



South Carolina Fall 2009 Housing Market Quarterly Report

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The Center for Real Estate in the Moore School of Business at the University of South Carolina's Moore School of Business is excited to introduce its newest publication: *South Carolina Housing Market Report*.

This publication provides on-going objective economic analyses focused exclusively on the home building and real estate industries in South Carolina.

The focus of this publication will be on current national- and state-level economic conditions, how these conditions affect the housing industry both nationally and in South Carolina, and what current and historical conditions imply about the outlook for the South Carolina housing industry.



South Carolina Housing Market Quarterly Report

Summary

Overall, economic growth in the housing industry and in the economy as a whole will continue in the coming months, but it will be slow. Banks dealing with defaults on commercial real estate loans will have difficulty extending new loans to builders and other investors, which will slow the economic growth of these industries. As a lagging economic indicator, unemployment will persist into 2010, and foreclosures and high housing vacancy rates will persist with it. This will lead to increased housing inventory and further reduction in house prices.

Even so, the South Carolina housing market has seen increases in permits since January and only small increases in delinquent mortgages in the past twelve months. These are positive signs and indicate that South Carolina is in a stable position relative to the rest of the nation. House prices continue to hold their value and are, on average, appreciating. There are expectations of growth in the South Carolina housing market, but to be realized, builders must identify their target markets carefully and recognize that the economic recovery will take time.

Highlights

The recession is most likely over. Most economic indicators suggest that we are now in a period of economic growth.

The banking industry is just beginning to absorb the losses from defaulting commercial real estate loans, which will make future loans of all kinds harder to acquire. Thus, despite the fact that the residential real estate market is showing signs of recovery, the recovery will be slow because of the increased difficulty for the home-building industry to obtain loans.

The high U.S. and South Carolina unemployment rate is expected to persist for the remainder of 2009 and into 2010. Nevertheless, this is not an indication of a deteriorating overall economy. High unemployment generally lingers through the initial stages of economic recovery and is usually one of the last signs of recovery from a recession.

*Darker shading indicates higher percentage. Data for the smallest 10 percent of the counties by population have been removed and the counties are shaded grey because small population statistics are prone to extreme values and erratic fluctuations. Year Over Year Changes are stated as percentage point differences from year ago (or per 1000 point differences for the first three categories). The relative shade of each color is determined by the percentage change in each category, not the percentage point change.

Additional foreclosures and increased housing vacancy rates are likely to accompany high unemployment. This will lead to additional inventory and reduced housing prices at the national level. South Carolina, however, has experienced house price appreciation throughout 2009, an increase in permit activity, and only small increases in foreclosure rates. These facts suggest not only that South Carolina is a relatively stable housing market, but also that much of the excess inventory has been eliminated. In turn, South Carolina will be spared from some of the national consequences of additional foreclosures.

Mortgage Delinquency Rate: 90+ days*
Comparison of Q2-09 to Q2-08



Red - Conditions have worsened; Green - Conditions have improved; White - No change (within 0.05%).
Source: Federal Reserve Bank of New York, retrieved 10/26/09 from <http://data.newyorkfed.org/creditconditions/>

Analysis

Although officially the recession is not over, the latest GDP shows economic growth for the first time since July 2008. The growth—3.5% in the third quarter—not only exceeded the expectations of most economists, but also represents a major turning point for the U.S. economy. Although many key economic indicators point towards economic recovery, this increase in GDP is the most promising sign that the economy is again on track for long-term economic growth.

The popular definition of a recession is a period of negative economic growth (GDP) lasting at least two consecutive quarters, which would place the start of the recession at the first quarter of 2009 (see National Gross Domestic Product, next page). The National Bureau of Economic Research (NBER), one of the leading authorities on recession activity in the United States, dates the recession's start to December 2007, using a broader definition that incorporates more macroeconomic variables. Regardless of the definition used, this has been an historic contraction. To put it into perspective, the third quarter growth in GDP represents an end to the largest drop in GDP since 1949.

