

Housing Starts

January housing starts plunged 14.3%, to 1.408 million (SAAR). Single-family starts were down 11.2% to 1.108 million (SAAR), while the more volatile multi-family sector was down a whopping 24%. Permits, a good indicator of what may happen in the next two to three months, were down a more modest 2.8%.

| U.S. Housing Starts | | | | |
|---|---------|------------|----------|--------|
| Millions - Seasonally Adjusted Annual Rate (SAAR) | | | | |
| U.S. Totals | Jan | Dec (rev.) | % Change | |
| Starts | 1.408 | 1.643 | -14.3% | |
| Permits | 1.568 | 1.613 | -2.8% | |
| Single Family | | | | |
| Starts | 1.108 | 1.248 | -11.2% | |
| Permits | 1.121 | 1.168 | -4.0% | |
| Multi Family | | | | |
| Starts | 0.300 | 0.395 | -24.1% | |
| Permits | 0.447 | 0.445 | 0.4% | |
| Starts and Permits By Region: | | | | |
| NE | Starts | 0.196 | 0.180 | 8.9% |
| | Permits | 0.193 | 0.176 | 9.7% |
| MW | Starts | 0.195 | 0.230 | -15.2% |
| | Permits | 0.260 | 0.236 | 10.2% |
| S | Starts | 0.716 | 0.812 | -11.8% |
| | Permits | 0.739 | 0.819 | -9.8% |
| W | Starts | 0.301 | 0.421 | -28.5% |
| | Permits | 0.376 | 0.382 | -1.6% |

Analysis & Outlook: The market is still "adjusting" to the inventory overhang—still large by historical standards. New homes for sale in December totaled 537,000, a 5.9-month supply, while there were 3.5 million existing homes for sale (single-family plus condos), a 6.5-month supply. Builders will have to keep cutting back on starts to bring inventories in line while existing home owners will have to accept lower prices if they expect to sell their homes. Economic convention tells us that lower housing prices will follow, which in turn will increase demand from "conventional buyers," paving the way for the recovery. The National Association of Realtors (NAR) recently reported that the national median existing single-family home price was \$219,300 in the 4th qtr, down 2.7% from a year earlier when the median price was \$225,300. Median new home prices in December were \$235,000, down 1.2% from the median price one year ago.

The other part of the "affordability" equation is incomes and mortgage rates, both of which are in good shape. Mortgages remain at 6.3% for the fixed rate, while incomes are still growing faster than inflation. The good news is that the economy seems to be shrugging off the housing correction and the modest slowdown in manufacturing. The Fed remains concerned with inflation due to the strong job market and consumer spending. As consumer spending remains healthy, housing prices recede a bit, and mortgage rates remain "attractive," the recovery in housing should probably starting later this year or in early 2008. One bit of bad news is the tightening of credit by the lending institutions as they attempt to control an increase in defaulting loans. The "junk" mortgage originators are being pressured by the big banks and Wall Street to buy back defaulting loans. This will result in insolvency for some of these companies, which could impact mortgage supply (The Dismal Scientist, 2/16). **SBC**

This housing starts report is provided to **SBC** on a monthly basis by **SBC Economic Environment** columnist Al Schuler. Visit www.sbcmag.info for more economic news.



Builder Banter

Builders Embrace Green Building To Save Energy, Conserve Resources

On February 12, Alaska home builder Jack Hebert told Congress that the housing industry is committed to implementing green building techniques that reduce energy consumption in both new and existing homes, improve indoor and outdoor air quality and conserve water and natural resources. "Energy efficiency is the primary focus for many builders and home buyers," Hebert, president and CEO of Cold Climate Research Center based in Fairbanks, Alaska, told members of the Senate Subcommittee on Energy.

Hebert, who serves as a National Representative of the National Association of Home Builders (NAHB), said that the nation's home builders support green building and energy efficiency legislation that is voluntary, market-driven and cost-effective for builders and consumers."

Recognizing that approaches to green building need to distinguish among the regional differences around the U.S., NAHB in 2005 launched its Model Green Home Building Guidelines as an alternative to green building mandates. The guidelines were developed with input from more than 60 industry stakeholders—including builders, researchers, manufacturers, environmentalists and government agencies. "The guidelines embody the flexibility that builders need to achieve efficiency and conservation goals without meeting costly national or statewide mandates," said Hebert.

Local adoption of the guidelines allows builders to better address regional and local environmental concerns, to assess life-cycle costs based on local building codes and climate zones, and to encourage innovation to meet higher and broader energy efficiency objectives.

Stating that the U.S. Green Building Council's Leadership in Energy Efficient Design certification pilot program for single-family homes (LEED-H) would have a drastic effect on the affordability of housing, Hebert noted that this program is "costly, requires many unnecessary mandatory provisions, offers little flexibility and contains extensive implementation fees that could cost a builder, and ultimately the home buyer, from \$12,000 to \$15,000 extra per home."

