South Carolina Summer 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

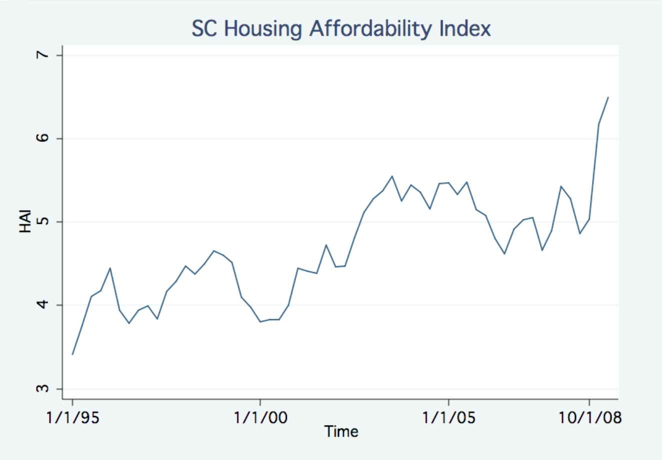
Summary

The first half of 2009 has shown an economy that is stabilizing. Many economists, including Federal Reserve Chairman Ben Bernanke, predict small amounts of growth before the end of 2009. Nevertheless, this recovery does not mean that demand for housing will return to the levels of the mid-2000s. As the economy stabilizes, a new market equilibrium will be established where the demand for housing units will likely fall somewhere between 40 and 60 percent of the demand during the housing boom.

South Carolina will be on the upper bound of this range. South Carolina's housing market as a whole is doing well compared to the rest of the nation. Housing affordability is the highest it has ever been, and housing prices have continued to appreciate, making housing in South Carolina a good investment. Expect the housing market to be among the first industries to grow as the economy bounces back.

Highlights

The South Carolina housing industry is doing well compared to the rest of the nation. Housing prices have continued to appreciate throughout the recession, and housing affordability is the highest it has ever been in South Carolina. Housing in South Carolina is a good investment.



Source: Division of Research, Moore School of Business (17 Jul 2009).

South Carolina's leading indicators are beginning to reveal that the economic slowdown is bottoming out. Even so, expect a largely stagnant economy for the rest of 2009 with minimal growth.

A slowly-recovering economy will not bring a return to the levels of housing experienced in the 2003-2008 expansion. The housing market in South Carolina and across the nation is establishing a "new normal" level where the number of housing units demanded will likely be between 40 and 60 percent of the market sales that were occurring at the peak of the housing boom in late 2005-2006. Economic growth beyond this point will be slow and steady as the national economy rebounds.

Relative affordability in South Carolina will mean that the housing industry will be among the first industries to experience growth as the economy recovers.

Analysis

"Recovery will be slow." This statement, spoken by Federal Reserve Chairman Ben Bernanke before Congress on June 3, cannot be overemphasized enough as a projection of what to expect of the economy and the housing market entering the second half of 2009. There is evidence that the slowdown of the economy and the local housing market is tapering off, but both are likely to remain largely stagnant for the remainder of 2009 with only small amounts of growth expected.

The economy and the housing market have contracted significantly over the recession that began in late 2007. It is important to recognize that while the economy is stabilizing, there will not be a return to the quantity of housing units demanded in previous years. Rather, a new market equilibrium that will only support a fraction of the housing units demanded in the mid 2000s is emerging.

The economic contraction is clearly not over. The national economy is currently experiencing the full effect of the recession. U.S. GDP—the output of all final goods and services—has fallen by 3 percent since the 3rd quarter of 2008 (October 1, 2008, through March 31, 2009), when the recession began (See National Gross Domestic Product, next page). National unemployment has risen to 9.4 percent (up 3.8 percentage points in the last twelve months), which puts it at its highest level in 27 years (See U.S. Unemployment Rate, next page).

According to the Case-Shiller Index, a national house price index generated by the Standard & Poor, national house prices have fallen by an average of 18.1 percent in the last twelve months (from July 2008 through June 2009). This price decline has been accompanied by falling consumer spending and falling consumer confidence (down 0.8% and 17.6%, respectively, in the last eighteen months). High unemployment along with low levels of consumer spending and consumer confidence have led to a decrease in the demand for housing, which led to decreases in housing starts and overall construction activity (See U.S. Housing Starts, next page, and South Carolina Housing Starts, page 5).

