

The three best  
(and worst) factors  
in the housing recovery.

by SBC Staff

When they said we'd be in for a long, slow climb out, turns out economic analysts weren't kidding. Each year Harvard's Joint Center for Housing Studies publishes a report detailing trends and predictions about the U.S. housing market. In the 2010 edition of *The State of the Nation's Housing*, it reports on the "fledgling recovery" and examines factors like home sales, affordability, household growth and housing demand. Combining the Harvard report with Wells Fargo Economist Mark Vitner's BCMC forecast and the recent NAHB Fall Construction Forecast gives us a good picture of housing trends. Here's a look at what we can expect from the single and multi-family housing markets in 2011 and in the years that follow.

### SBCA Housing Starts, Gross Sales Forecast

Our forecast for the next couple years is in line with that of Wells Fargo and NAHB, with a moderate increase in single and multi-family housing starts in 2011-2012. We predict 2010 will end with 597,300 total starts, a 7.24% increase over 2009. Starts will increase another 24% to

787,000 in 2011, yielding just over \$5.4 billion in gross component sales. We expect starts will top 1 million for the first time since 2007 in 2012, which is a rise of 50% since the market's bottom. Gross sales will top \$7.5 billion in 2012. In terms of a long-range forecast, Wells Fargo predicts that we will see more "normal" or sustainable levels—around 1.45 million housing starts annually—in 2014 at the earliest. (Source: Wells Fargo Housing Data Wrap-Up: October 2010)

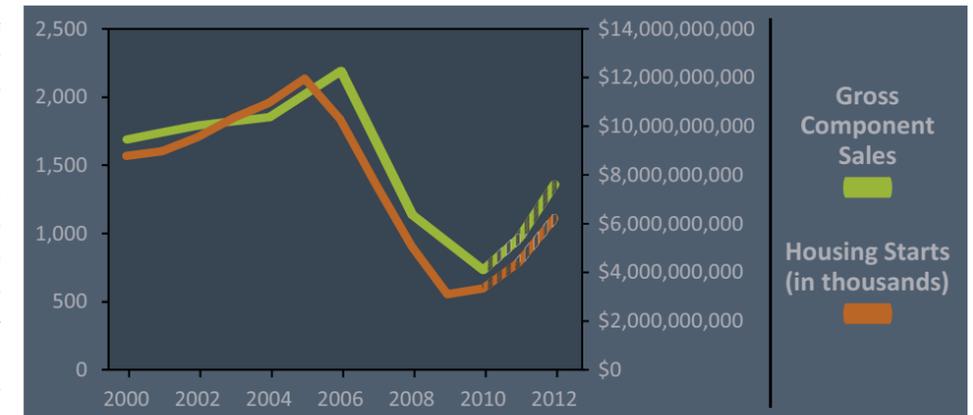


Figure 1. Housing starts compared to gross industry sales 2000 – 2012. Notice that components have gained market share!

### The Factors

Although it officially ended in late 2009, the fallout from the recession continues to deeply affect housing. Some factors—like pent-up demand, demographics and home prices—will in time play in our industry's favor. Others—namely foreclosures and employment—could slow the return of housing to "normal" levels.



**Pent Up Demand.** The State of the Nation's Housing notes that between the surge in home prices in 2004–6 and the recession and credit crisis in 2007–9, there is a high amount of pent up demand in the market. NAHB's chief economist David Crowe estimates the current gap in household formation is between .5 to 1.5 mil-

lion. This includes people who may have lost their homes and moved in with relatives or are now renting, or people who decided to go back to school. "This is the first group of people who will emerge and start buying up homes when confidence is restored," he said. A definite positive for component manufacturers as the economy improves.



**Generation Y.** Analysts say home buying trends will soon be dominated by the Y Generation, also known as echo boomers. The first of these folks, born in 1981, are just entering their 30s. The State of the Nation's Housing estimates the number of echo boomers will

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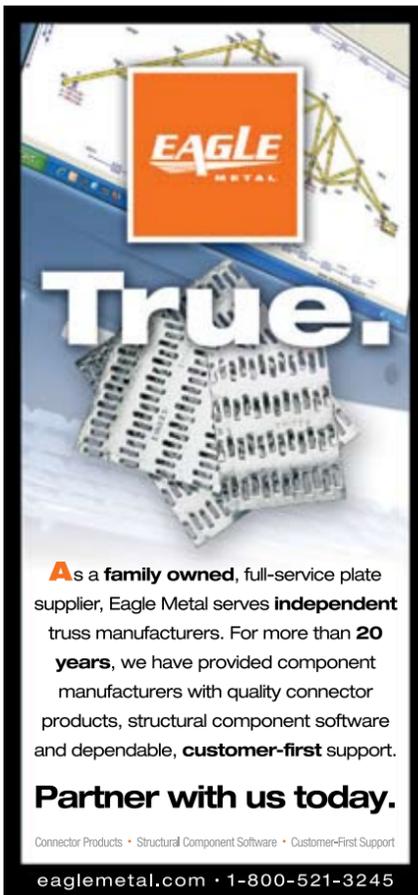
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**This low-end estimate puts household growth in the next 10 years on par with the pace in 1995–2005, and should support average annual housing completions and manufactured home placements of between 1.7 and 1.9 million units.**