NAHB has submitted its guidelines to the American National Standards Institute's development process, with the goal of offering local jurisdictions an "off-the-shelf" green building program that is consensus-based and truly green, but flexible. Extending and expanding the tax incentives in the Energy Policy Act of 2005 would also help encourage energy efficiency in housing, he said. [Source: www.nahb.org, 2/12/07]

Builder Confidence on the Rise in February

Builder confidence continued to rise in February, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI), released February 15. The HMI increased from 35 in January to 40 in February, up from a low of 30 last September and the highest level since June of 2006.

Housing Market Index 2006-07 (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.

| Mar | Apr | May | June | July | Aug | Sept | Oct | Nov | Dec | Jan07 | Feb |
|-----|-----|-----|------|------|-----|------|-----|-----|-----|-------|-----|
| 54 | 51 | 46 | 42 | 39 | 33 | 30 | 31 | 33 | 33 | 35 | 40 |

Source: National Association of Home Builders

"Builders are still cautious as they continue to manage their inventory, but their assessments of the demand side of the single-family market are improving," said NAHB President Brian Catalde, a home builder from Playa del Rey, Calif. "Every component of the February HMI—present home sales, sales expectations for the next six months and buyer traffic—showed a significant positive uptick in February."

"The HMI results are consistent with Federal Reserve Chairman Ben Bernanke's assessment to Congress this week that there are signs of stabilization on the demand side of the housing market," said NAHB Chief Economist David Seiders.

Lower energy prices, favorable mortgage rates and solid growth in employment and household income have all contributed to the recent stabilization of home buyer demand, Seiders added. "In addition, builders continue to offer substantial sales incentives to move their product and limit cancellations, which has helped to firm up buyer demand."

"Builders are becoming increasingly convinced that the abrupt downside in home sales is in their rear view mirrors and they see better times as they look at the road ahead," said Seiders. [Source: www.nahb.org, 2/15/07]

Homebuilding Trends for the New Year

A survey of 923 real estate agents, brokers and industry executives conducted by Mark Nash, author of Real Estate A-Z for Buying and Selling a Home, revealed the following five up-and-coming trends in homebuilding and remodeling.

- **Upscale Garages:** Garages are no longer the messy storage space that they once were; they are increasingly becoming extensions and showplaces of the home. "Today's owners want [garages] decked out with cabinet and storage systems, matching refrigerators, air conditioning and residential looking flooring," said Nash.
- **Caving:** People are wanting more personal space where they can spend time alone, and according to Nash a cave is "a personal, dedicated space for one person in a household to go and work on projects, or simply 'chill,'" making it the perfect option.
- **Rejuvenation Rooms:** These rooms are made for it all...exercising, meditating, yoga, relaxation in saunas and fancy steam showers. "This is kind of a new age, serenity room where you do these quiet exercise things and then jump in the spa," said Nash.
- **Heated Patios:** Heated patios, walkways and driveways are a great way to reduce the hassle of shoveling snow. And according to Nash, the warmth radiating off these outdoor surfaces can also "add a couple of weeks of outdoor enjoyment in the spring and fall."
- **Snoring Rooms:** Instead of condemning snorers to a life on the couch, snoring rooms are allowing noisy sleepers to enjoy the comforts of their own bed in a separate quarter of the master suite.

The following trends are on the way out, says Nash: Spiral Staircases, Bamboo Floors, and Hardwood Laminate Flooring. [Source: CNNMoney.com]

California Cracks Down on Jobsite Theft

A nonprofit group called the Construction Industry Crime Prevention Program of Central California is cracking down on jobsite theft. It covers a ten-county region in California, and offers rewards of up to \$1,000 for information leading to arrest, restitution or recovery for thefts and vandalism of tools, equipment or property from construction sites. The organization also provides resources for crime prevention such as a hotline, help in marking equipment, tips on security, and a guide to finding and recording the serial numbers on equipment. George Brown, executive director of the program, said, "People need to realize that the market is not the only thing driving up prices for houses; theft and vandalism play a big part."

Thefts from construction sites nationwide are estimated to approach nearly \$1 billion a year, with 1,186 pieces of equipment reported stolen last year in California alone. Earl Gunnerson of the Southern California region of the Construction Crime Prevention Program, believes the amount of equipment stolen in 2006 is close to twice the amount of that reported. He also says that California, Texas and Florida top the list for construction site theft in the country. [Source: HousingZone.com by Dennis Pollock, The Fresno Bee] **SBC**

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6300 Enterprise Lane • Suite 200 • Madison, WI 53719
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www.sbcmag.info • admgr@sbcmag.info