> "Housing markets by nature are regional, and the South Carolina housing market is faring far better than what one may infer from national data."

Nevertheless, housing markets by nature are regional, and the South Carolina housing market is faring far better than what one may infer from national data. In spite of the national recession, South Carolina home prices have continued to appreciate (See S.C. House Price Index, page 6).

Analysis

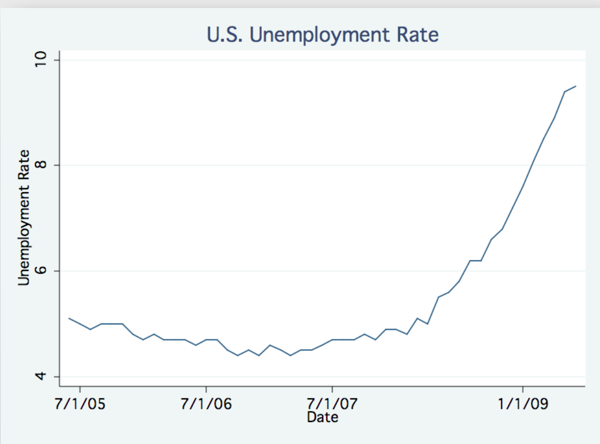
Since August 2008, house prices in South Carolina have appreciated by 0.9 percent, and in the last two years have appreciated by 2.7 percent.

Housing affordability—measured by average income levels relative to house prices—is the highest it has ever been in South Carolina (See S.C. Housing Affordability Index, page 2).

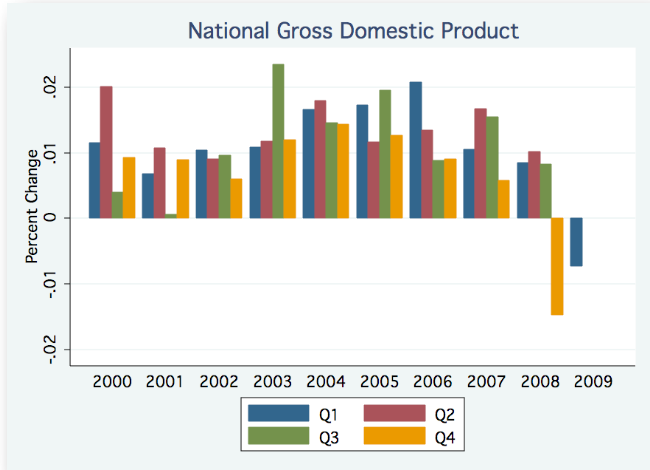
From July 2006 to June 2009, housing affordability has increased by 34 percent. South Carolina's housing market is in a strong position relative to the rest of the nation.

Bright Spots of South Carolina (next page) shows the areas of the state that have had the lowest declines in housing starts and unemployment since 2007.

High house prices in the coastal regions of the state have resulted in those areas being hit hardest by the decline in housing demand, while the increases in unemployment have hit largely rural areas of South Carolina.



Source: U.S. Department of Labor: Bureau of Labor Statistics.



