

Housing Starts

March housing starts increased modestly 0.8%, to 1.518 million (SAAR) while single-family starts were up 2% to 1.218 million (SAAR). Partly a reflection of improving weather in the Midwest versus the previous month, starts there were up almost 45%.

U.S. Housing Starts			
Millions - Seasonally Adjusted Annual Rate (SAAR)			
U.S. Totals	Mar	Feb (rev.)	% Change
Starts	1.518	1.506	0.8%
Permits	1.532	1.571	-2.5%
Single Family			
Starts	1.218	1.194	2.0%
Permits	1.544	1.532	0.8%
Multi Family			
Starts	0.300	0.312	-3.8%
Permits	1.114	1.099	1.4%
Starts and Permits By Region:			
NE Starts	0.123	0.131	-6.1%
Permits	0.156	0.141	10.6%
SE Starts	0.237	0.164	44.5%
Permits	0.244	0.209	16.7%
SW Starts	0.784	0.806	-2.7%
Permits	0.737	0.763	-3.4%
W Starts	0.374	0.405	-7.7%
Permits	0.407	0.419	-2.9%

Analysis & Outlook: The market continues to correct for excessive inventories, slightly higher mortgage rates (6.22% for 30-yr fixed rate at time of writing), and tougher lending standards resulting from the subprime problems. The key question is: How much longer will it take to bring inventories down to "comfort levels" where builders start building again? Many analysts feel that lower rates are the answer, but from what I'm seeing in Fed reports, rates won't be lowered anytime soon. Often, we see analysts refer to the "core inflation rate"—that is, CPI without food and energy. However, food and energy account for 25% of consumer spending. That means that if we have to spend more on food and energy (which we are), then that leaves less to spend on other goods and services including making mortgage payments. The March report shows the core rate growing at 2.5% year over year (YOY) and the overall rate growing 2.8% YOY, but even more alarming, at a 4.7% rate, annualized over the past three months. In other words, the overall rate is picking up steam, and that may be what is worrying the Fed. The consumer accounts for almost 70% of GDP, so if inflation is picking up, that means lower consumer spending, and perhaps "stagflation"—slow growth and inflation at the same time. Hopefully, this isn't the case as it was in the early 90s. The key trend to watch here is the job market—as long as it remains healthy, the economy should not stagnate, and the housing recovery will resume sometime next year. The demographics for new housing are solid and the remodeling market remains healthy, so residential construction is still on solid ground, in my opinion. Things are slower than 2002-05 when the market was booming (thanks in part to lots of "easy money," weaker credit standards, and a weak stock market that allowed investors to divert more money into real estate). Those "pro-housing factors" have weakened or disappeared, and we have to live with a more restrictive (and realistic) atmosphere, which is good for the market in the long term. Even though the March housing start numbers were up slightly, I believe we are still in for a slow recovery. We are probably at the bottom. I don't know how long will we remain there, but I believe the worst is behind us. **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

PATH Reveals the Top 10 Technologies for 2007

The Partnership for Advancing Technology in Housing (PATH) announced the Top 10 Technologies of 2007 at the 2007 International Builders' Show. The technologies were chosen for their potential to improve the quality of homes and are selected for their strengths in one or more of the following areas: quality and durability, affordability, energy efficiency, environmental performance, and safety and disaster mitigation.

The Top 10 List:

1. Mold Resistant Gypsum
2. Solar Water Heating
3. Recycled Concrete Substitutes and Aggregates
4. Combined Heat and Power (CHP)
5. Horizontal Axis Washer/Dryer
6. Hydrophilic, Impact-Resistant Windows
7. Super-Sized (Vertical) Insulated Concrete Forms (ICFs)
8. Induction Cooktops
9. GPS for Land Development
10. Permeable Pavers & Pavement

For more information on these technologies, visit the ToolBase website. [Source: www.toolbase.org]

Tax Credit Rewards Energy Efficient Builders

Builders who create a house whose heating and cooling load efficiency exceeds code* by 50 percent qualify to receive a tax credit of \$2,000 per energy-efficient home. (*The code referenced by the tax credit is Chapter 4 of the 2004 Supplement to the 2003 Internal Energy Conservation Code (IECC). Code minimum requirements include a 13-SEER air conditioner and a 13-SEER, 7.7-HSPF heat pump.)

