April 2014 Housing Commentary

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Return TOC

Table of Contents

April 2014
Housing Scorecard

	M/M	Y/Y
Housing Starts[A]	∆13.2%	∆26.4%
Single-Family Starts[A]	∆ 0.8%	∆ 9.8%
Housing Permits[A]	∆ 8.0 %	∆ 3.8%
Housing Completions[A]	∇3.9%	∆21.2%
New Single-Family House Sales[A]	∆ 6.4%	∇ 4.2%
Existing House Sales[B]	∆ 1.3%	∇ 6.8%
Private Residential Construction Spending[A]	∆ 0.1%	∆17.2%
Single-Family Construction Spending[A]	∆ 1.3%	∆14.5%

M/M = month-over-month; Y/Y = year-over-year

Source: [A]U.S. Department of Commerce-Construction ; [B] National Association of Realtors® (NAR®)

Return TOC

New Housing Starts

	Total Starts*	Single-Family Starts	Multi-Family 2-4 unit Starts	Multi-Family 5 or more unit Starts
April	1,072,000	649,000	10,000	413,000
March	947,000	644,000	14,000	289,000
2013	852,000	593,000	16,000	243,000
M/M change	13.2%	0.8%	-28.6%	42.9%
Y/Y change	26.4%	9.8%	-37.5%	70.0%

* All start data are presented at a seasonally adjusted annual rate (SAAR)

Source: U.S. Department of Commerce-Construction: www.census.gov/construction/nrc/pdf/newresconst.pdf

Return TOC

New Housing Permits and Completions

	Total Permits*	Single-Family Permits	Multi-Family 2-4 unit Permits	Multi-Family 5 or more unit Permits
April	1,080,000	602,000	25,000	453,000
March	1,000,000	600,000	28,000	372,000
2013	747,000	622,000	28,000	390,000
M/M change	8.0%	0.3%	-10.7%	21.8%
Y/Y change	3.8%	-3.2%	-10.7%	16.2%

	Total Completions*	Single-Family Completions	Multi-Family 2-4 unit Completions	Multi-Family 5 or more unit Completions
April	847,000	602,000	3,000	242,000
March	881,000	617,000	13,000	251,000
2013	699,000	529,000	6,000	164,000
M/M change	-3.9%	3.0%	-76.9%	-3.6%
Y/Y change	21.2%	4.7%	-50.0%	47.6%

Source: U.S. Department of Commerce-Construction: www.census.gov/construction/nrc/pdf/newresconst.pdf

* All data are SAAR

Return TOC

New and Existing House Sales

	New Single-Family Sales*	Median Price	Month's Supply	Existing House Sales [B*]	Median Price [B]	Month's Supply [B]
April	433,000	273,800	5.3	4,650,000	$201,700	5.2
March	407,000	281,700	5.6	4,590,000	$196,700	4.7
2013	452,000	279,300	4.3	4,990,000	$191,800	5.0
M/M change	6.4%	-2.8%	-5.3%	1.3%	2.5%	10.6%
Y/Y change	-4.2%	-1.9%	23.2%	-6.8%	5.1%	40.0%

* All sales data are SAAR

Source: U.S. Department of Commerce-Construction: www.census.gov/construction/nrs/pdf/newressales.pdf;
[B] NAR® www.realtor.org/topics/existing-home-sales; 1/23/14

Return TOC

Existing House Sales

National Association of Realtors (NAR®)[B]
April 2014 sales data:

Distressed house sales: 15% of sales –

(10% foreclosures and 5% short-sales)

Distressed house sales: 15% in March
and 18% in April 2013

All-cash sales: decreased to 32%; 33% in March

Investors are still purchasing a substantial portion of
"all cash" sale houses – 18%;
17% in March 2014 and 19% in April 2013

First-time buyers: decreased to 29% (30% in March 2013)
and were 29% in April 2013

Source: [B] NAR® www.realtor.org/topics/existing-home-sales; 5/23/14

April 2014 Construction Spending

April 2014 Private Construction: $378.52 billion (SAAR)

0.1% greater than the revised March estimate of $378.29 billion (SAAR)
17.2% greater than the April 2013 estimate of $323.02 billion (SAAR)

April SF construction: $189.55 billion (SAAR)
1.3% more than March: $187.09 billion (SAAR)
14.5% more than April 2013: $166.56 billion (SAAR)

April MF construction: $40.38 billion (SAAR)
2.7% more than March: $39.32 billion (SAAR)
31.2% more than April 2013: $30.78 billion (SAAR)

April Improvement[C] construction: $148.58 billion (SAAR)
-2.2% less than March: $151.87 billion (SAAR)
17.3% more than April 2013: $126.67 billion (SAAR)

The US DOC does not report improvements directly, this is an estimation. All data is SAAR and is reported in nominal US$.

Source: [C] U.S. Department of Commerce-C30 Construction: www.census.gov/construction/c30/pdf/privsa.pdf

Return TOC

Conclusions

Several of the housing market indicators exhibited marginal increases in April – this is not typical for spring. Historically, March, April, and May are the best months for housing starts and sales (new and existing). It appears as the overall market is muddling along.

As in previous months, the near-term outlook on the U.S. housing market remains unchanged – there are potentially several negative macro-factors or headwinds at this point in time for a robust housing recovery (based on historical long-term averages).

Why?

1) Lack-luster household formation,
2) a lack of well-paying jobs being created,
3) a sluggish economy,
4) declining real median annual household incomes,
5) strict home loan lending standards,
6) new banking regulations, and
7) global uncertainty?

Housing comments – April, 2014

Economy getting better albeit slowly, but there are some issues:

- government debt – all levels of government – exacerbates the job problem
- European economy getting better(slowly) – some deflation risk ; China is slowing too as they focus on domestic economy versus exports (1st qtr 2014 GDP was 7.4%, slowest in 18 years)
- Housing's issues - Weak domestic economy ; slowing world economy; weak job market; sluggish income growth; high consumer debt levels; tight credit environment
- Main problem is uncertainty stemming from dysfunctional government and weak leadership from "Washington"
- This is not your typical housing recovery – 1st time buyers are absent while investors and cash sales are much higher percentage – this will create problems going forward.
  (1) lost "follow-through" with delayed 1st time purchasers (i.e., move up purchases at later date).
  (2) also, as interest rates increase, investor activity will wane.

The return of 1st time buyers is the key to any sustainable recovery in housing !!!! That depends on a stronger job recovery. That, in turn depends on removing some uncertainty and that means "Washington" has to get its act together!!!!!!!

Return TOC

Some additional issues impacting housing:

A. Economic recovery is much slower from a financial recession
B. Mortgage rates are trending upward as the Fed pulls back on QE
C. There is a growing trend to multi family versus single family and this has implications for the economy and demand for wood products (here is link to NAHB article on housing's impact on the economy, job creation, tax revenue, etc.
(http://www.nahb.org/reference_list.aspx?sectionID=784)

Return TOC

Housing, Economy, and wood products

Here is good article on housing's impact on the economy – why the economy is having problems moving forward.
NYT
http://www.nytimes.com/2014/04/27/upshot/the-housing-market-is-still-holding-back-the-economy-heres-why.html?ref=business&_r=1

But, here is the dilemma – housing contributes about 4% directly to GDP and another 12 – 15% indirectly, for a total of 16 – 19%. The key to housing's recovery is good paying jobs with benefits. That means we need a stronger economy. But, with housing and related activities contributing only 15% to GDP, that won't happen. The old "chicken and egg" dilemma. What is the solution? I've read that U.S. businesses have about 2 trillion Dollars stashed on their balance sheets. If they were to invest that in plant, equipment, job training, technology, R&D, Etc., that would create jobs and some momentum for the economy. What is holding them back? Uncertainty is key reason. We need 'Washington" to provide leadership in where the country is headed and how to get there – we need to remove some of the uncertainty. And, they need to convince businesses (and the public) that their vision (to fix the economy) is realistic and they have a viable strategy for achievement. A tall order and I know I have oversimplified things.

Return TOC

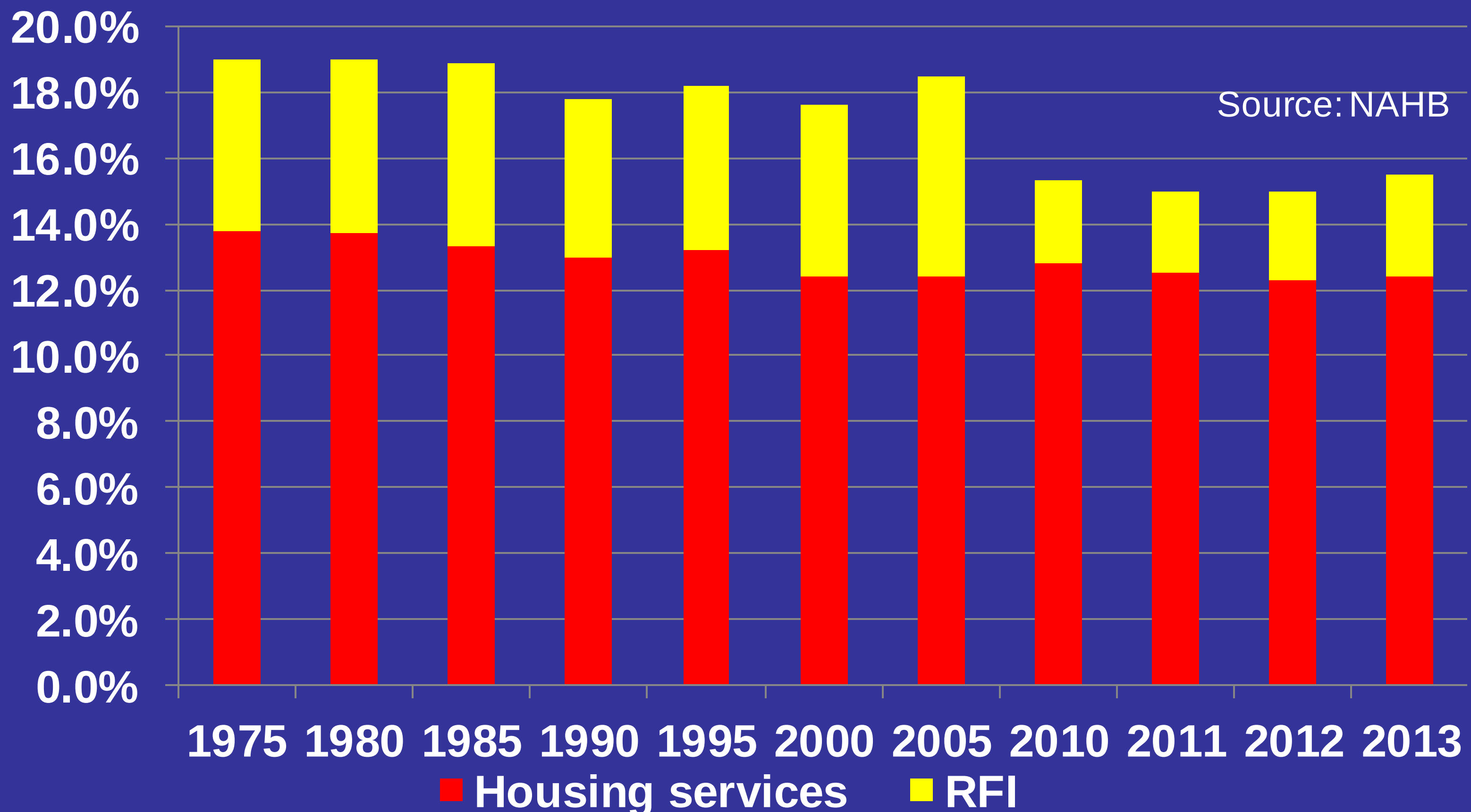
I’m not a super duper Christian or even a good Catholic , but I have to admire what the new Pope has accomplished in a short period of time.
He has a game plan, and he is pissing off a few people(“insiders”) , but he is moving forward (to fix some difficult problems) and, so far, he has the public behind him. That brings up another point – “Washington” has to convince the public and businesses that it has a viable game plan (to fix the economy) and strategy to achieve realistic Goals. Otherwise, it won’t happen – the current gridlock will continue. The government can’t fix the economy, but it has to be an integral part of the solution. Here is a good article on Pope Francis – maybe “Washington” could learn something here? (http://finance.yahoo.com/blogs/daily-ticker/pope-francis--the-world-s-best-turnaround-ceo-190402700.html). The take away - if you have a legitimate and realistic game plan, and present it to the people, they will listen, and they will follow. Also, it helps if you “walk the talk”. There are lots of other examples of leaders who convinced the public that they had a game plan and they were not afraid of “making the tough decisions” – Winston Churchill provided leadership to his country when England was facing a very bleak period . A strong leader isn’t afraid of making tough decisions – Harry Truman fired a very popular WWII General and he made the decision to drop the bomb to end WWII. The sign on his desk said “the buck stops here”. We need leadership now – don’t worry about the next election – do what you were elected to do! Otherwise, the economy will continue to sputter; unemployment will continue to underperform; and housing will take
Longer to get back on trend.

