Housing Construction Outlook

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NAHB Chief Economist
Macro Conditions
GDP Growth
Economic slowdown approaching

Source: U.S. Bureau of Economic Analysis (BEA) and NAHB forecast.
Tight Labor Market

Lack of labor represents a macro risk

Source: U.S. Bureau of Labor Statistics (BLS) and NAHB forecast.
Some increases ahead but nearing peak rates for the cycle

Source: Federal Reserve and Freddie Mac data and NAHB forecast.
Higher Mortgage Rates Are Raising Housing Costs

Reducing purchase demand for single-family homes

Given $300K mortgage

- 4% 3Q 2017
  - $1,432 monthly payment
  - $17,184 a year

- 4.7% 3Q 2018
  - $1,556 monthly payment
  - $18,672 a year
  - $1,488 increase per year

- Projected 5.1% 2020
  - $1,629 monthly payment
  - $19,548 a year
  - $876 increase from 4.7%
  - $2,364 increase from 4%
Price growth slowing
Housing Demand and Affordability
Housing Affordability – NAHB/Wells Fargo HOI

Source: NAHB/Wells Fargo Housing Opportunity Index (HOI).
Coastal markets least affordable

Source: NAHB/Wells Fargo Housing Opportunity Index (HOI).
New Construction Housing Affordability Lower

Approximate 20 point difference between all sales and new sales

Source: NAHB/Wells Fargo Housing Opportunity Index (HOI).
Household Balance Sheets

A shift in debt away from mortgages

Source: U.S. Board of Governors of the Federal Reserve System (FRB).
Share of Young Adults Living with Parents

Almost doubled

Household Formation

Demand for home ownership strengthening

Y/Y Change in Household Count, Thousands, NSA

Owner-Occupied

Renter-Occupied

Source: U.S. Census Bureau (BOC): Housing Vacancies & Homeownership.
**Homeownership Rate**

*Nine quarters of growth*

Source: U.S. Census Bureau (BOC): Housing Vacancies & Homeownership.
Geography of Homeownership

Homeownership rate varies locally

Homeownership Rates in the U.S. by County
Supply-Side Issues
Labor shortage continued through 2018

Construction Sector Productivity

Lagging overall economy

Median Lot Value and Size

Lot size declining --- lot value increasing

Source: 2017 Survey of Construction (SOC) and NAHB Economics Estimates.
Existing Single-Family Home Sales

Source: National Association of Realtors (NAR) and NAHB forecast.
New Home Sales and Months’ Supply

Thousands, SAAR

Months Supply, SA

- New home sales: Months supply at current sales rate, (mo. SA)
- New home sales: New single-family houses sold, (Ths. #, SAAR)

Source: U.S. Census Bureau (BOC).
Lower interest rates stabilize builder confidence

Source: Census Bureau and NAHB/Wells Fargo HMI survey.
**Single-Family Starts**

*Limited growth as economy slows*

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**Years** | **Units** | **% Change**
--- | --- | ---
2015 | 713,000 | 
2016 | 785,000 | 10%
2017 | 852,000 | 9%
2018' | 876,000 | 3%
2019' | 894,000 | 2%
2020' | 928,000 | 4%

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Trough to Current:
- Mar 09 = 353,000
- Nov 18 = 824,000

+133%

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Source: U.S. Census Bureau (BOC) and NAHB forecast.
Growth in Single-Family Permits

November 2018 YTD vs. November 2017 YTD

Rank
- No Changes
- Decline
- Growth rate < U.S.
- Growth rate ≥ U.S. (5.1%)

Source: U.S. Census Bureau (BOC).
New NAHB Leading Markets Index

**New economic geography measure of building conditions**

- First index metric is metro areas – third quarter data

**Smaller metro areas – core counties (29% of single-family permits)**

- Smaller towns like Xenia, Ohio and Darlington, South Carolina
- 9.8% annual growth rate, 7.4% year-over-year

**Large metro areas – core counties (18% share)**

- Columbus, Ohio and Orange County, California
- 6.5% annual growth rate, 6.8% year-over-year

**Large metro areas – suburban counties (26% share)**

- Fairfax, Virginia
- 4.1% annual growth rate, 3.2% year-over-year

**Smaller metro, outlying areas (8% market share)**

- Rural areas near small towns
- 2.7% growth rate, -2.4% year-over-year

Source: NAHB Analysis of Census data (Building Permits and ACS).
Typical New Home Size

Decline after market shift

Source: U.S. Census Bureau (BOC).
Townhouse Market Expanding
24% annualized growth rate

Source: U.S. Census Bureau (BOC).
Custom Home Building Market

Flat market conditions

Thousands, NSA

Source: U.S. Census Bureau (BOC).
Single-Family Built-for-Rent a Niche Market

<table>
<thead>
<tr>
<th>Year</th>
<th>Share of Single-Family Built for Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>3.67%</td>
</tr>
<tr>
<td>2016</td>
<td>4.32%</td>
</tr>
<tr>
<td>2017</td>
<td>4.36%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau (BOC).
## Modular Construction

### Modular Share of All Single-family Homes Started in 2017

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle Atlantic</td>
<td>7.4%</td>
</tr>
<tr>
<td>New England</td>
<td>4.8%</td>
</tr>
<tr>
<td>East North Central</td>
<td>3.0%</td>
</tr>
<tr>
<td>South Atlantic</td>
<td>1.7%</td>
</tr>
<tr>
<td>West North Central</td>
<td>1.3%</td>
</tr>
<tr>
<td>East South Central</td>
<td>1.1%</td>
</tr>
<tr>
<td>Mountain</td>
<td>0.8%</td>
</tr>
<tr>
<td>West South Central</td>
<td>0.3%</td>
</tr>
<tr>
<td>Pacific</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

### U.S. Overall:

\[
\frac{13,254}{847,830} = 1.6\%
\]

Panelized Construction

Panelized/Precut Share of All Single-family Homes Started in 2017

U.S. Overall:
\[ \frac{16,138}{847,830} = 1.9\% \]

### Multifamily Housing Starts

**Leveling off**

<table>
<thead>
<tr>
<th>Year</th>
<th>Units</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>394,000</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>393,000</td>
<td>0%</td>
</tr>
<tr>
<td>2017</td>
<td>356,000</td>
<td>-9%</td>
</tr>
<tr>
<td>2018</td>
<td>386,000</td>
<td>8%</td>
</tr>
<tr>
<td>2019</td>
<td>379,000</td>
<td>-2%</td>
</tr>
<tr>
<td>2020</td>
<td>384,000</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau (BOC) and NAHB forecast.

**Trough to Current:**

- **4th Q 09 = 82,000**
- **3rd Q 18 = 357,000**
  +335%

**Avg = 344,000**

76% fall
Residential Remodeling

Growth ahead but softening

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>10%</td>
</tr>
<tr>
<td>2017</td>
<td>19%</td>
</tr>
<tr>
<td>2018f</td>
<td>10%</td>
</tr>
<tr>
<td>2019f</td>
<td>4%</td>
</tr>
<tr>
<td>2020f</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau (BOC) and NAHB forecast.
Thank you

Questions?
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