

Housing Starts

Housing starts weakened in October, falling 5.6% to 2.01 million (SAAR). However, this is the seventh consecutive month they have been above the 2 million level. The rebuilding in the South post Katrina is moderating the slowdown. The single-family sector fell 3.7% to 1.704 million SAAR, while multi-family was down almost 15%. Permits were down 3.7%, suggesting weaker housing activity in the near future.

U.S. Housing Starts			
Millions - Seasonally Adjusted Annual Rate (SAAR)			
U.S. Totals	Oct	Sept (rev.)	% Change
Starts	2,014	2,134	-5.6%
Permits	2,071	2,219	-6.7%
Single Family			
Starts	1,704	1,770	-3.7%
Permits	1,681	1,767	-4.9%
Multi Family			
Starts	0,310	0,364	-14.8%
Permits	0,390	0,452	-13.7%
Starts and Permits by Region:			
Mid West	Starts 0,172	0,186	-7.5%
	Permits 0,188	0,208	-9.6%
North West	Starts 0,333	0,372	-10.5%
	Permits 0,368	0,382	1.7%
South	Starts 0,998	1,003	-0.5%
	Permits 0,997	1,036	-3.8%
West	Starts 0,511	0,573	-10.8%
	Permits 0,518	0,613	-15.5%

Analysis & Outlook: Most of the analysts have concluded that the housing market has peaked, but nobody knows how fast it will cool. Some factors that are starting to drag on the housing market are: (1) Inflation remains a concern at the FED and they have indicated they will continue to raise short term rate, at least for awhile longer; (2) Long term rates are now headed upward—the 30-year fixed rate reached 6.4 the week ending November 11 while the adjustable rate mortgage averaged 5.17%; (3) The spread between the two is now down to 1.28%, the smallest spread in many years; (4) The inventory of new homes for sale is almost half a million (the highest on record), while the inventory of existing homes for sale is also the highest on record at 2.849 million units. On the positive side: (1) The job market continues to improve; (2) manufacturing activity is getting stronger; and (3) Foreigners bought a record amount of our debt in September, which keeps the dollar from collapsing thus keeping interest rate increases “manageable.” The rising interest rates plus the larger inventories are going to reduce the appreciation rate in home prices and this of course will slow the REFI activity and impact consumer spending.

NAHB's latest forecast has housing falling 5.5% next year, from 2.054 million to 1.94 million (SAAR). This number may be a bit optimistic when you consider that starts have averaged 2 million annually for the past two years (1.94 in 2004 and estimated 2.054 in 2005). When you add in manufactured home shipments of 130,00 in 2004 and 136,000 in 2005, we are at or above the high end of the “trend” or sustainable rate estimated by many analysts to be somewhere between 1.8 million and 2.1 million (including conventional housing plus manufactured homes—HUD Code). The sustainable rate is based on demographic factors like household formations

Continued on page 91



Builder Banter

Three-Car Garages the Trend of the Future

Back in the 1950s, the one-car garage was standard in the 41 percent of homes that had any garage at all. More than half a century later, almost two-thirds of all new homes have two-car garages and on a nationwide basis, 19 percent have three-car or more garages.

“The homebuilding industry is definitely seeing a growing trend toward the three-car garage,” said Jerry Howard, executive vice president and CEO of the National Association of Home Builders. “Especially in areas where houses do not traditionally have basements, the three-car garage is becoming a must-have in new homes,” said Howard. “But it’s not just limited to those areas. Three-car garages are becoming more common in markets across the country.”

For most buyers, the appeal of the three-car garage is simple: more storage space. And while there may not be three vehicles parked in the garage on any given day, it’s a sure bet that it will hold yard and garden equipment, seasonal recreational equipment, and much more—many of them items that would be difficult to retrieve from a basement or attic. Additionally, builders are finding that consumers increasingly prefer 8-foot by 10-foot garage doors compared to the more standard 7-foot by 9-foot doors so that their larger garages can more readily accommodate SUVs and the other bigger vehicles that are growing in popularity.

Another very appealing feature about a three-car garage is that it allows builders to offer a second floor “bonus room” that can be used for a multitude of purposes. “These bonus rooms are a growing trend in upscale homes and provide a very flexible space that can be put to any number of uses,” Howard said. “With extra space, extra amenities and plenty of flexible customization options, the three-car garage is definitely a trend that consumers are embracing,” he said. [Source: www.nahb.org]

Builder Confidence Declines in November

Responding to sharply lower measures of consumer confidence as well as rising mortgage rates and other factors in recent months, single-family home builders are adjusting their market expectations downward to a still favorable perspective, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI) for November, released on November 16.

The index declined eight points to rest at 60, a level well above the midpoint that indicates the majority of builders still see conditions as positive in their markets.

“It’s important to keep today’s report in perspective,” said NAHB President Dave Wilson, a custom home builder from Ketchum, ID. “Many builders still have substantial backlogs of unfilled orders and will remain quite busy in coming months. But we’re well aware that some slowing of demand is inevitable following the record-breaking sales activity that has prevailed for some time.”