Return TOC

Housing's contribution to GDP (%) – historically, it is almost 20% of the economy when you include housing services and fixed investment, but today it is down to 15%. In reality, it is even more important when you include purchased furniture, landscaping, general maintenance, etc.

key reason why the economic recovery remains muted

Housing services = gross rents paid by renters (include utilities) + owner's imputed rent (how much It would cost to rent owner occupied homes) + utility payments
RFI (residential investment) = construction of new SF and multifamily structures, remodeling, manufactured homes , plus broker's fees



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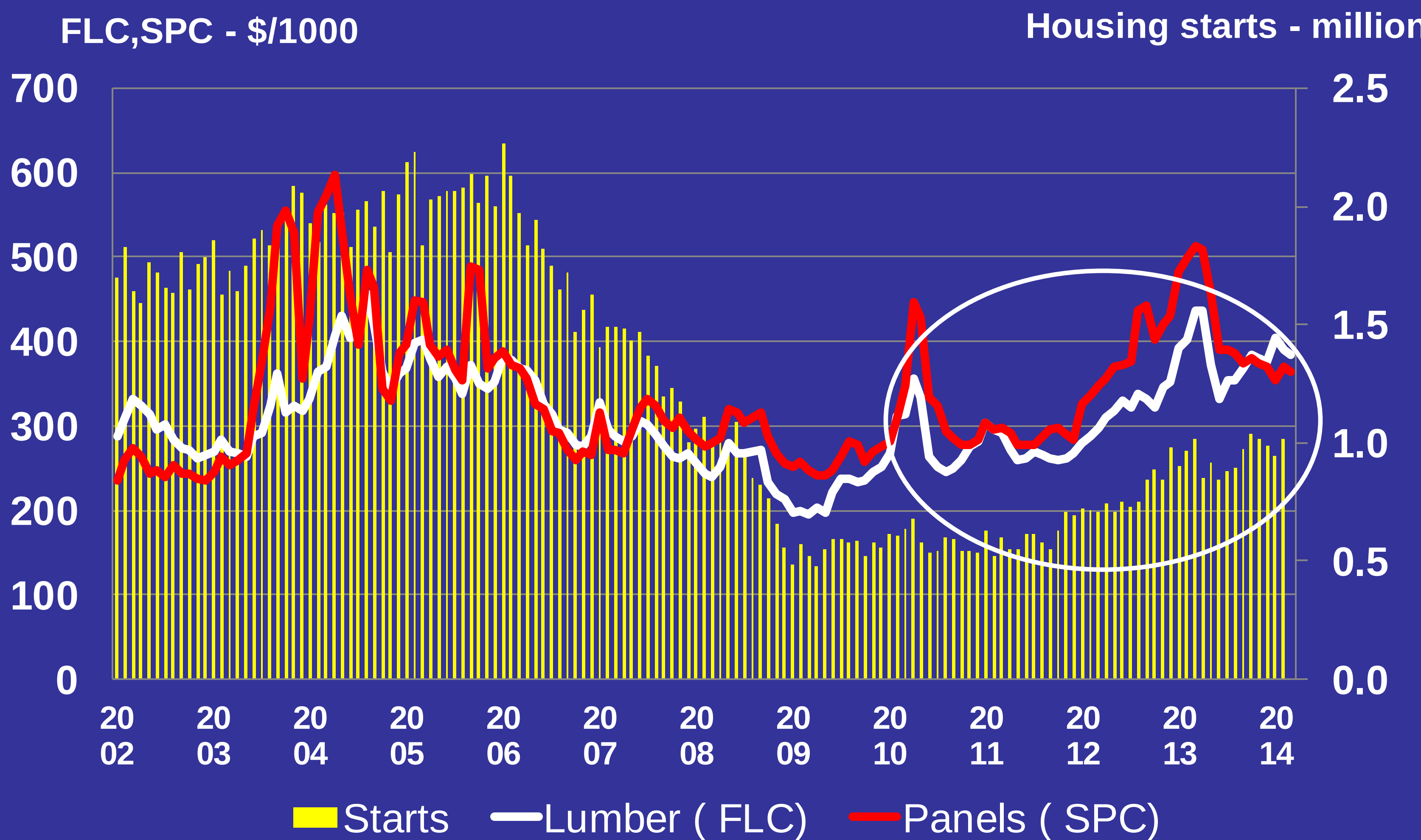
Housing starts and wood product prices – Economics 101

75% of structural wood products go to housing (new construction plus remodeling)
50% or more of hardwoods go to housing related activities.

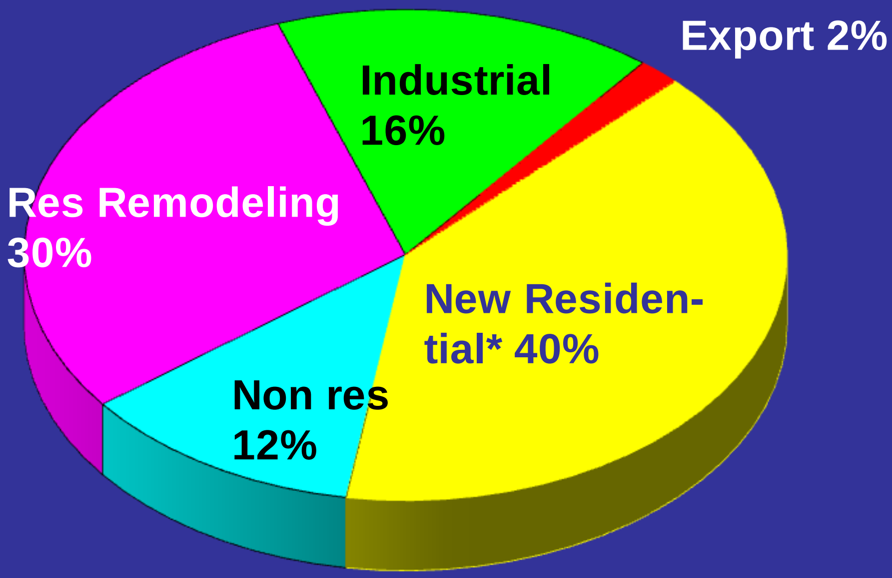


Sources: Prices – Random Lengths (http://www.randomlengths.com/); starts (Bureau of Census (http://www.census.gov/construction/nrc/)