Of course, one quarter of GDP growth by itself does not guarantee that the economy has turned around for good. What, then, are the additional signs that the increase in GDP represents the beginning of long-term economic growth? On a national level, consumer confidence and consumer spending are slowly being restored. Since January of 2009, consumer confidence has

risen 7.4 percent, and consumer spending has increased by 2.3 percent (see Consumer Confidence Index and National Consumer Spending). These two go hand-in-hand, as consumer confidence helps drive consumer spending. Consumer spending, in turn, helps to stimulate the housing market, which it has done. U.S. housing starts are up 22.5 percent in 2009, and 24.8 percent since April (see U.S. Housing Starts). Similar upward trends are evident in the stock market, which is based in part on rising confidence in the U.S. financial system. Dow Jones Industrial Average

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tracks the statistic for 2009. Notice that after a drop of 11.6 percent in the 1st quarter, there has been a consistent rise in stock prices since April of approximately 21.3 percent. Overall, the economy is looking healthy. The U.S. Leading Indicators—a composite index of macroeconomic variables—is also up 2.7 percent since April.





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Analysis

Housing markets are regional, so any meaningful analysis must be done at a local level.

Looking within South Carolina at the county level, the Charleston market is leading the state with its relatively low unemployment (10% as of September) and high construction levels (up 61% year-to-date).

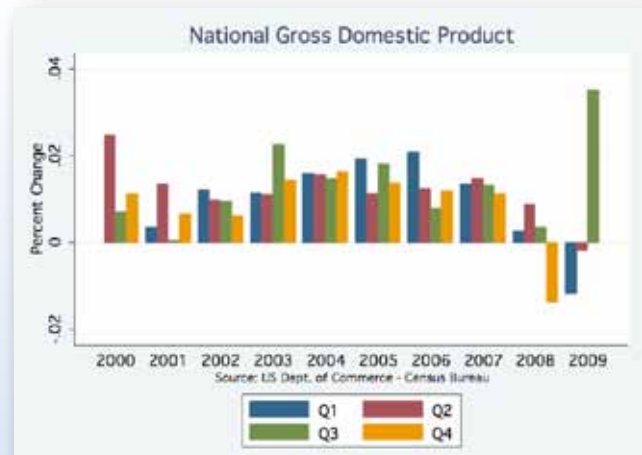
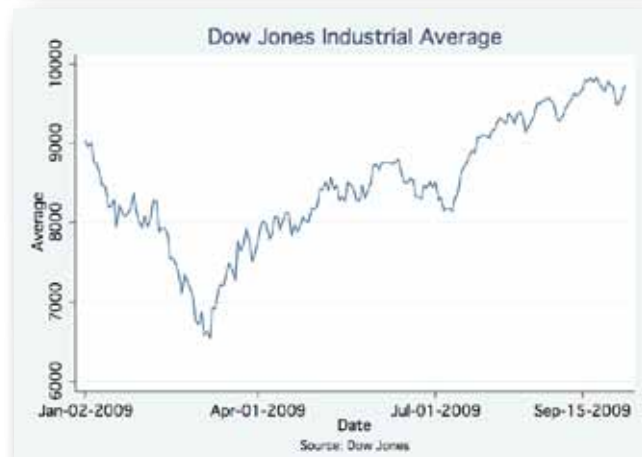
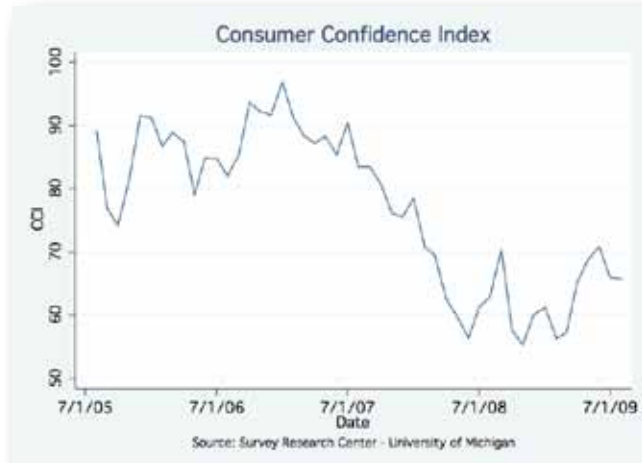
Though the Charleston tri-county area (Berkeley, Charleston, and Dorchester counties) was among the coastal regions of the state hit hardest by the decline in housing demand due to high house prices, it is leading the state in recovery in 2009 (see Regions of SC Leading the Way to Recovery in 2009).