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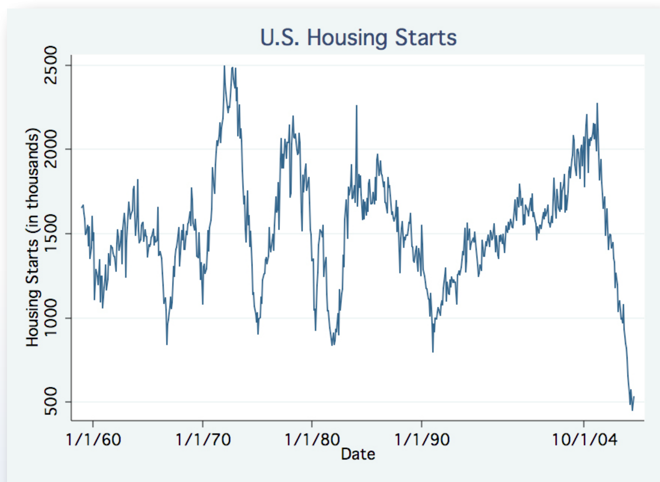
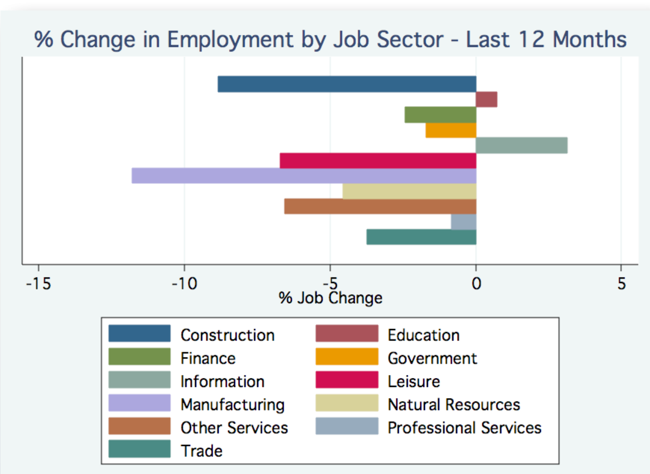


Source: U.S. Department of Commerce: Census Bureau.

Analysis

Looking at South Carolina as a whole, single-family housing permits are down 46 percent, and construction activity is down 22 percent over the last twelve months. Construction employment has fallen by 8.8 percent in the last twelve months. South Carolina unemployment is among the highest in the nation, ranked 3rd as of June 2009. Even so, much of this high unemployment is concentrated in the more rural areas of the state. Allendale, Chester, Marion, Marlboro, and Union have the 5 highest unemployment rates in South Carolina with an average unemployment of 21.2 percent (See endnote 2). The majority of this unemployment in the last twelve months is from a reduction in manufacturing (down 11.8%) and construction (down 8.8%). Education and information services are the two job sectors that have increased in the past twelve months, by 0.7 percent and 3.1 percent, respectively. (See graph below).



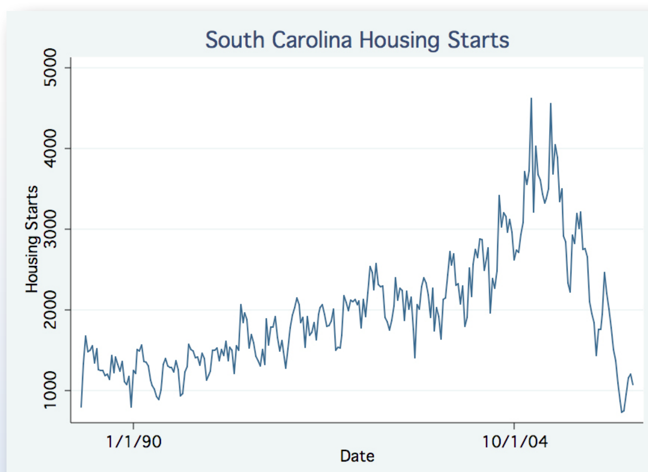
Source: U.S. Department of Labor: Bureau of Labor Statistics.

Clearly, the economy and the housing industry are hurting. While the housing market in South Carolina is doing well relative to the rest of the country, the question many are asking is: what's next?

There are two steps to answering this question. First, there are strong indications that the economy is showing initial signs of recovery. Several leading indicators that had been declining over most of 2008 are leveling off in 2009, which points to stabilization of the economy.

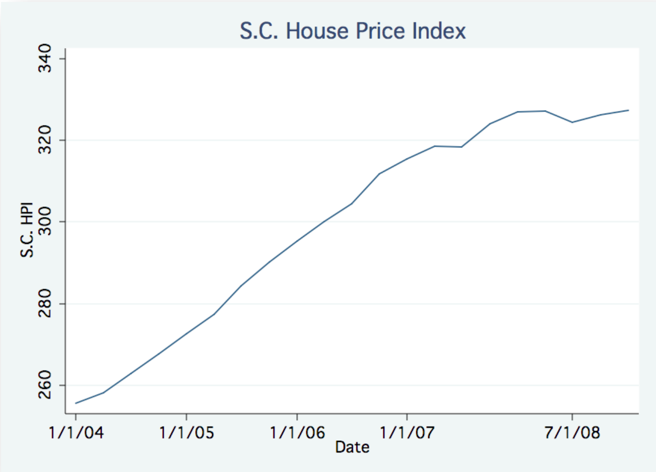
Also beginning in March 2009, South Carolina witnessed monthly increases in construction for the first time since 2007, averaging an increase of 12.3 percent.