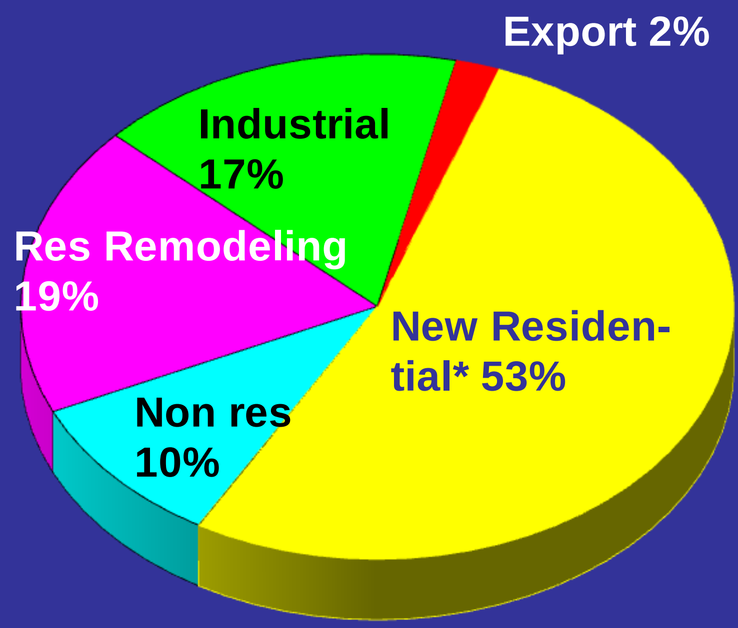
Return TOC

Softwood Market Shares: Average during 1998 – 2007

U.S. Softwood Lumber



U.S. Structural Panels



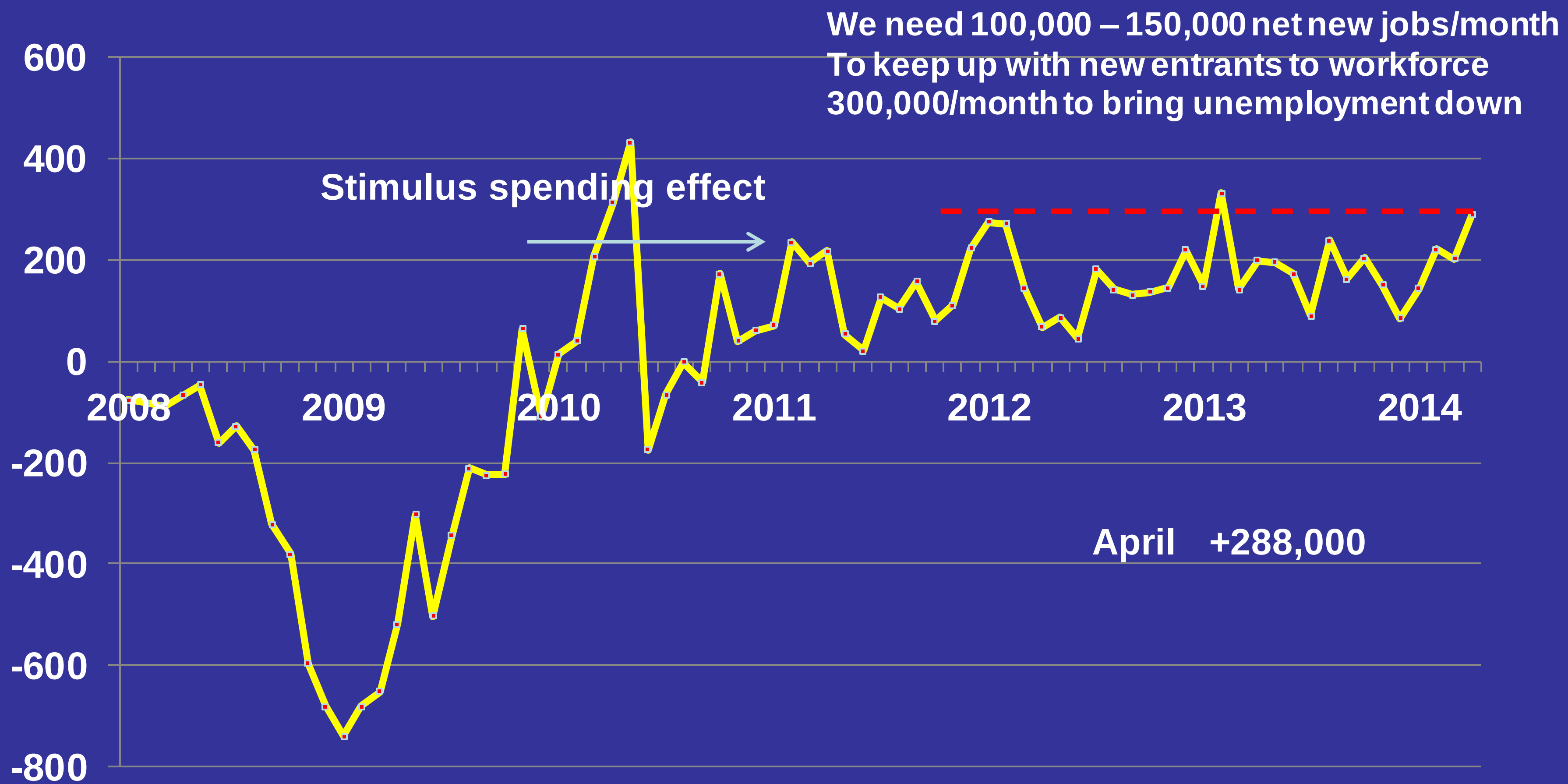
*New Residential incl. SF, MF, and Mobile Homes

Source : Lumber – WWPA; Panels - APA

Return TOC

Employment situation - our biggest problem - it's getting better, but the jobs recovery remains weak by past standards, and many jobs (e.g., temporary ones) Don't include health care or retirement benefits (because they are Often part time jobs) – those kinds of jobs don't encourage people to buy houses

Net change in non farm payrolls – monthly, thousands



Source: U.S. BLS (www.bls.gov)

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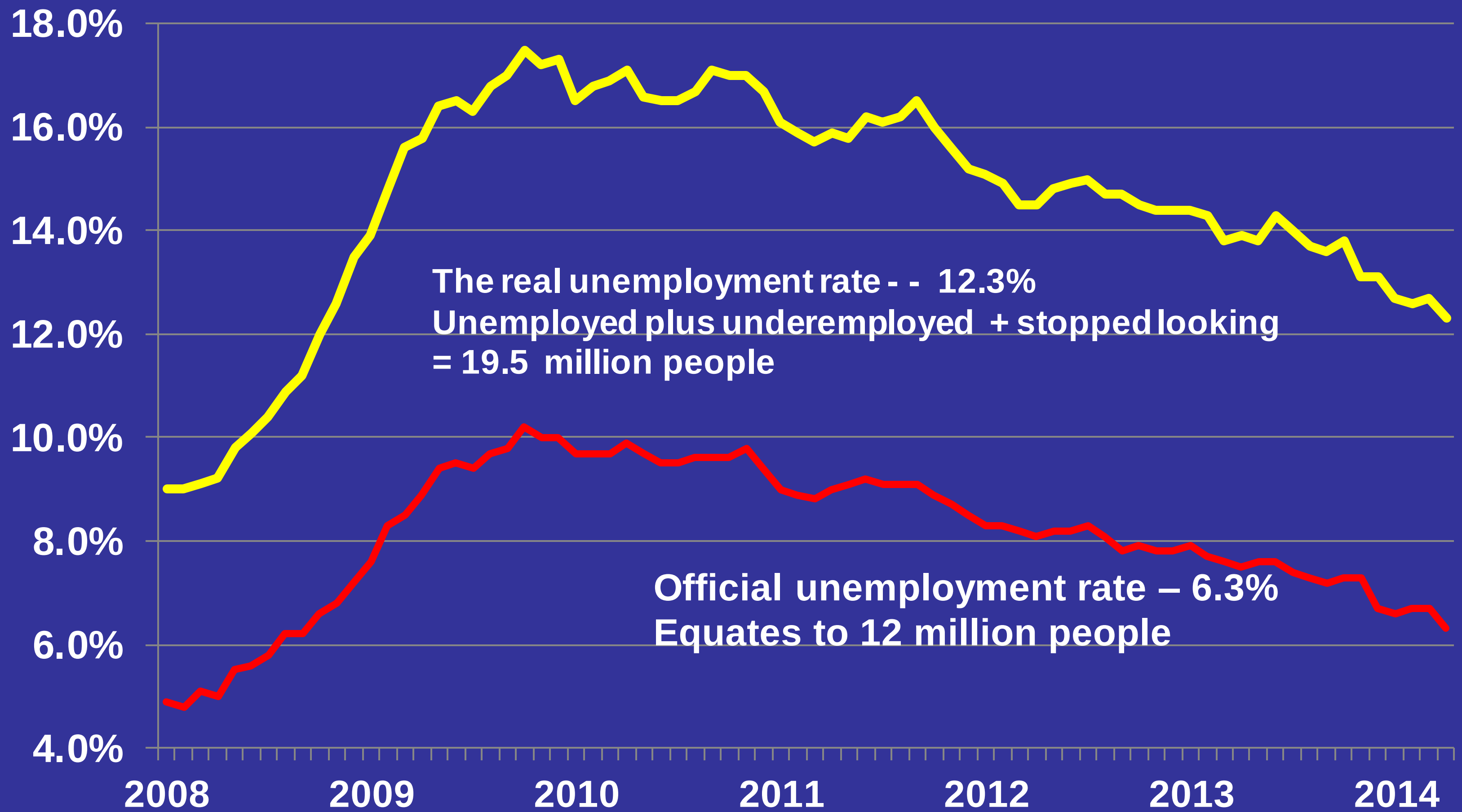
Unemployment will remain relatively high for awhile longer – but, it's getting better !!!!

There are about 20 million people either unemployed , underemployed, or stopped Looking – **they are not buying houses

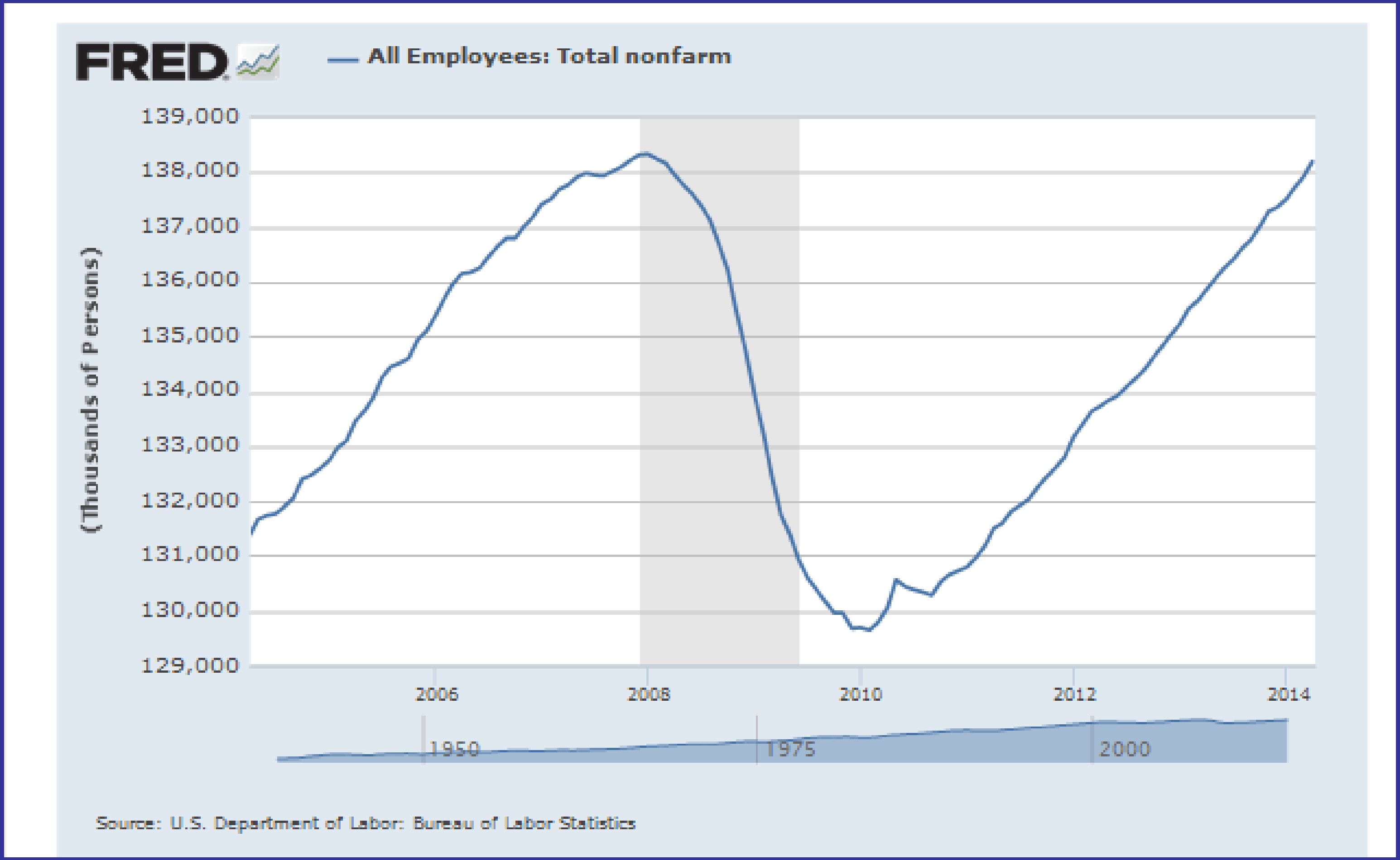


Source - - BLS: http://www.bls.gov/news.release/pdf/empsit.pdf; http://data.bls.gov/cgi-bin/surveymost?ln