S.C. Regions Leading the Way to Recovery in 2009*



*See supporting data at the end of the report.

Source: See endnote 1.



Analysis

The South Carolina housing market is doing well compared to the rest of the nation. The next figure (\$150K House - Avg. Appreciation Value - Q308-Q209) shows an example of the appreciation of house prices in South Carolina when compared with the erosion of house prices nationally. House prices in South Carolina have continued to appreciate since 2008 (rising 0.2% in the last twelve months), while nationally they have fallen 0.6 percent over the same time period. South Carolina is also keeping up with neighboring markets. Rank of Growth in Housing Starts displays the percentage increase in housing starts in 2009 in several major South Carolina metropolitan areas.

Charleston, in particular, outperforms major markets in Georgia and North Carolina. South Carolina also outperforms both states in the appreciation of prices, with average house prices down in both North Carolina and Georgia since 2008 (down 0.7% and 0.9%, respectively). South Carolina is in a relatively strong market position.



Source: U.S. Department of Commerce: Census Bureau.

Still, there are areas of the economy that have yet to turn and that are going to keep growth in housing to a minimum through much of 2010; namely (1) the commercial real estate market and (2) unemployment and foreclosures. While there is evidence that the residential housing market is turning around, the same cannot be said for commercial real estate.

Banks have been very to absorb losses on commercial real estate loans and the banks are only now beginning to fully deal with the loss of commercial property values. To-date, many commercial real estate borrowers have been able to pay their mortgages due to programs such as interest-only loans, which allow borrowers to take advantage of low interest rates and to delay payment of the principal.

Once loans become due, however, the banks have to take losses from companies that are defaulting. The number of commercial real estate loans is just beginning to decline, down 1.6 percent since May (see U.S. Total Commercial Real Estate Loans.)

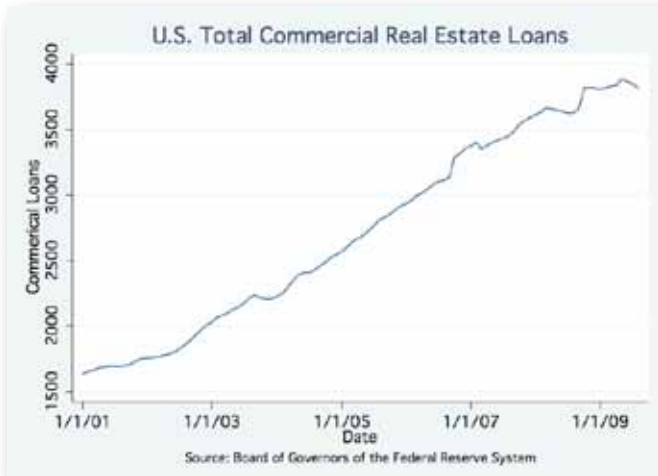


Source: U.S. Department of Commerce: Census Bureau.



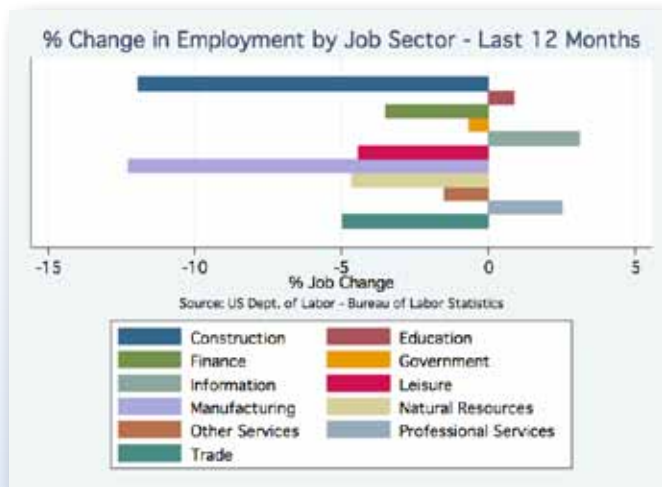
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Source: Board of Governors of the Federal Reserve System

This drop in loans will likely rise in the coming months and slow the recovery of the residential housing market because it prevents banks from being able to loan money to builders working in a sector of the market that is beginning to grow. The other problems going forward into 2010 are rising unemployment and foreclosures.



