise from 6.6 months in January to eight months in July. Although high by recent years' standards, this is still significantly below the nearly one year's amount of inventory available at the national level.

One potential explanation for the unexpectedly high number of properties listed for sale may be a marked increase in the number of foreclosed and bank-owned properties as well as short sales. The continued softness in the overall economy and especially the job market continue to plague the housing sector.

Single-family building permits in Texas for the first six months of the year were up 19.3 percent, similar to the U.S. increase. Permits for the first half of the year totaled 36,663 and could reach or slightly exceed 2009's 68,230 permits by year end so long as there are no major market disruptions.

Home prices, both nationally and in Texas, remained relatively stable during the first half of the year. Nationally, the median June existing home price increased 0.9 percent from June 2009. The Texas June median price, however, declined 1.7 percent from the June 2009 price. Despite June's decline, the Texas median price increased an average of 1.5 percent per month over the six-month period, and the national median existing home price increased 0.3 percent per month on average.

Even with a significant sales decline in July, the July median price in Texas managed to increase 0.7 percent. The national median price increased 0.9 percent. However, the combination of high inventories of houses for sale, the high levels of foreclosures, redefaults on modified loans and distressed sales, the decline in sales activity absent government incentive programs and generally suppressed consumer confidence will stifle prices during the rest of the year, both nationally and in Texas.

Foreclosures continue to exert a strong influence on the market in terms of sales and prices. Nationally, total delinquency and foreclosure notices in the first half of the year approached 1.7 million, an increase of 8.3 percent from an already elevated level in 2009. Estimates from different sources indicate than nearly one-fourth of all homeowners with a mortgage owe more than their properties are worth and approximately one in seven homeowners are either delinquent or in the foreclosure process. Posted foreclosure notices topped 723,000 in the first half of the year.

Texas foreclosure activity picked up dramatically during the first half of 2010, with 76,860 total notices filed and 45,558 notices of trustee sale, a 20 percent and 14.8 percent increase in each category, respectively.

The Rest of 2010

The second half of 2010 holds significant challenges for the housing market. It remains to be seen to what extent the private market can support the market without significant government inducements. Pending sales, nationally and in most Texas communities, and applications for purchase mortgage financing are depressed substantially, indicating much-reduced sales volumes in the next few months.

Tighter mortgage credit underwriting requirements offset the uplifting impact of historically low mortgage interest rates. Today's housing market is not being driven by interest rates, but by jobs (or the lack thereof), flat household incomes, and falling consumer confidence in the economy. Homes have lost their investment appeal for owner-occupants, and buyers now consider purchasing a home as a place to live rather than a "get rich quick" vehicle. In short, effective demand for houses remains subdued.

Statistically, the second half of 2010 (and perhaps early 2011) could be misleading. If the general economy does not improve, the housing market will continue to be weak, and will perhaps look even weaker than it really is. The government tax credit for buyers induced many to purchase homes rather than renting or to purchase earlier than they had planned. As sales were drawn forward, subsequent months will experience a drop off in volume.

Expect the computed rates of change in coming months to be artificially and significantly depressed as results reported in months without incentives are compared to months when the incentives were a major factor. This could be especially true in October and November, traditionally two of the slower months of the year, which experienced substantial sales volume increases in 2009. If October and November home sales do not show a substantial decline from 2009, the market may be indicating a significant and real recovery.

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