Return TOC

Weak job creation - - Key reason wage inflation not a problem -

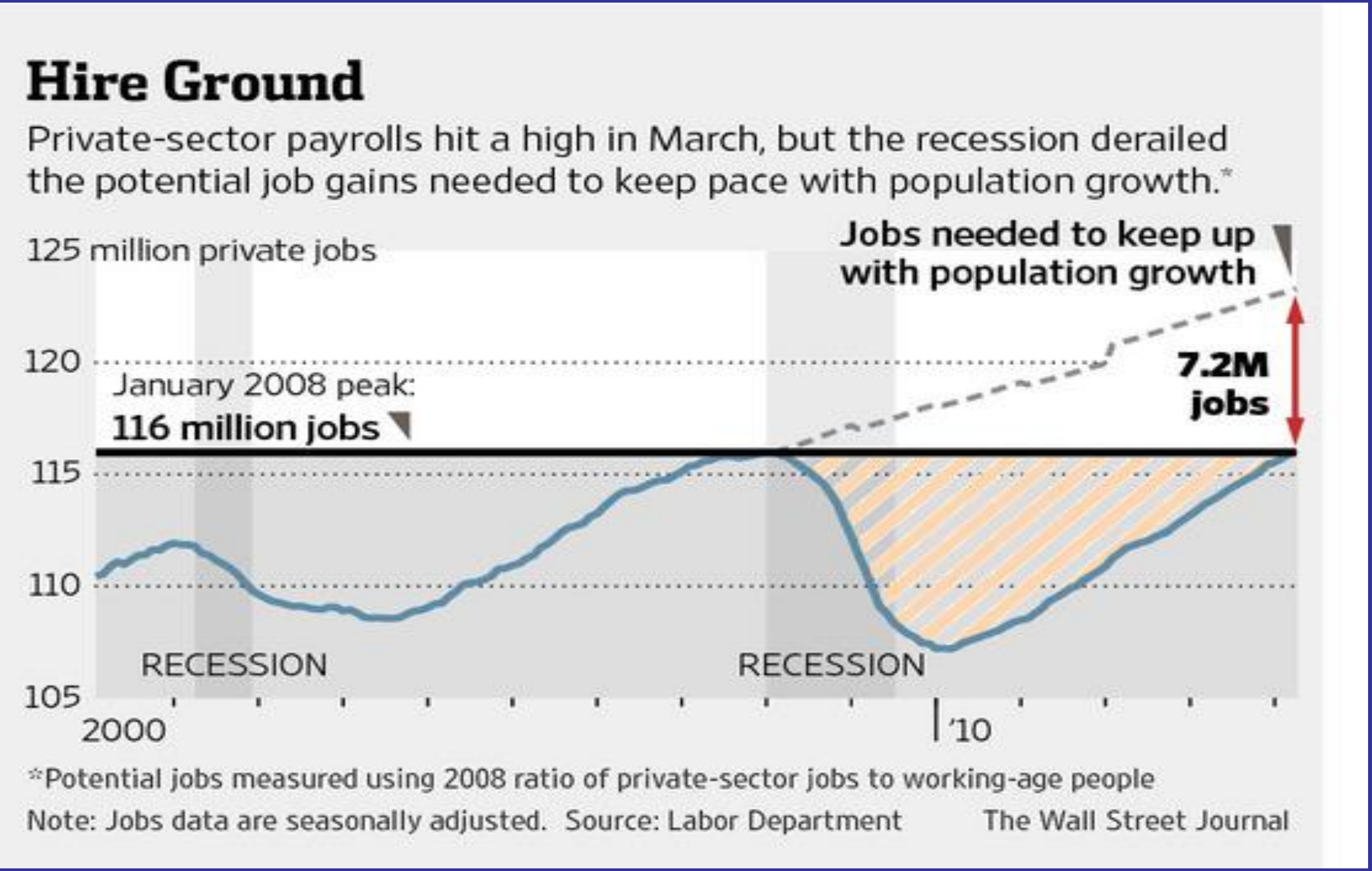
Employment only back to where we were pre recession - problem is
new entrants to labor force (about 7 million) during past 6 years????
Economy did not absorb them



Return TOC

Private sector payrolls are back to where we were in January 2008

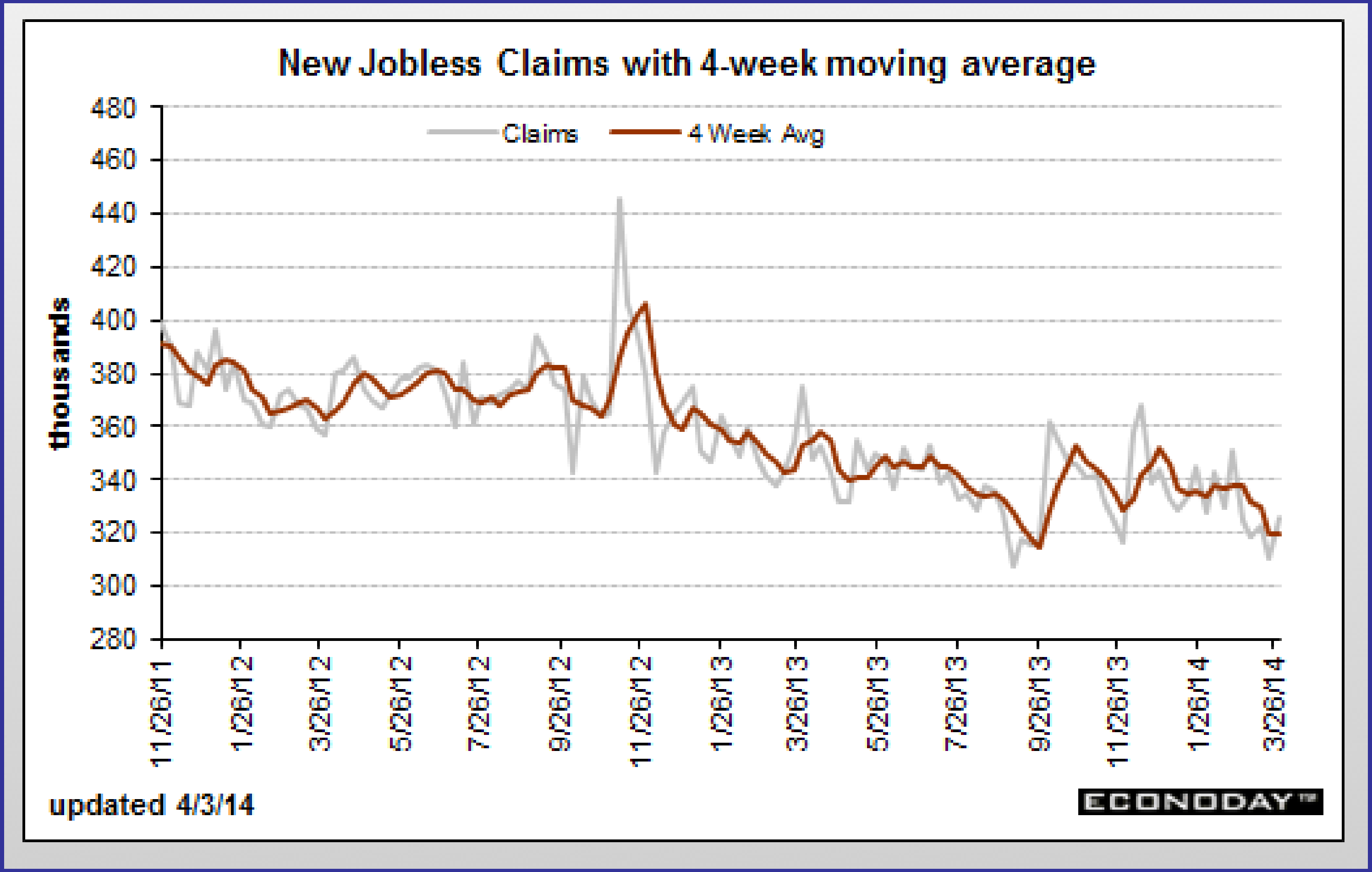
But, we need 7.2 million more jobs just to keep pace with population growth



Source: WSJ (http://online.wsj.com/news/articles/SB10001424052702303987004579481141339889068?mod=WSJ_hp_LEFTWhatsNewsCollection&mg=reno64-wsj)

Return TOC

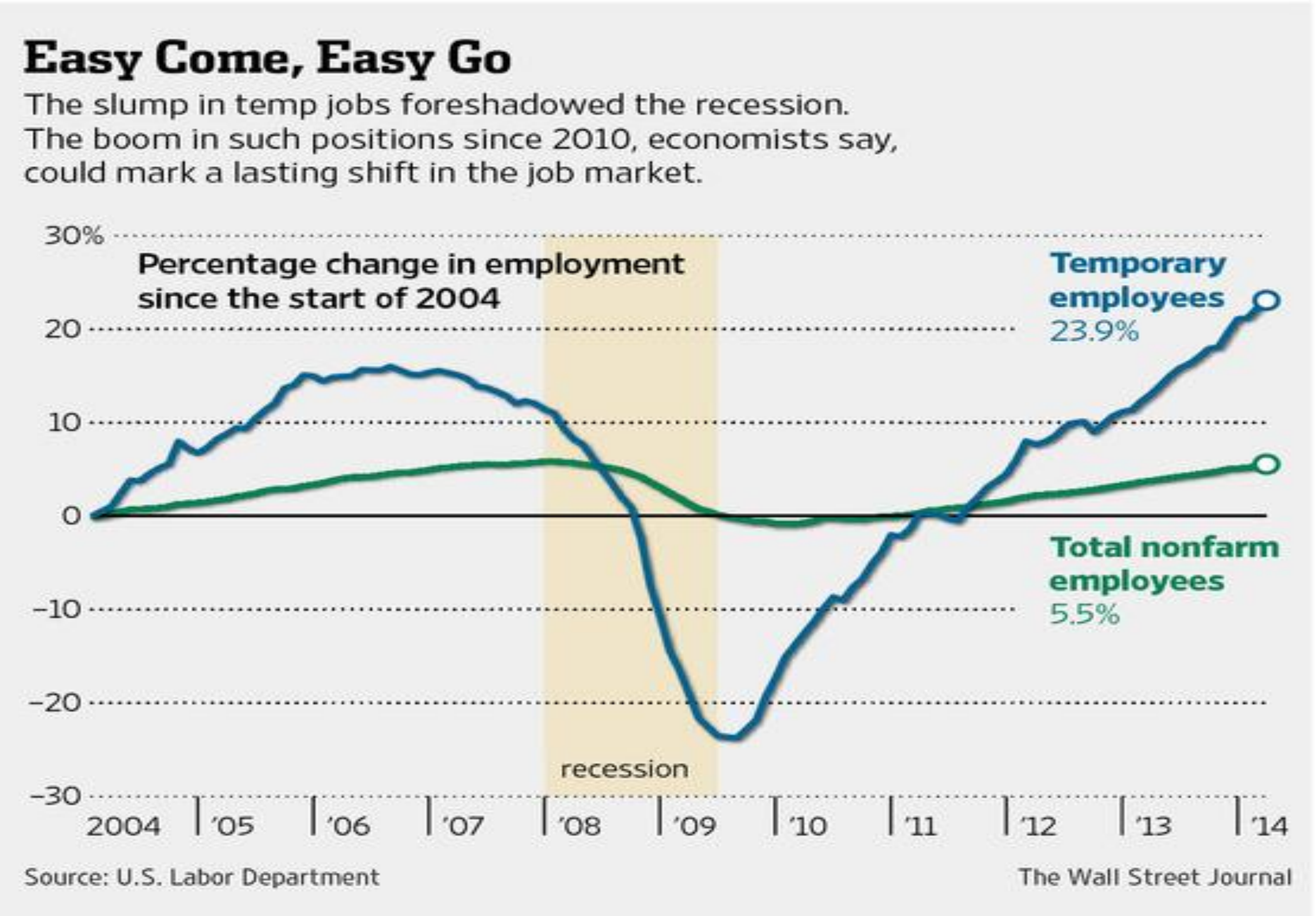
But, things are getting better



Source: WSJ (http://wallstcheatsheet.com/politics/5-charts-to-explain-labor-market-health.html/?a=viewall)

