



South Carolina Winter 2010 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

Though 4th quarter 2009 annualized Gross Domestic Product (GDP) growth of 5.7 percent is very encouraging and shows that the economy is recovering, much of this growth is the result of the 2009 federal stimulus package and cannot be sustained. In the long run, consumer spending and private investment are what drive GDP; consumer spending is increasing, but private investment is not yet showing signs of significant recovery. This will only occur after credit conditions begin to loosen in the financial sector. Nevertheless, housing prices in South Carolina are relatively stable, and national inventory levels for both new and re-sales have dropped within the last six months—a very positive sign for the housing market in South Carolina. In states such as South Carolina where increases in foreclosures are relatively small, a decline in inventory represents a net decrease in housing supply, which is critically important in the recovery of the housing market.

The housing consumer of 2009 and 2010 is frugal and thrifty; in South Carolina the market has adjusted to this with a major shift toward less expensive housing units. Nowhere is this reflected more than in the second home market along the coast, which continues to experience downward pressure on prices. Changes in economic conditions will bring changes in consumer preferences; builders who identify and adjust to these new preferences have the best chances to succeed in 2010.

Highlights

The South Carolina housing market has bounced back from its low point in 2009. Consecutive quarters of GDP growth suggests a recovering economy that will continue in 2010. However, part of this growth is a result of the federal stimulus package and does not represent a long-term solution. Private investment and a properly functioning financial sector are crucial to a full recovery of the economy and the housing market in 2010.