Housing permits have continuously increased since January 2009 by an average of 0.2 percent. This stabilization of permits is especially positive because it indicates that a large portion of the excess inventory that builders had accumulated during the housing boom has been sold.



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

Analysis

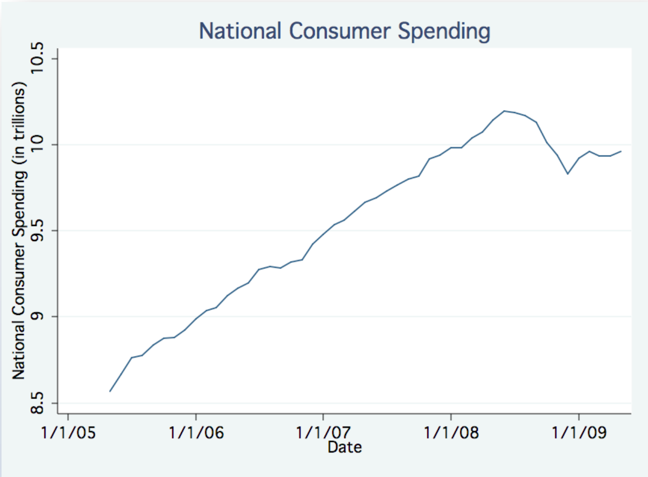


Source: Federal Housing Finance Agency

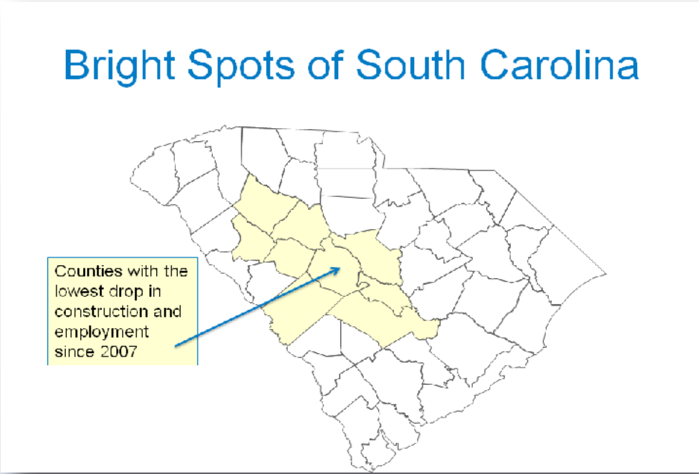
South Carolina initial unemployment insurance claims have been relatively constant since January 2009, after spiking in late 2008. Similarly, national claims have been slowly decreasing over the same time period (down 24.6% since April). While this has not been true of continued claims, these statistics do point to a leveling off of layoffs (See U.S. and S.C. Unemployment Insurance Claims, next pagew). The national rise in the unemployment rate has yet to show signs of slowing, but unemployment is a lagging indicator of the economy. There will not likely be a significant decrease in unemployment until after economic growth resumes.

These statistics all point to an economy that, after months of decline, may have finally reached the bottom and leveled off. As the economy stabilizes, the second step in determining "what's next" is to recognize that a stable economy will move towards market equilibrium. Therefore, we must approximate where this new market equilibrium will be relative to what was the norm in the mid-2000s.

The national erosion of consumer spending has tapered off. Consumer spending had been increasing steadily throughout the last five years until May 2008; it then dropped 3 percent during the remainder of 2008, which marked a return to the spending levels of November 2006 (See National Consumer Spending below). Consumer spending has been constant since the beginning of 2009.



Source: U.S. Department of Commerce: Bureau of Economic Analysis.