Return TOC

Temporary jobs keep increasing as firms cut expenses (D. Paletta/WSJ) – main reason income gain is weak



Source: WSJ (http://online.wsj.com/news/articles/SB10001424052702303910404579485303369082202?mg=reno64-wsj)

Return TOC

Other economic issues –

- The workforce is shrinking and
  labor force participation rate is lowest since WWII
  Main implication – there will be more labor shortages in the future

- Inflation not a problem yet - why? About 70% of inflationary price pressure comes from increasing wages. If you want to predict when inflation will become a problem, watch two metrics – wages and employment (http://www.bls.gov/news.release/pdf/empsit.pdf ; (http://www.bls.gov/data/)

- Going forward, unemployment will be a huge drag on the federal (and other government levels) budgets – implications for taxes, spending, domestic programs, and job creation

- Income growth (inflation adjusted) has been weak for two decades

- We need to invest more (infrastructure) and consume less - that will make us more competitive globally, and that will create more good paying jobs

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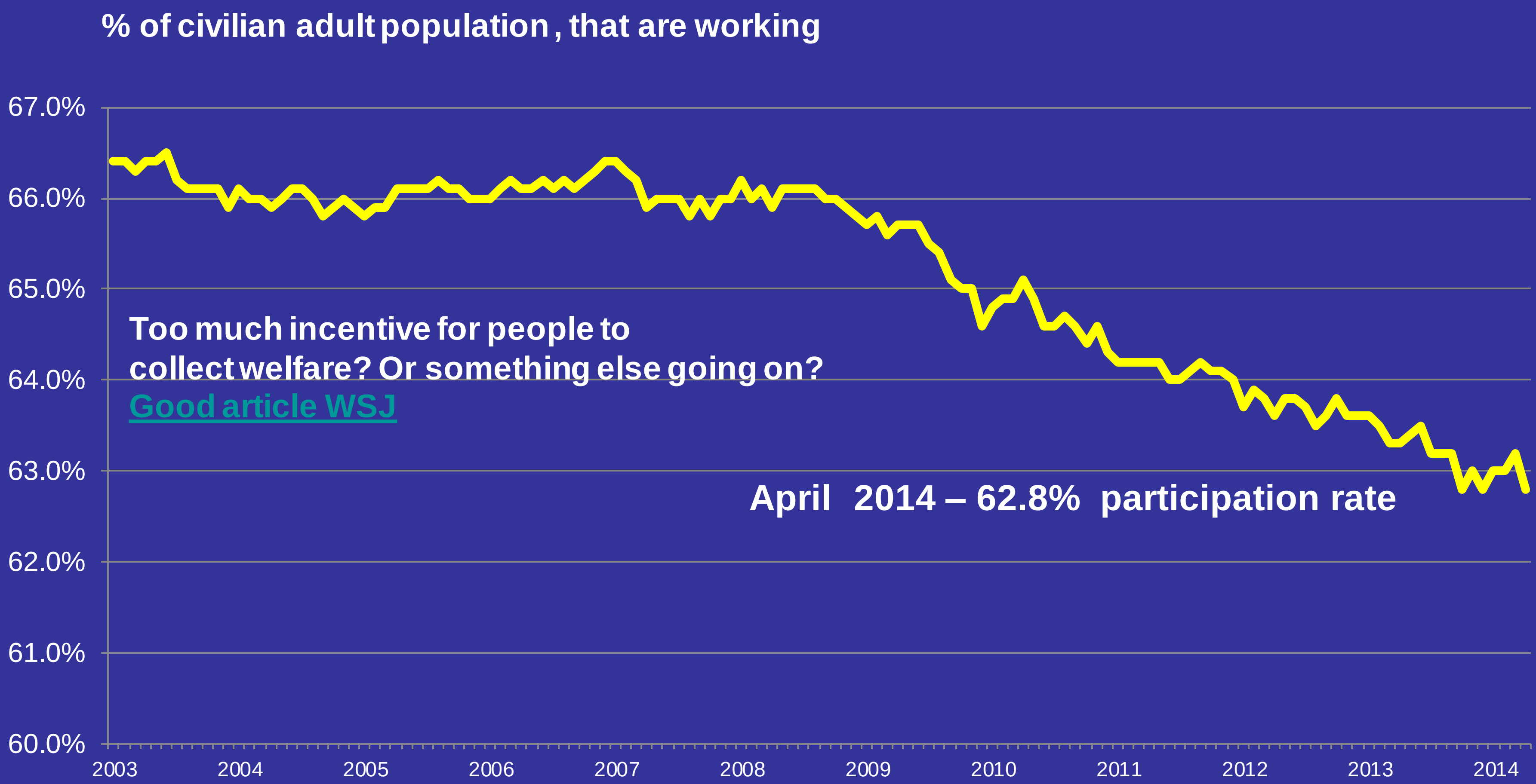
Labor force participation rate is shrinking –

Major problems for social programs with our aging population – fewer people paying taxes, but more people collecting SSI, Medicare, etc. Also, we will see more labor shortages in the future

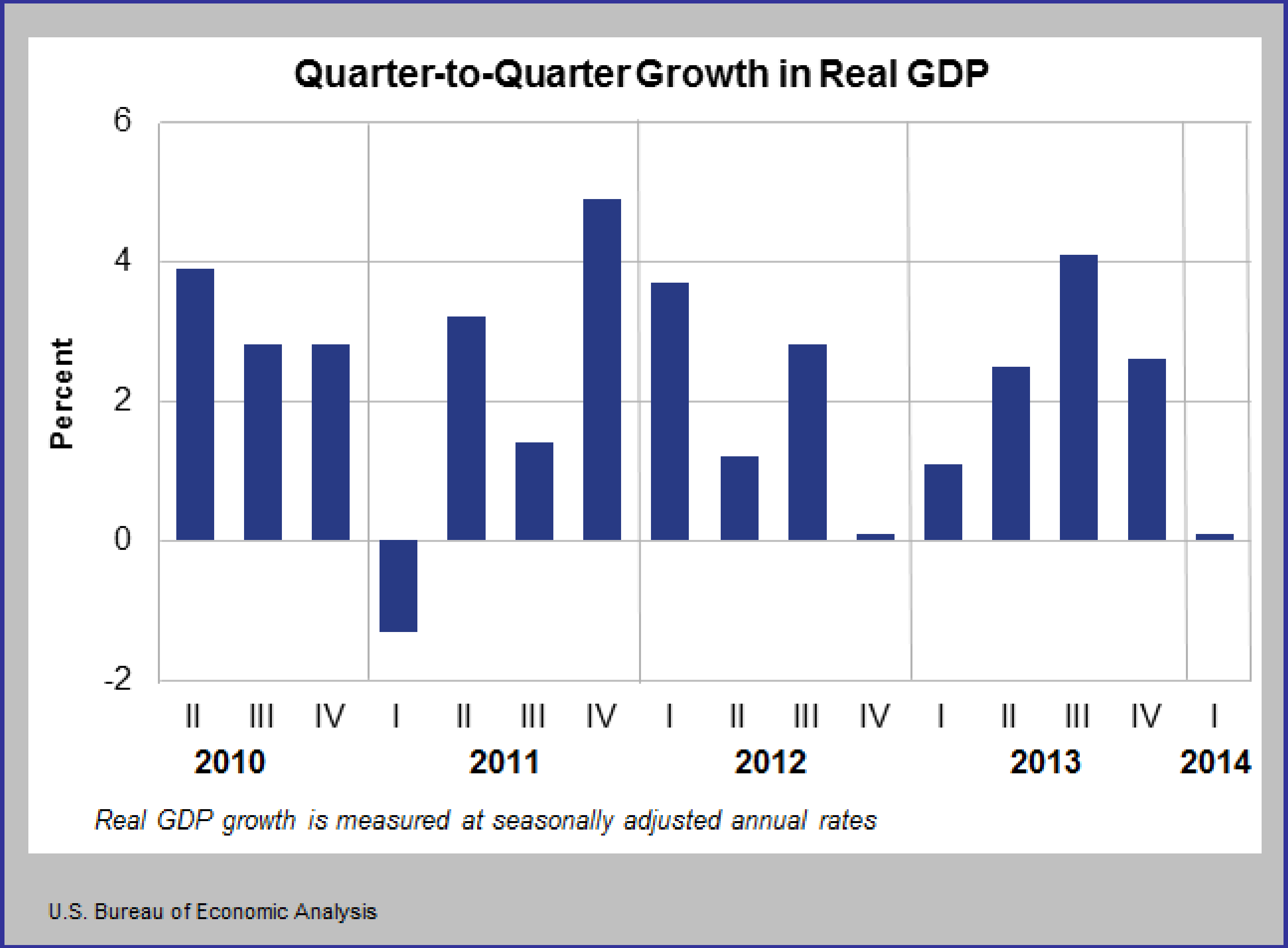


Source: BLS

Return TOC

Economic growth 0.1% - 1st qtr 2014 – weather related – but, weak considering we have had “free money” now for 5 years –

GDP grpwth for 2013 was 1.9% - nothing to write home about



NAR's latest Economic and Housing Outlook – 2015 is the year for housing to return to "normal"

	2014	2015
GDP	2.3%	2.9%
Housing starts(000)	1016	1433
Single	734	1013
Multi	363	420
Resales (000)	4976	5257

My comments:
2014 - - may be a bit optimistic
2015 - - but 2015 may be a bit too optimistic. For housing starts – may be closer to 1300.
Furthermore, for 2015, I would leave multi family(MF) at 35% – this would put MF at 455 and SF at 845
(later in this note you will see some rationale for higher multi family numbers)