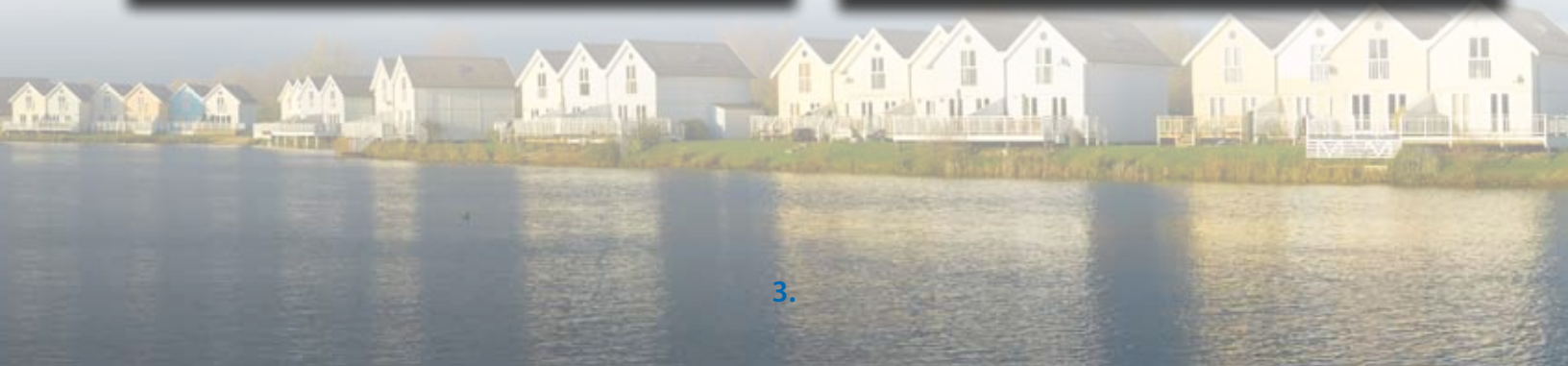
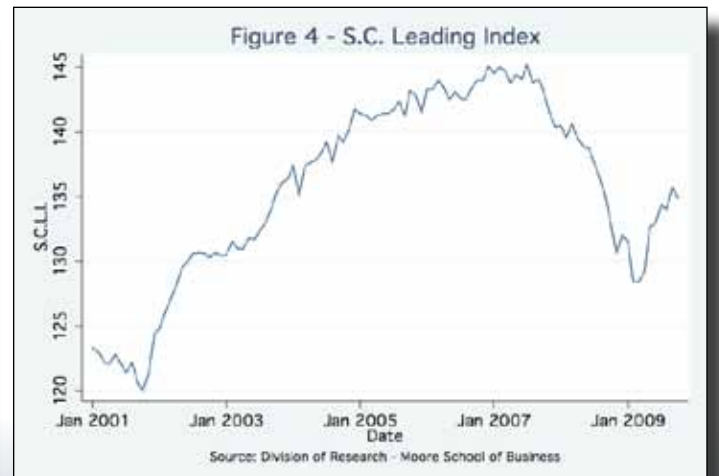
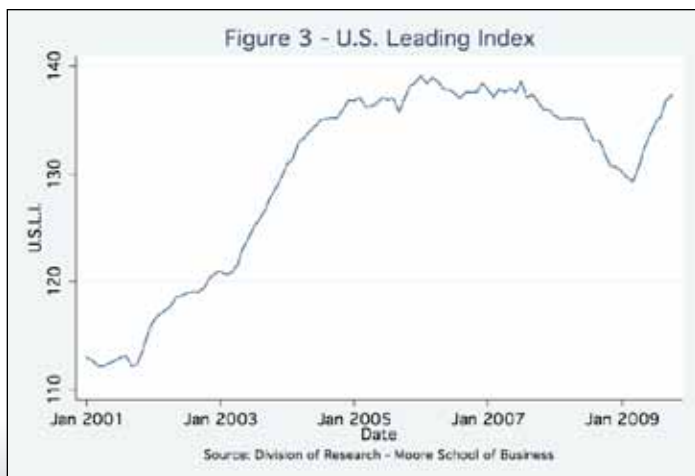
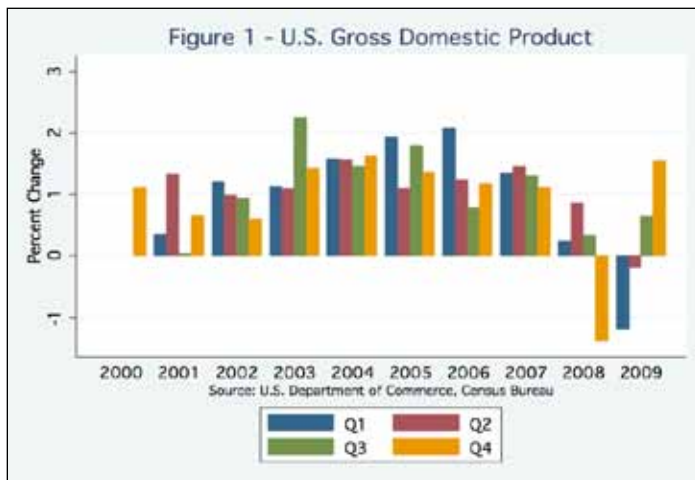
Because unemployment remains high and the majority of employed workers are concerned about economic conditions, today's home buyer has become more frugal. Adjusting to the new consumer attitude, builders have shifted toward less expensive housing units. This shift puts downward pressure on prices in the second home market in the coastal areas of the state that will likely remain for the foreseeable future.

In 2009, the Greenville-Spartanburg market has been hit the hardest. This market exhibits both the lowest levels of housing starts relative to pre-housing boom levels (23%) and the biggest drop in total sales since 2008 (14%). To compare, South Carolina's housing starts are at 46 percent of pre-housing boom levels, and total sales levels are down 8.5 percent.

The housing market is adjusting to lower inventory levels. In the last six months, existing housing inventory for both new and re-sales have dropped four and two months, respectively. Thus, despite increases in foreclosures across the nation, states such as South Carolina with only small increases in delinquent mortgages are experiencing an overall decline in inventory. The reduction in supply is extremely important to the recovery of the housing market.

Analysis

The recently reported 4th quarter annualized GDP growth of 5.7 percent marks the second consecutive quarter of economic growth and demonstrates that the recession is over— GDP has risen a total of 2.1 percent since July (see Figure 1). This is welcome news for the economy, especially when combined with increases in consumer confidence (up 9.8% since July 2009—see Figure 2) and increases in the U.S. and South Carolina leading economic indices (up 1.8% and 0.4%, respectively, since July 2009—see Figures 3 and 4). Nevertheless, it masks an important issue yet to be resolved.