—The State of the Nation's Housing, 2010

### Housing: 2011 and Beyond

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increase to about 90 million by 2025 (that's accounting for immigration). "This highly diverse generation will give demand for apartments and smaller starter homes a lift over the next 15 years," it claims. It continues, "The sheer size of the echo-boom generation will produce record numbers of households headed by young adults." Though majority of echo boomers may still be a few years from entering the housing market, the downstream housing demand of this large group will be substantial.



**Affordability.** The component industry also has housing affordability in its favor. NAHB reports the median sales price dropped from \$256,000 for single-family homes started in 2006 to \$211,000 in 2009, a 17.6% decline. Home prices in more than 85% of metro areas were also down in 2009. At the same time, rates on 30-year fixed-rate mortgages slipped from 6.6 to 5%. Analysts with Wells Fargo estimate that home prices will fall an additional five to eight percent by the middle of 2011 (Wells Fargo Housing Data Wrap-Up: October 2010).

The latest NAHB Housing Opportunity Index places housing affordability just over 70, meaning more than 70% of all new and existing homes sold in Q2 2010 in were affordable for families of four with the national median household income of \$64,400. That's up from around 40 in 2007 and 2008. Significant gains in affordability coupled with steady household growth bode well for the industry.



**Foreclosures.** NAHB's David Crowe said the foreclosure situation is still weighing on the housing industry, driving rentals up and adding to the inventory of homes for sale. However, he said, foreclosures are heavily concentrated in states like Florida, California, Illinois and Nevada that were the most overbuilt during the boom. "77% of all foreclosures are in 15 states. While we never like to see foreclosures, the problem is not widespread, it's concentrated," he said. The current estimate is over 2 million homes in foreclosure.



**Employment.** Not surprising, Crowe points to job growth as the key barrier to economic recovery (and therefore a full housing recovery). Consumers with no income or those concerned about losing their jobs are in no rush to buy homes. He predicts a very slowly improving unemployment rate, falling to about 8% throughout 2011 and 2012.



**Smaller Homes.** Average home size declined from 2500 to 2400 square feet in 2009, says NAHB. Homeowners are opting for less home to cut costs and drive energy efficiency. Crowe also noted that the increase of first time homebuyers in the market definitely plays a role in smaller home sizes. "They tend to look for more modest homes. In general people are more leery about buying more house than they need," he said.

### Conclusion

The consensus seems to be that while several key indicators have improved throughout 2010, our industry will see a very incremental recovery over the next two years. Expect mid- to late 2012 to signal the beginning of "normal" homebuilding activity. **SBC**

## LONG-RANGE TRENDS

*to Watch*

- **WINKs:** The National Association of Realtors reports that the share of single female homebuyers—known as WINKs, Women with Incomes and No Kids—increased from 14% in 1995 to 21% in 2009. Look for this trend to continue, especially in the Generation Y age group. WINKs generally prefer urban, pedestrian-friendly neighborhoods and a focus on safety and proximity to employers.
- The U.S. will grow by another 100 million people by 2040, and 60% of that will come from just 20 metro areas, primarily in the coastal areas and the south.
- Immigration will continue to be a huge housing influencer; however, where previous generations settled in urban areas, many new immigrants are heading straight for suburbs.

### Sources:

"Don't Ignore This WINK" ([www.prosalesmagazine.com/industry-news.asp?sectionID=427&articleID=1412175](http://www.prosalesmagazine.com/industry-news.asp?sectionID=427&articleID=1412175))

"Baby Boomers, Gen Y, and the Recession Shift Long-Held Housing Tastes and Trends" ([www.builderonline.com/demographics/baby-boomers-gen-y-and-recession-shift-long-held-housing-tastes-and-trends.aspx?cid=BLDR101019002](http://www.builderonline.com/demographics/baby-boomers-gen-y-and-recession-shift-long-held-housing-tastes-and-trends.aspx?cid=BLDR101019002))

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