Source: NAR (http://www.realtor.org/research-and-statistics)

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Some good news - - Tame Inflation for now - CPI

Source: Federal Reserve bank of St. Louis (http://research.stlouisfed.org/fred2/series/CPIAUCSL)

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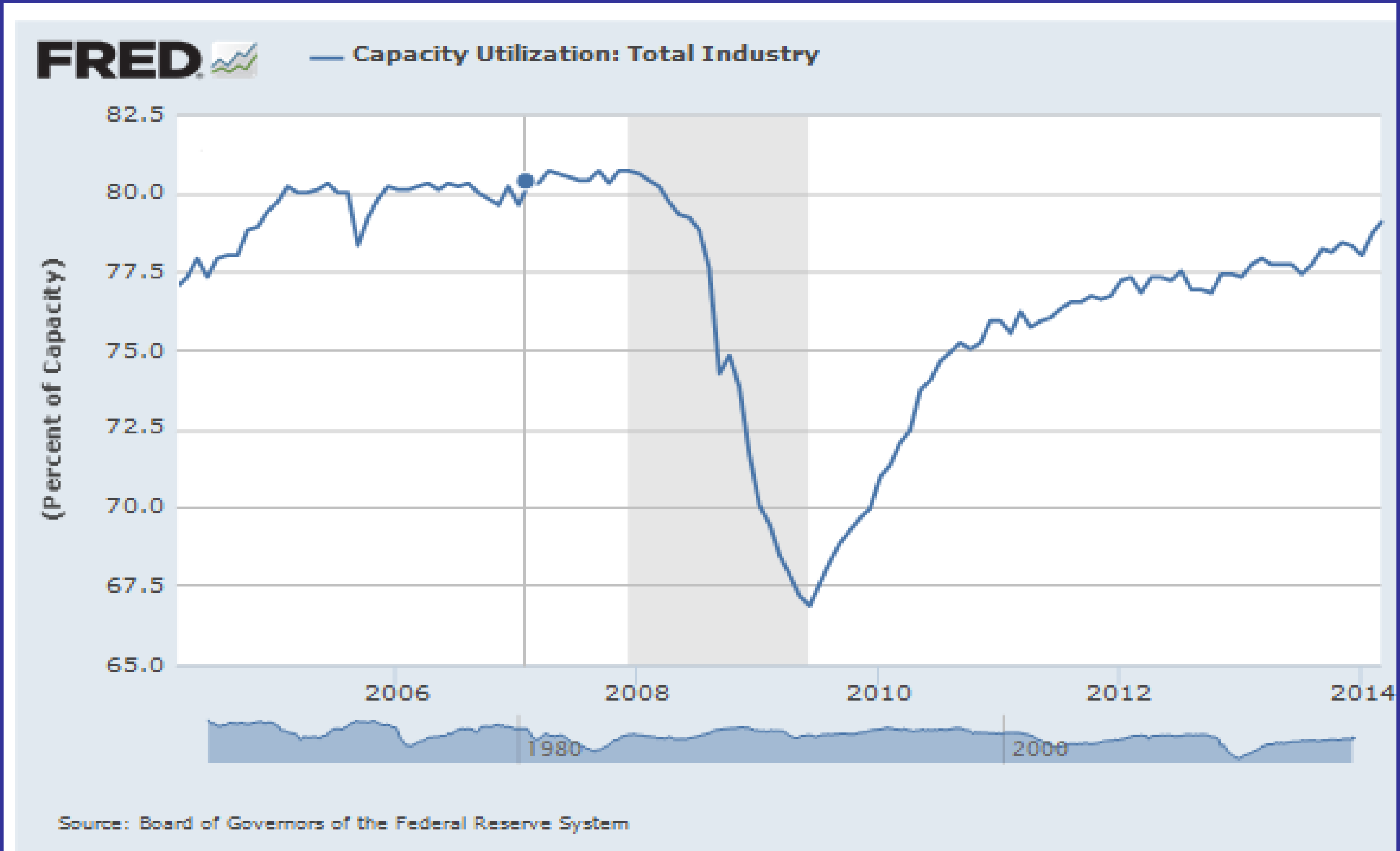
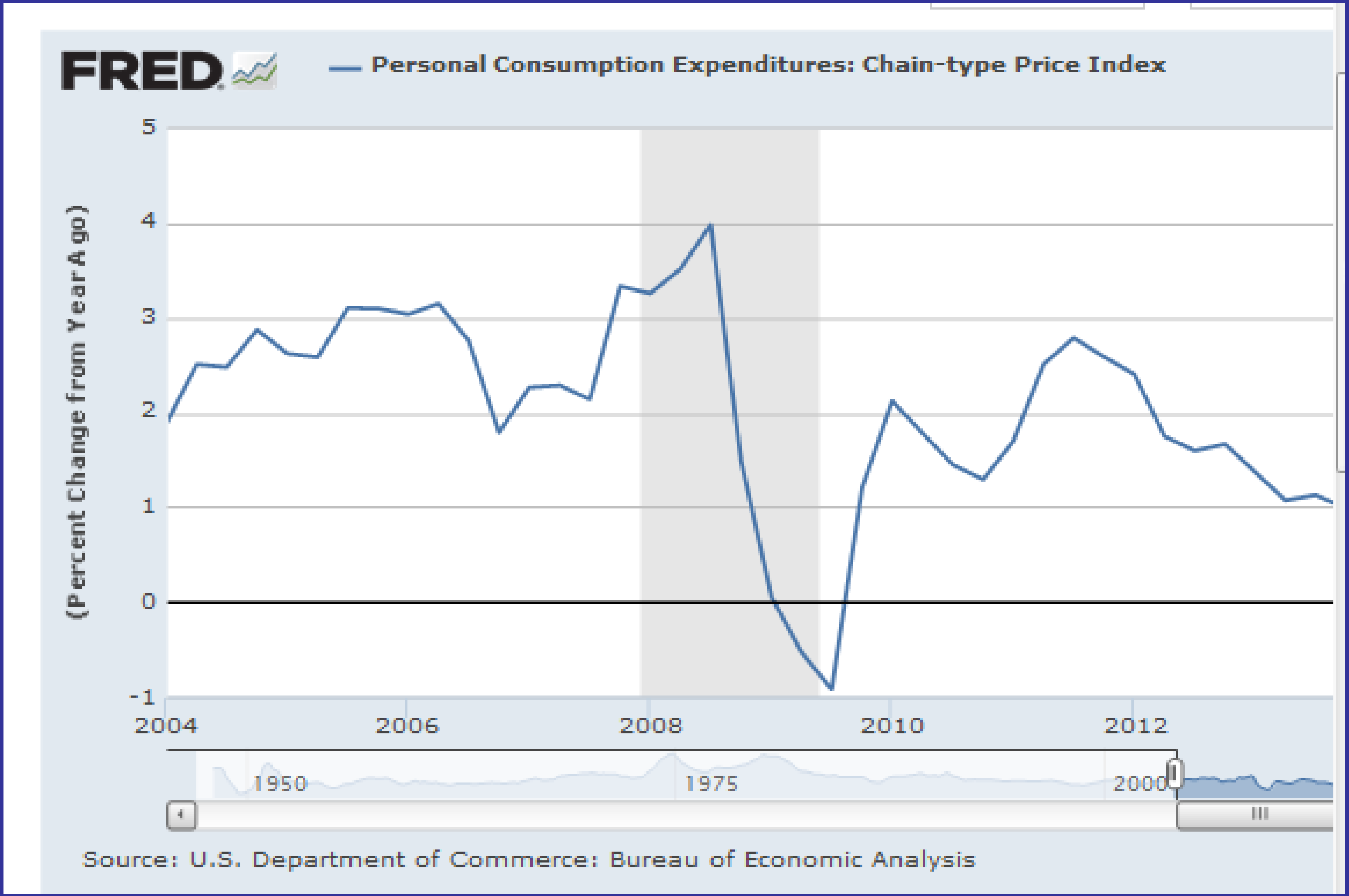
Capacity utilization has to exceed 80% before we will see
Any significant wage inflation pressure – as we approach 90%, then
We'll see some wage inflation as demand for labor increases - -



Return TOC

With weak job market - Employment Cost Index show little wage pressure – *results is low inflation*



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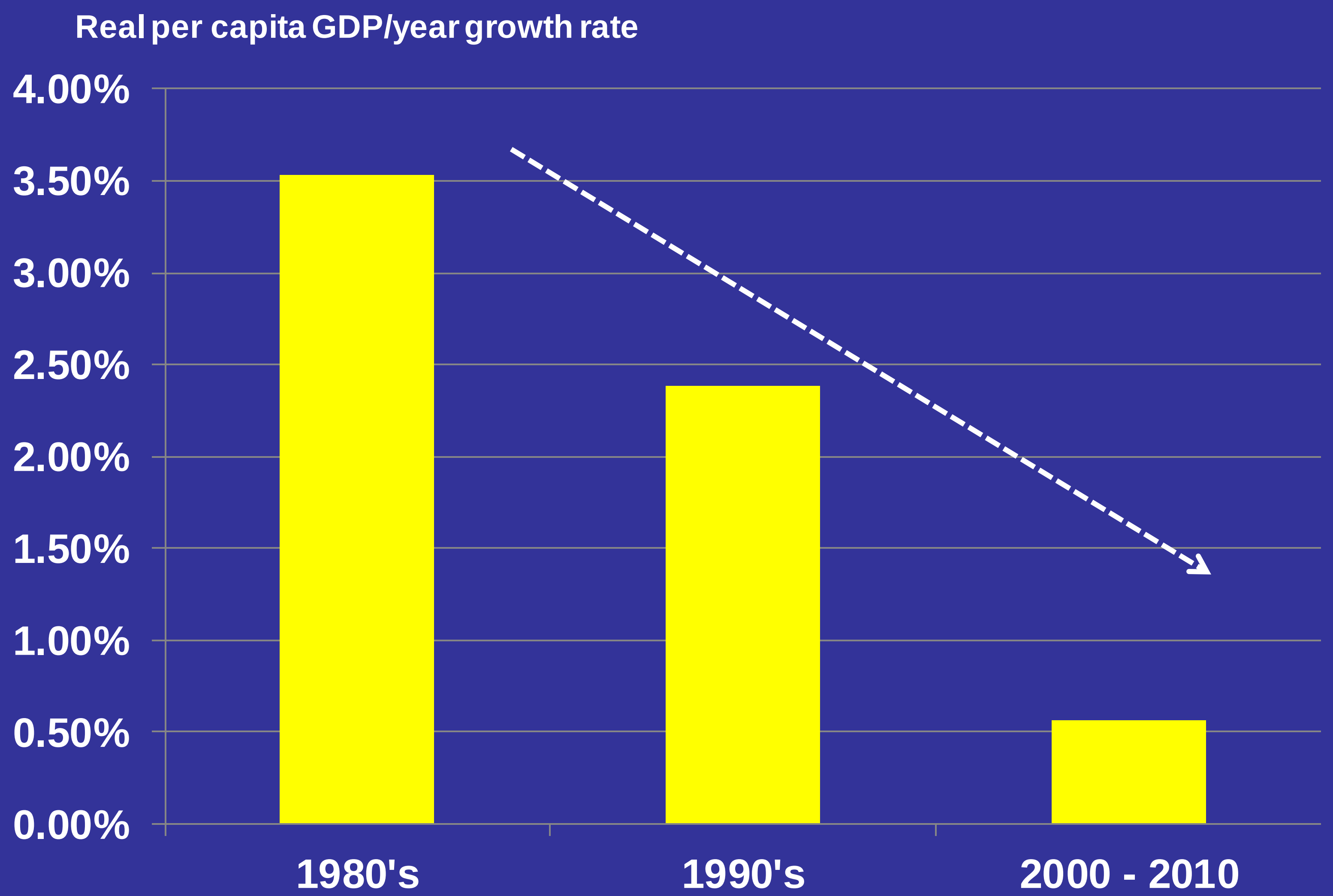
GDP per capita – rate of growth per decade