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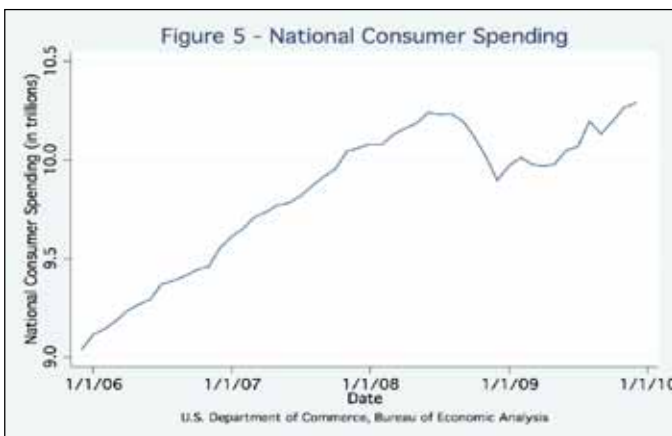
Analysis

GDP is primarily a function of consumer spending, private investment, and government spending. The federal stimulus package of 2009 provided a large boost to government spending, but economic growth in the long run can only be sustained through consumer spending and private investment (see Figures 5 and 6). While consumer spending increased 2.7 percent in 2009, private investment has fallen by 7.9 percent and has not yet shown signs of stabilizing. Thus, the economic growth from the latter half of 2009 was due to moderate increases in consumer spending and large increases in government spending. This is not a long-term solution.

Of course, private investment is down primarily because of tightened credit markets that make obtaining loans difficult in all sectors of the economy including housing. A recent survey of the Federal Reserve's lending conditions shows that terms for bank loans are continuing to tighten, though at a more moderate rate. The availability of credit for both builders and home buyers is key for the full recovery of the housing industry.

Locally, housing starts in South Carolina have bounced back from their low point of 751 units in January 2009 (down from 1,760 in January 2008—see Figure 7) to 1,025 units in December 2009, though each major metropolitan area has realized different growth levels (see Figure 8, next page). Housing starts in the Columbia and Charleston MSAs, on average, grew by approximately twelve percent more than the Greenville and Myrtle Beach markets in 2009 (33% and 47%, respectively). What is striking, however, is how much the Greenville-Spartanburg MSA is currently struggling.

Figure 9 displays 2009 housing starts in the major MSAs of South Carolina relative to their "normal" levels, which is defined to be the monthly average for housing starts from 2000 to 2003. As seen, South Carolina's housing starts were 46 percent of normal by December 2009, whereas the Charleston, Columbia, and Myrtle Beach markets were at 58, 52, and 55 percent of normal respectively. Greenville-Spartanburg, however, has taken the largest hit in 2009, operating at only 23 percent of its normal level of housing starts. South Carolina and U.S. housing starts bottomed out at 33 and 28 percent, respectively, during the 1st quarter of 2009.



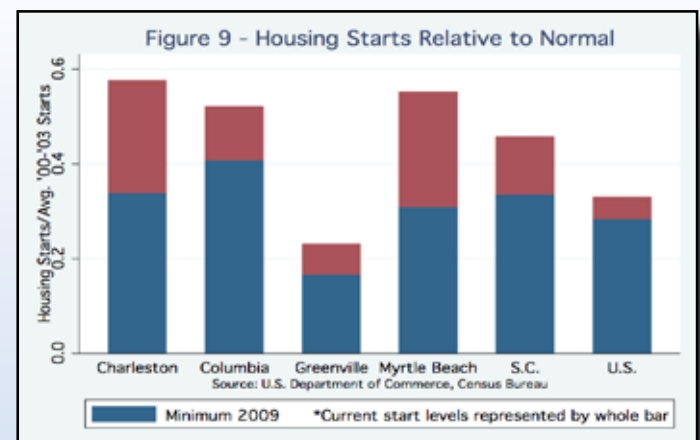
Analysis

Looking at home sales, the results are similar. Figure 10 displays the same major metropolitan areas comparing residential homes sold in 2009 and 2008. The Greenville-Spartanburg MSA is at the top with approximately 14 percent decline in sales activity in 2009 compared to 2008, and Columbia, Charleston, and Myrtle Beach show 9.9 percent, 6.1 percent, and 5.1 percent, respectively. Statewide, residential home sales are down 8.5 percent in 2009 over 2008, yet new home sales show declines of 30 percent and higher in different areas of the state. As these data show, the new home market has been hit harder than the re-sale market, with Greenville-Spartanburg struggling most.