“No huge drop is in the cards—the sharp decline in the HMI probably overstates the actual degree of deterioration in the single-family market, and it’s most likely that we’re engaged in an orderly

Housing Market Index 2003-04 (HMI)

The HMI is a weighted, seasonally adjusted statistic derived from ratings for present single family sales, single family sales in the next 6 months and buyers traffic. The first two components are measured on a scale of “good” “fair,” and “poor,” and the last one is measured on a scale of “high,” “average” and “low.” A rating of 50 indicates that the number of positive or good responses received from the builders is about the same as the number of negative or poor responses. Ratings higher than 50 indicate more positive or good responses.

Aug	Sep	Oct	Nov	Dec	Jan 04	Feb	Mar	Apr	May	June
71	68	72	70	70	69	64	64	69	69	67

Source: National Association of Home Builders

cooling process that will lead to somewhat lower home sales and production in the future," added NAHB Chief Economist David Seiders. "We're looking for a five or six percent decline in home sales next year, compared to 2005."

Derived from a monthly survey that NAHB has been conducting for approximately 20 years, the NAHB/Wells Fargo HMI gauges builder perceptions of current single-family home sales and sales expectations for the next six months as either "good," "fair" or "poor." The survey also asks builders to rate traffic of prospective buyers as either "high to very high," "average" or "low to very low." Scores for each component are then used to calculate a seasonally adjusted index where any number over 50 indicates that more builders view sales conditions as good than poor. [Source: NAHB press release, 11/16/05, www.nahb.org.]

Women Reversing Construction Stereotypes

More than 600 women volunteered to work through heat, sweat and dirt in the summer to build a home in Kansas City, MO, for a single mother and her children. They committed to pouring the foundation, operating the jackhammer and driving the dirt loader.

The house is the product of Women Build 2005, a Habitat for Humanity project completely organized and administered by women. It's been a successful venture, largely due to expanded support for women in the building industries, with the majority of the 674 volunteers hailing from professional organizations such as the Society of Women Engineers, the National Association of Women in Construction, Kansas City Commercial Real Estate Women and the newly formed Women in Design.

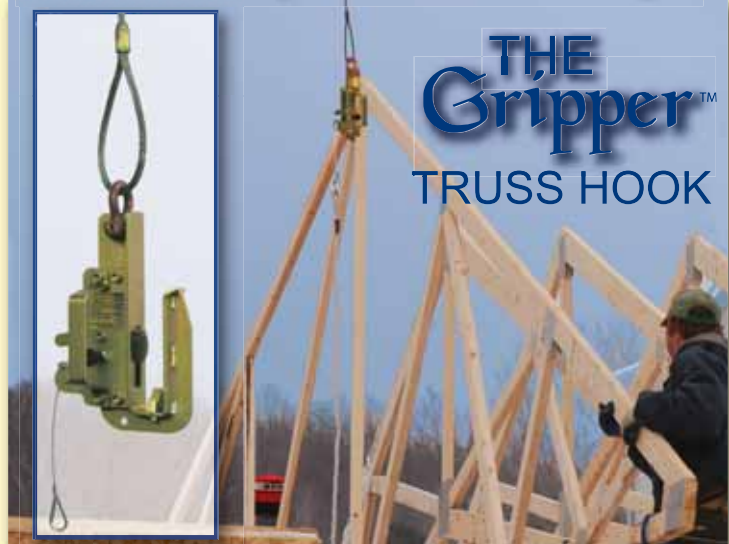
Women In Design has grown from a small group of women interested in architectural history to a 120-person network with multiple committees and a five-year plan. More than 70 women have attended the group's monthly meetings since the organization was founded in April.

Despite the fact that many architectural degree programs are seeing female enrollment approaching 50 percent, only 13 percent of the licensed architects working at American Institute of Architects member-owned firms in 1999 were women. In 1996, the figure stood at 10 percent.

A number of organizations help create an atmosphere that encourages women from all professions to dabble in the building industry. Consider Women Build: On an average Habitat for Humanity project, women make up 15 percent of the construction crew, said Yahna Gibson, executive director of Habitat for Humanity Kansas City. Gibson credits the success to the support of volunteers from women's organizations. "These women carried it," Gibson said. "They each bring different energy and resources, but they all go out hard-hitting." [Source: *Boston Business Journal*, 10/3/05] **SBC**

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Continued from page 90

(births, deaths, and population age structure) and net immigration; demand for second homes; and replacing homes that are beyond their economic life. Immigration is off almost 30% following tighter rules implemented after "9/11." This could be significant because, according to the Joint Center for Housing Studies at Harvard, foreign born were responsible for one-third of household formations throughout the 1990's. So, there is a concern that maybe we have been borrowing from the future these past two years as innovative financing plus record low rates supported "above trend demand." All this to say that there is a growing possibility that demand over the next two years may be a bit lower than the more optimistic forecasters are predicting. **SBC**

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