Builders cannot rely solely on HVAC upgrades to reach the 50 percent rating; they need to improve air-sealing, window performance and insulation levels as well. The energy efficiency of the building envelope must be improved enough to reduce heating and cooling loads by at least ten percent compared to 2004 IECC. [Source: www.housingzone.com/probuilder]

Builder Confidence Recedes Further in April

Deepening problems in the subprime mortgage market continued to take a toll on builder confidence in April, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI), released on April 16. The index declined three points to 33 in April, its lowest level since December of 2006.

"The tightening of mortgage lending standards in connection with the subprime crisis has

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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.

May	June	July	Aug	Sept	Oct	Nov	Dec	Jan07	Feb	Mar	Apr
46	42	39	33	30	31	33	33	35	39	36	33

Source: National Association of Home Builders

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Builder Banter

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shaken the confidence of both consumers and builders, as reflected in this report," said NAHB Chief Economist David Seiders. "Indeed, the unfolding effects of this crisis have compelled NAHB to trim our forecasts of home sales and housing production for both 2007 and 2008," he said. "While we still expect to see some improvements in housing market activity beginning later this year, the downside risks and uncertainties surrounding that forecast are considerable."

Derived from a monthly survey that NAHB has been conducting for more than 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.

All three component indexes registered declines in April. The index gauging current single-family home sales fell three points to 33, while the index gauging sales expectations for the next six months declined six points to 44 and the index gauging traffic of prospective buyers declined a single point, to 27.

All four regions posted HMI declines in April, with the Northeast showing a one-point decline to 38, the Midwest registering a five-point decline to 22, the South posting a three-point decline to 37, and the West posting a two-point decline to 35.

"The subprime shakeout clearly is a serious matter for the single-family housing market," noted NAHB President Brian Catalde, a home builder from El Segundo, CA. "Builders in the field are reporting adverse effects on both sales and cancellations at this time, and it remains to be seen how serious these effects will be as we move through the spring home buying season." [Source: NAHB Press Release, www.nahb.org, 4/16/07]

Wind Power Generators for the Home

Nowadays people are looking for energy independence and energy price stability along with contributing to a cleaner environment. This is why wind power is the world's fastest-growing energy technology. The NAHB Research Center reports that homes in at least 47 states are using 100 percent renewable, non-polluting wind to generate power.

The typical residential application is a wind-powered generator, or turbine. Wind turbines are best suited for remote or low-density residential lots of one acre or more. For a typical home, a unit rated between 5 and 15 kW will meet most electricity needs. Depending on the wind resource, there can be a monthly savings of \$80-\$200 when electricity costs \$0.10 per kWh.

Wind turbines are also environmentally beneficial. According to the American Wind Energy Association, a small residential wind turbine can offset about 1.2 tons of air pollutants and 200 tons of greenhouse gases throughout its life. [Source: www.housingzone.com/probuilder]

Consensus Committee Appointed for National Green Building Standard

The National Association of Home Builders (NAHB) and the International Code Council (ICC) announced on April 9 that the members to the Consensus Committee on the National Green Building Standard have been appointed by the NAHB Research Center Executive Standards Committee. This Consensus Committee represents the industry in its efforts to develop and publish an American National Standards Institute (ANSI)-approved standard on residential green building. The collaboration between the two groups, announced at the International Builders' Show in Orlando, FL, in February, reinforced the commitment of the organizations to bring uniformity to sustainable building practices.

The Consensus Committee is made up of more than forty groups representing a broad spectrum of the industry. Its purpose is to review the working draft of the national standard based on NAHB's Model Green Home Building Guidelines and to develop ICC/NAHB National Green Building Standard. Unlike the Guidelines, which are intended to be used in the construction of one- and two-family homes, the new standard will be applicable to all new home construction, including multifamily units.

"The creation of the National Green Building Standard is a huge step forward for the industry," said Ray Tonjes, chairman of the NAHB Green Building Subcommittee and an Austin, TX, home builder. "We are proud to work with ICC to produce a voluntary national standard that will take into account regional differences and allow for flexibility, while increasing the efficiency and quality of homes in America." SBC

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