Finance Agency (FHFA). The MLS data reflect all homes sold in 2008 and 2009; thus, the houses sold in 2009 are not the same houses that sold in 2008. The FHFA tracks changes in home prices by comparing repeat sales of the same houses over time. Figure 11 shows that although the houses purchased in 2009, on average, have lower prices than those purchased in 2008, the value of individual houses has not dropped nearly as far and has, in some cases, increased. High unemployment and fear of unemployment among workers lead to wary consumers looking for bargain prices and is reflected in a housing market where cheaper homes are becoming the norm.



The housing market is adjusting to these new market conditions in several ways. First, the market is experiencing a large price shift toward less expensive homes. The median price of homes sold in South Carolina dropped by 8.4 percent in 2009 over 2008, but this is primarily a result of the type of home being sold; it does not reflect an overall decrease in home prices. Figure 11 compares the change in home prices as reported by the Multiple Listing Service (MLS) and as reported by the Federal Housing





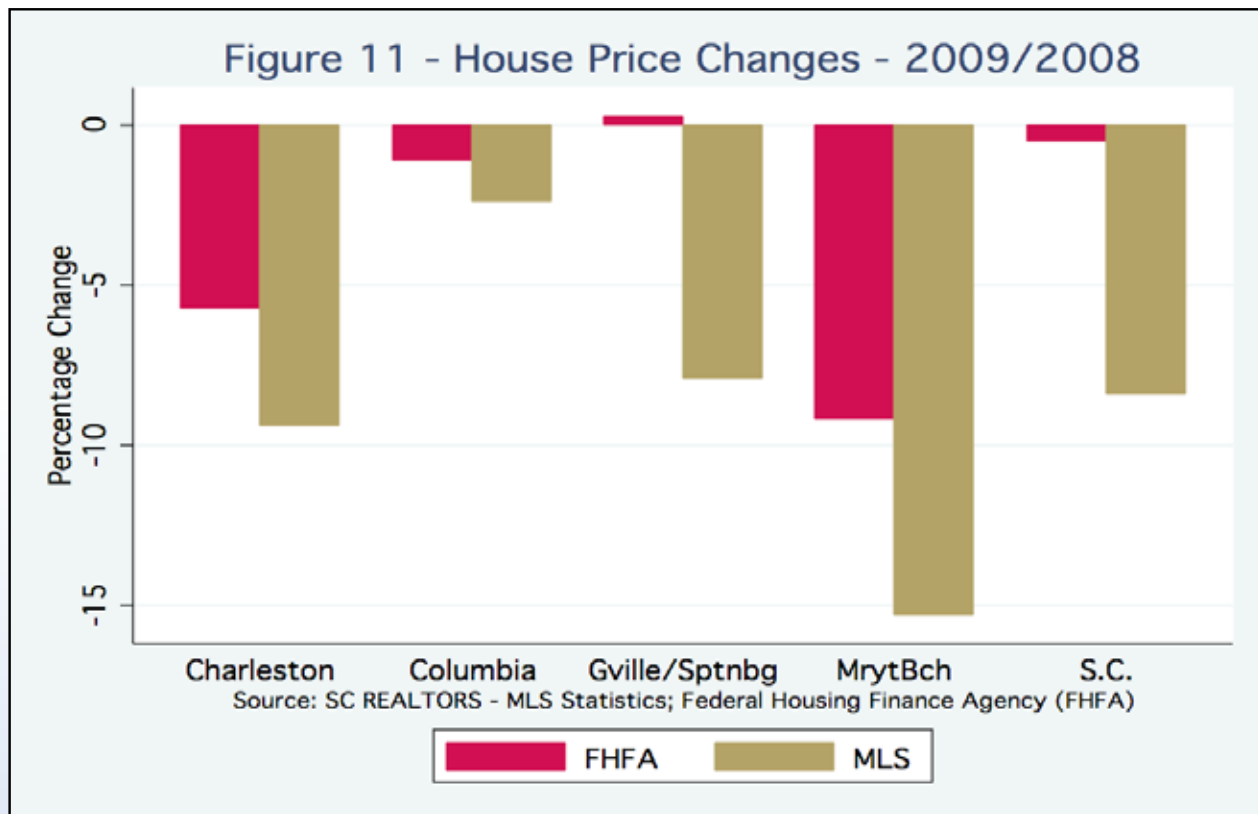
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Notice, too, that although the coastal areas of the state have been hit hardest with price declines, they have not been among the areas hit hardest by drops in sales. This shows that the second home market is struggling, but the residential housing market along the coast is not faring worse overall than in the rest of the state.