We over consume – borrow to spend what we don't earn
So, we accumulate debt – consequently, we don't invest enough for our future

Result – weaker economy – this is a "no brainer"



Source: BEA (http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm)

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U.S. Economy 2000 – 2010

this type of economy not sustainable – insufficient investment in infrastructure, R&D, education makes us less competitive and this leads to reduced standard of *living and less housing demand*

Government spending 19%

less of this

Net Exports (- 4.6)% - if we invest more and consume less, this figure will improve

Non residential investment

11% - *we need more of this*

Consumer spending 70% (consumption of goods & services by/for the consumer) – *less of this too*

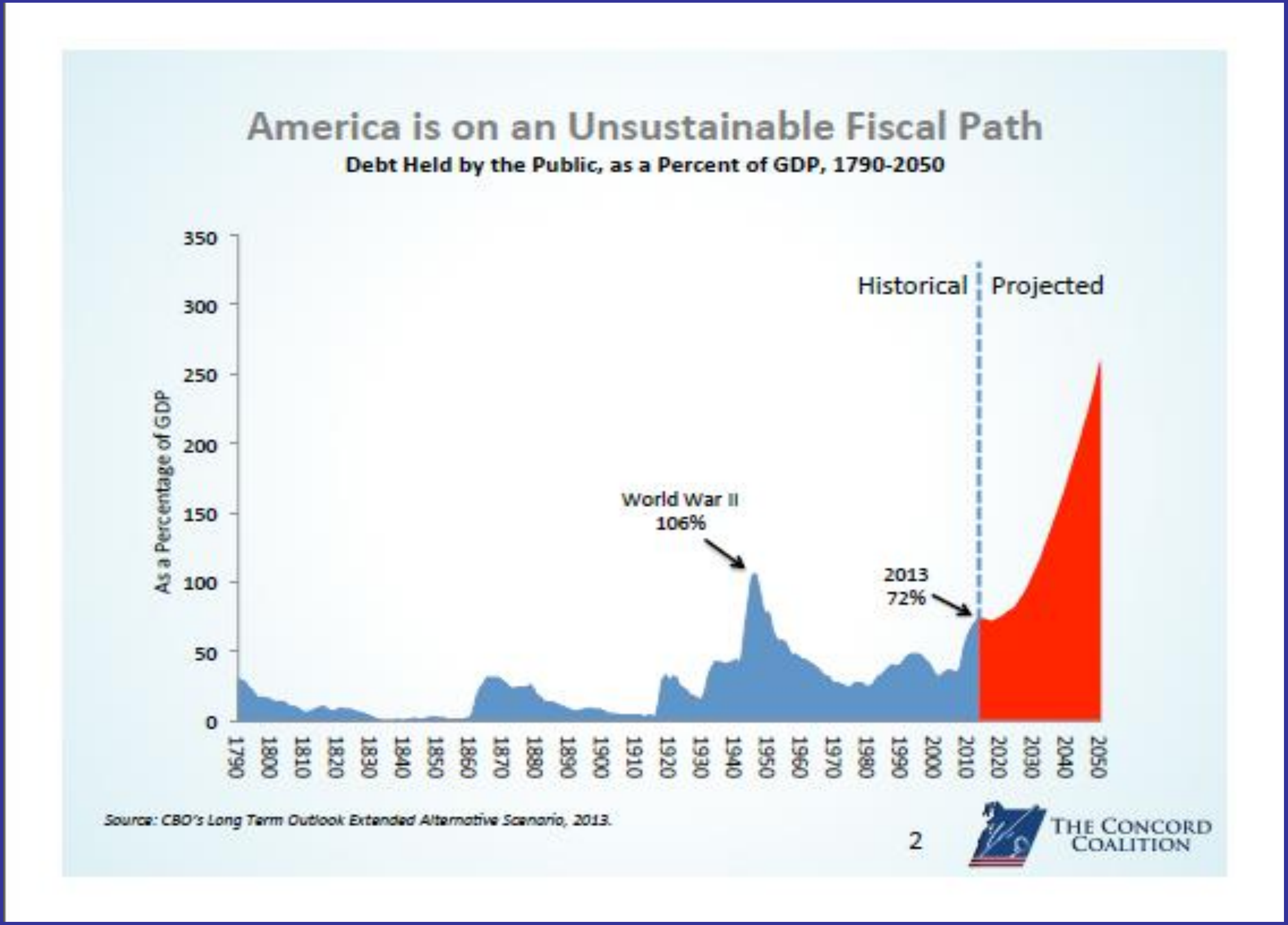
Residential Investment (new construction plus R&A/remodeling) 5.3%

This will improve if we "get our act together"

Source: BEA (http://bea.gov/national/nipaweb)

Return TOC

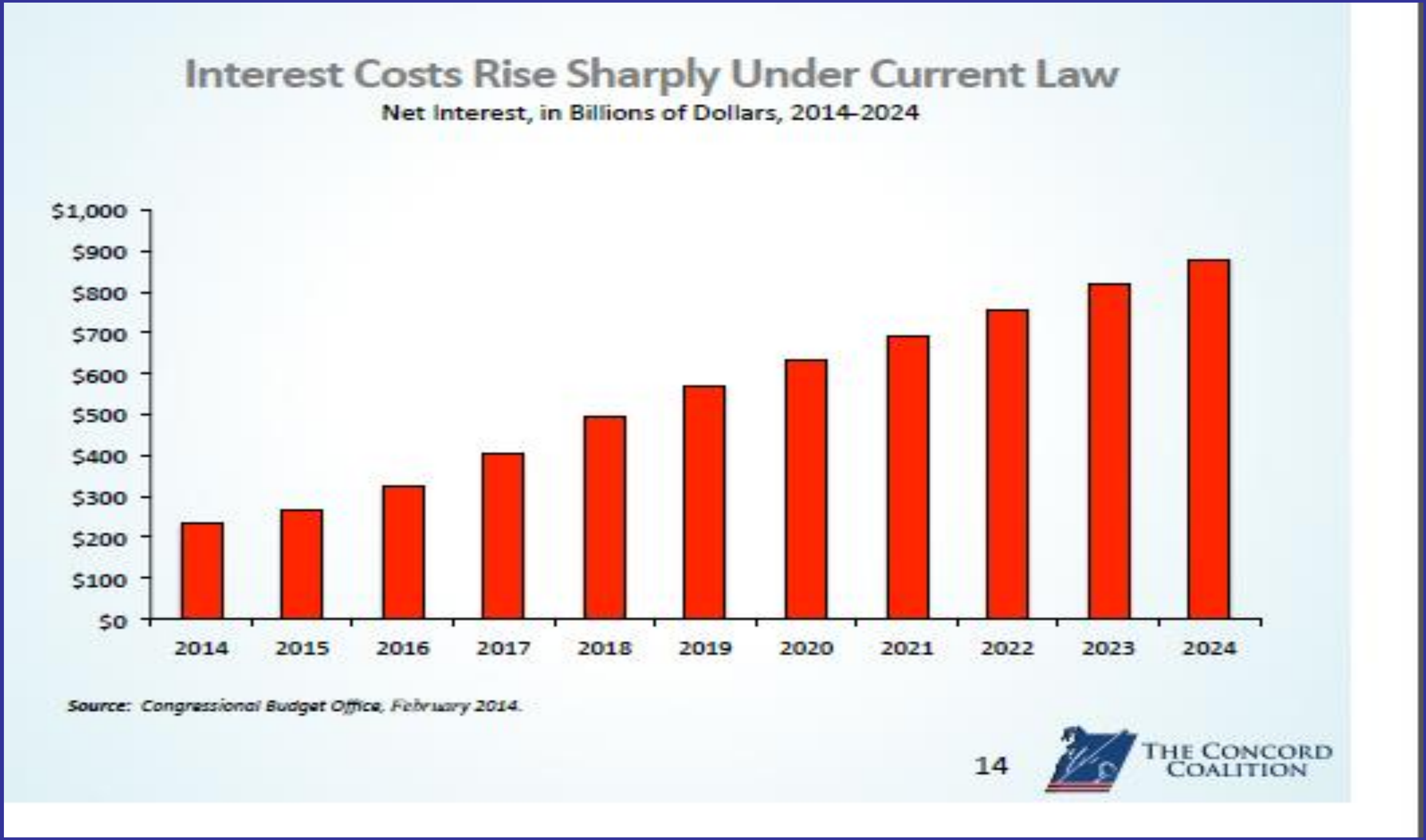
I understand the arguments for government "pump priming" – the problem is that once the economy improves, the government spending/"pump priming" continues



Source: (http://www.concordcoalition.org/files/uploaded_for_nodes/docs/concord_web_charts_february2014.pdf)

Return TOC

Problem with interest cost is that you're paying for something you already Consumed/spent. That's OK when we go into debt when investing in our Future - -
Infrastructure (highways, airports, telecommunications); R&D; education;
…. I.e., invest to improve future competitiveness - much like you investing in your education. You go into debt, but your future earnings are higher (in most cases).
Unfortunately, today, the U.S. is incurring debt to facilitate consumption – it won't make us more competitive, and it's going to be very difficult to pay interest plus keep the economy moving forward



Source: (http://www.concordcoalition.org/files/uploaded_for_nodes/docs/concord_web_charts_february2014.pdf)