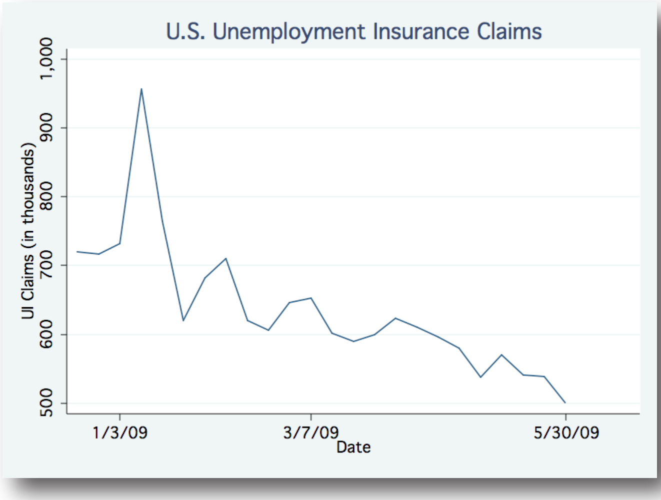


Source: See endnote 1.

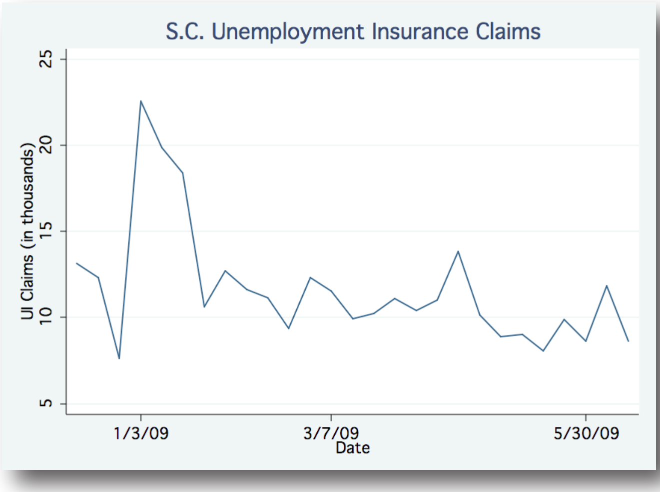
Analysis

Unfortunately, it is unrealistic to expect a return to the quantity of housing units demanded during the mid-2000s. Long-term growth of the housing industry as well as of the economy as a whole is a slow, steady process. Looking at U.S. housing starts over the last fifty years, we can see that the longest and most stable period of growth occurred from 1991 to 2005. This stands in stark contrast to the relatively volatile housing market of previous years (See U.S. and South Carolina Housing Starts [page 4]).

Because the economy appears to be stabilizing, the quantity demanded for housing units is likely to be between 40 and 60 percent of its boom-time. South Carolina will likely be on the upper end of this scale. Although builders will have to make significant adjustments, there will still be a demand for over one thousand housing starts a month in South Carolina for the remainder of 2009. The builders who successfully adjust to the new market conditions will be the ones who capture shares in this market.



Source: U.S. Department of Labor: Employment and Training Administration.



Source: U.S. Department of Labor: Employment and Training Administration.

Endnotes

1. Data for the graph are: Counties with the Lowest Drop in Construction and Employment Since 2007

Counties	Percentage Drop in Construction	Percentage Drop in Employment
Lexington	36.6%	4.3%
Richland	42.1%	4.4%
Calhoun	51.2%	5.0%
Orangeburg	No Report	8.7%
Aiken	57.0%	5.3%
Saluda	22.7%	5.3%
Newberry	No Report	6.9%
Laurens	59.1%	4.2%
Greenwood	No Report	7.9%

Note: Construction percentages were calculated as the percentage difference between average construction from period January to June 2007 compared to period November 2008 to April 2009. Employment percentages were calculated as the percentage difference between employment levels in December 2007 and May 2009. Counties were selected as those with the lowest drops in both categories.

2. Counties with Highest and Lowest Unemployment Levels as of May 2009
Source: U.S. Department of Commerce: Census Bureau

Highest

County	Unemployment Rate
Allendale	22.1%
Chester	21.4%
Marion	22.0%
Marlboro	19.8%
Union	21.4%

Lowest

County	Unemployment Rate
Beaufort	8.5%
Charleston	8.6%
Lexington	8.1%
Richland	9.3%

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