Second, the market is adjusting to a national long-term equilibrium price-to-income ratio. Before the housing boom, the U.S. median house price was historically about three times higher

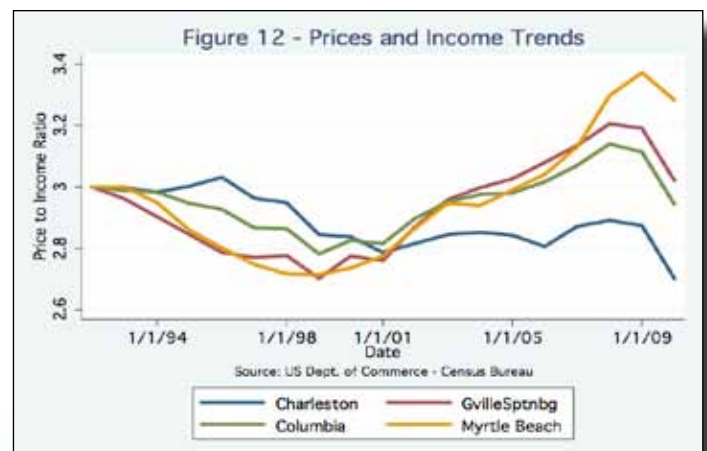
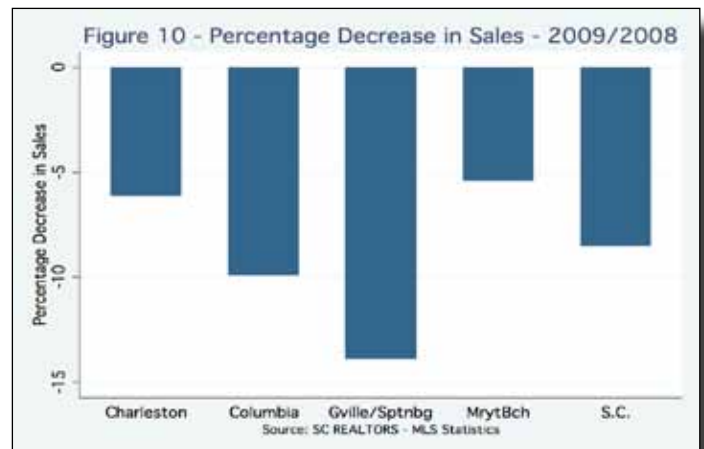
than the U.S. median annual household income. With the rise in housing prices in the early 2000s, however, this began to change. Figure 12 shows the South Carolina price-to-income ratio by MSA. The housing boom caused prices to rise and the price-to-income ratio to rise above its historical trend. During the housing boom, consumers bought homes that were priced substantially above what the consumers could afford. The return to a price-to-income ratio of three in 2009 is a strong sign of the housing market recovery.



Analysis

Finally, the housing market is adjusting to lower inventory levels. The U.S. Census Bureau and the National Association of Realtors report that nationally new home inventory has dropped from a twelve month to an eight month supply in the second half of 2009, while existing home inventory has dropped from an eleven month to a nine month supply over the same time period. This implies that, for states with small increases in foreclosures (South Carolina foreclosures rose by 1.53% in 2009 over 2008), overall inventory levels are dropping back to levels common before the housing boom.

The housing market is dramatically different in February 2010 than it was in February 2009. Economic growth has returned, housing starts have come back from their lowest levels, and inventory is dropping. Today's home buyer is more price sensitive. This makes cheaper homes more attractive and puts downward pressure on prices in the second home market. The key for economic growth in 2010 is a financial sector that will make credit available to small businesses and home builders so that private investment can be increased.



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