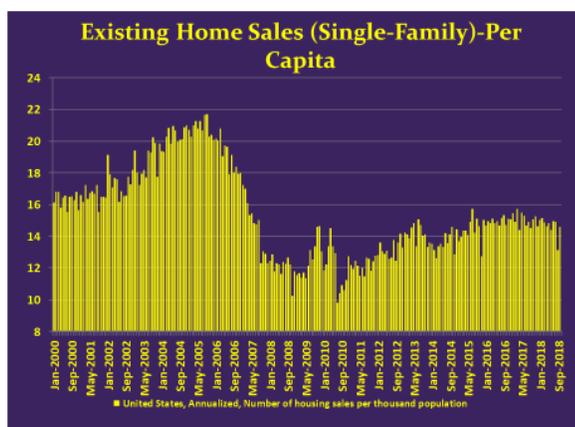


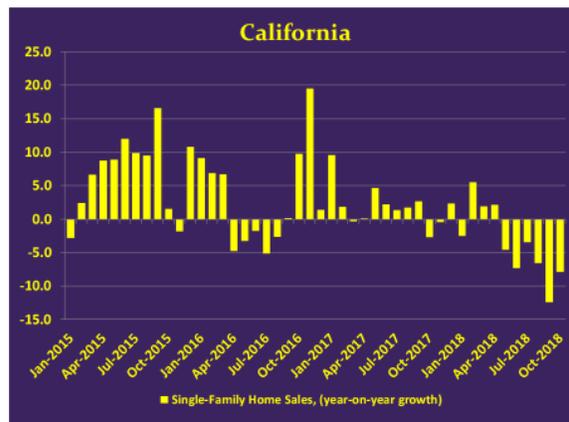
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Housing market activity consists of an uninspiring sales or turnover rate, consistently rising prices, and a truly awful new home production rate. The characteristics of the turnover rate and the prices are heavily influenced by the production rate.



The existing home turnover rate, or the sales rate per capita, remains at a low level relative to recent history. One of the reasons for this is a lack of inventory. In October of 2018, there were only 4.2 months of inventory available on the market, thirty percent less than the 6 months of inventory that is required for a normally functioning housing market.<sup>1</sup> The most recent sales data is even more bearish with numbers for September and October of 2018 below the levels recorded in the prior year.



Prices have climbed very steadily ever since the convulsions of the recession ended. The average annual rate of existing-home price increases since 2012 has been six percent, substantially higher than the much longer-run average of four percent beginning in 1980.

Housing affordability continues to fall, the latest third quarter reading of the percentage of households who can afford the median priced home is 53 percent, compared to 55 percent a year ago and to an average of 60 percent during 2013.

The main force behind the dynamics of the current housing market is the relatively low building rate. New home production subsided after the recession, which is to be expected, but then the expected recovery never materialized.

<sup>1</sup> National Association of Realtors



Housing starts, normalized by population growth, were at a rate of less than four units per thousand population for seven out of the ten months in 2018 for which we have data. As can be seen from the chart above, a typical starts rate during a time of economic expansion is well over six per thousand population.

There are other notable takeaways from the chart. The rate fell to just above four starts in the recession of the early 1980s. The rate fell to just under four starts in the recession of the early 1990s. The current rate, which is during an expanding economy, is about the same as the rates recorded during the depths of those previous recessions. This is remarkable.

It is an important enough issue that the national association of realtors has built a website dedicated to bringing attention to the

lack of new housing and the resulting lack of affordability.<sup>2</sup> The site explains that the long run average of new home versus job creation in the U.S. is one housing permit for every two jobs created, and since the recession this has been one housing permit for every four jobs created. And, we are creating jobs at a slower rate.

New homes provide numerous economic benefits. There is the obvious multiplier benefit. Just one house contains a large quantity of lumber, glass, gypsum, and many other materials that benefit those industries as suppliers and generate jobs and income in those industries. A new house also generates a large quantity of follow-on spending for furnishings and appliances, again, with job and income benefits to those industries.

New houses create a move up opportunity for families who seek housing at different price points. There is often a chain reaction of home sales when a new home is filled, because that family often vacated another home that is typically at a lower price point. The vacant home gets filled by a family seeking that price point, who left a different home, which can be filled by yet another family seeking a home at yet another price point.

<sup>2</sup> <https://realtorparty.realtor/state-local-issues/issues/housing-supply-shortage>

While this activity benefits mortgage underwriters, real estate agents and brokers, title companies and others, this is not the only benefit and certainly not the most important. It helps families and households with locating a housing unit in the location they need because it vacates units at various price points.

We find it remarkable that the nation has a profound supply problem. As we have been analyzing regional real estate markets for almost twenty years now, we are not surprised by constrained building in certain markets, particularly in coastal and gentrified enclaves. But for the entirety of the United States to have a supply problem is simply amazing. It is certainly the case that there are communities somewhere in America where homes are built in response to demand. We would guess that Arizona and Texas are such places. Given that, for the national new home production rate to be so low, the constrained building disease must have set in across many more communities than just restricted enclaves.

The outlook for housing is for muted sales, and continued price appreciation, but at a slower rate. Mortgage rates are rising and are almost to five percent, a rate that we have not seen since 2011. This, along with softly growing income generation, and a lack of inventory, will work to keep home sales relatively soft in the next two years.

## A Note on Commercial Building

Commercial building rates have not been particularly strong since the recession as well, although they have been better than residential building rates. New buildings purposed for manufacturing did experience a surge during 2015 and 2016. However, new building production for commercial and office sites have not fared well since the recession. These buildings can have huge economic multiplier effects on the overall economy just as new housing does, creating income and jobs for a large variety of industries and suppliers.

As we have stated many times in this space, a rational economic development policy should include a reasonable real estate development policy. This would be a policy that provides the environment where development can keep pace with the expanding economy.