Source: U.S. Dept. of Labor - Bureau of Labor Statistics

Unemployment leads to home foreclosures because consumers cannot pay their bills. National unemployment, at 9.8 percent as of September, is at its highest level in 26 years. In South Carolina, the jobless rate is at 11.6 percent, with the biggest losses over the last 12 months coming from construction (down 11.9% or 18,900 jobs) and manufacturing (down 12.3%). Information, education, and professional services were up (3.1%, 0.87%, and 2.5%, respectively—see % Change in Employment by Job Sector - Last 12 Months).

Unfortunately, the unemployment rate is not likely to drop before 2010. Unemployment is typically a lagging economic indicator. Because labor costs are among the highest for businesses, hiring additional workers will be unlikely until businesses are convinced the economy has recovered. Even President Obama recently stated that “. . . unemployment is going to be a big problem for at least another year.”

As a result, both foreclosure rates and housing vacancy rates are likely to remain high, which will add to housing inventory and depreciate housing prices on a national level. Mortgage Delinquency Rates (page 1) displays changes in the percentage of homes with a mortgage delinquency across the country in the last year. As expected, west coast states with the largest decreases in house prices have also seen the highest increases in mortgage delinquency.

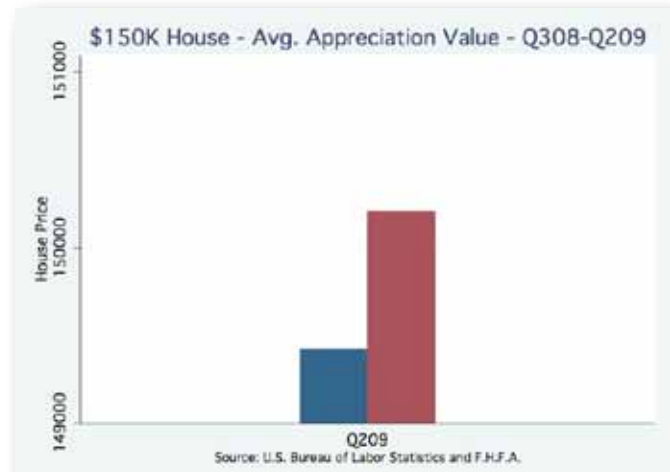
Notice, however, that throughout most of South Carolina, mortgage delinquency has not become substantially worse (an average of a 1.4% increase in the Greenville, Columbia, and Charleston MSAs).

Analysis

Coupled with the fact that permit activity in South Carolina has increased continuously since January by an average of 0.2 percent, this suggests that much of the excess supply of housing inventory in South Carolina has been eliminated, which will help spare South Carolina of some repercussions of upcoming foreclosures on the housing market.



Source: Division of Research - Moore School of Business



Source: U.S. Bureau of Labor Statistics and F.H.F.A.





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Endnotes

1. Data for the graph are: Counties with the Lowest Unemployment and Highest Increases in Construction

Counties	Unemployment Rate	Percentage Increase in Construction
Berkeley	10.7%	63%
Charleston	9.0%	50%
Dorchester	10.3%	71%
Georgetown	12.5%	No Report
Greenville	10.2%	64%
Lexington	8.3%	43%
Pickens	10.6%	35%

Note: Construction percentages were calculated as the seasonally adjusted percentage difference between average construction in January 2009 and September 2009. Unemployment figures are from September 2009. Counties were selected as those that led in both categories.

2. Counties with Highest and Lowest Unemployment Levels as of September 2009

Source: U.S. Department of Commerce: Census Bureau

Highest

County	Unemployment Rate
Allendale	22.5%
Chester	21.1%
Marion	21.0%
Union	20.6%
Marlboro	20.2%

Lowest

County	Unemployment Rate
Lexington	8.3%
Beaufort	8.7%
Charleston	9.0%
Saluda	9.4%
Aiken	9.4%



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