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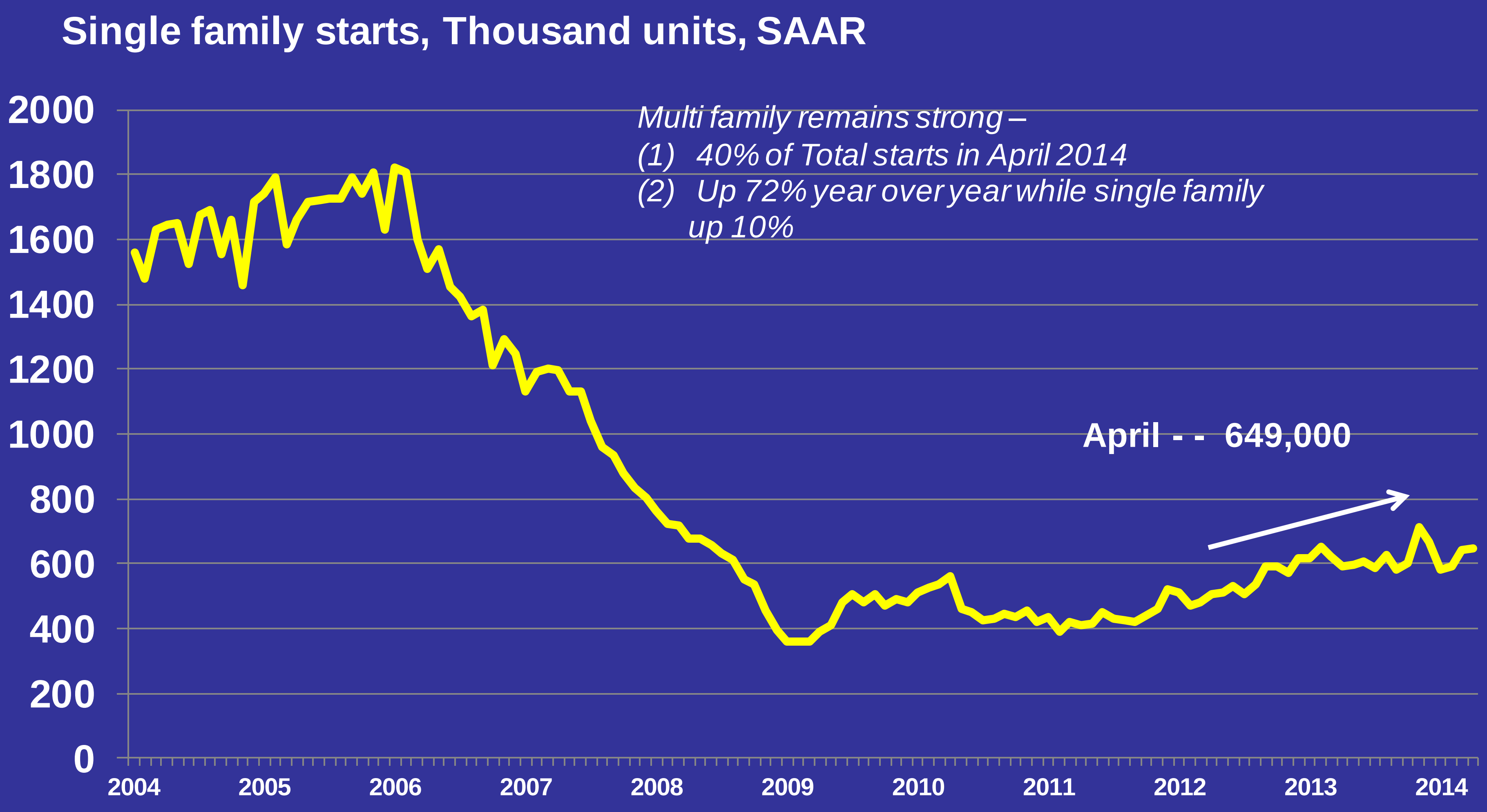
Recent Housing statistics

Background:

Markets are getting better –
Have we turned the corner? – Probably, but the climb back will remain muted until we see economic growth of 3% or more for an extended period of time!!!

Return TOC

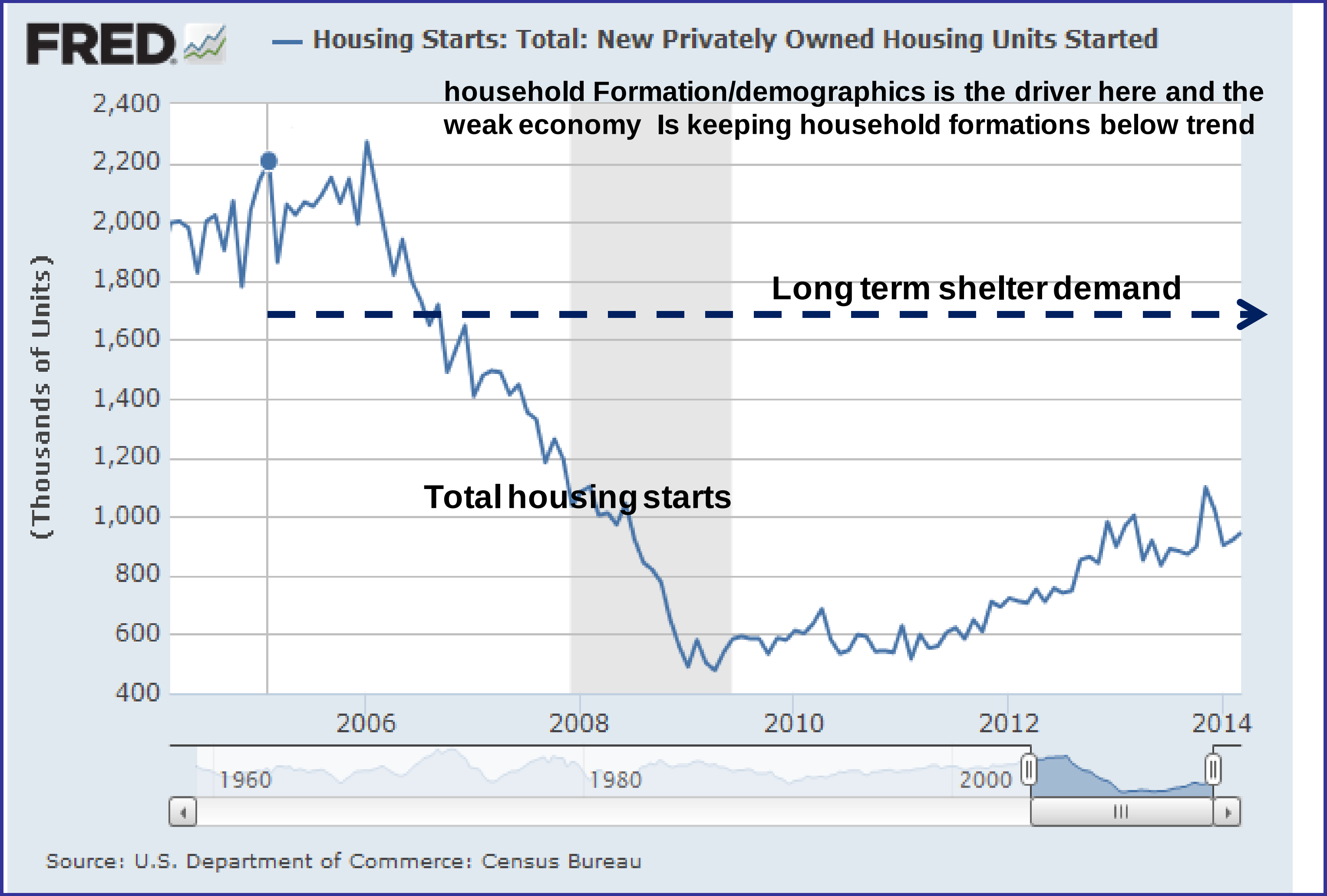
Starts are finally turning the corner, but growth is elusive



Source: Census (http://www.census.gov/const/www/newresconstindex.html)

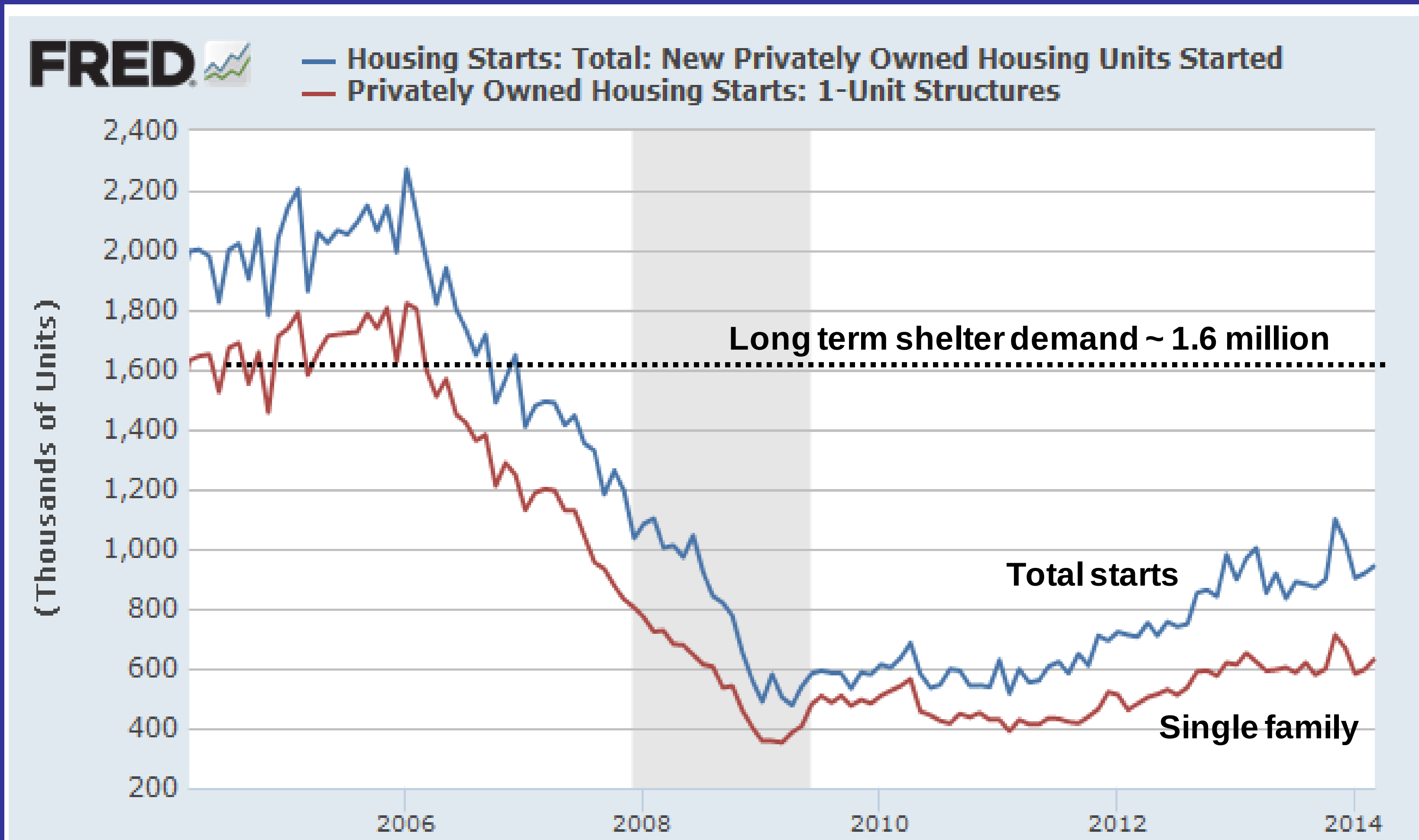
Return TOC

Long term shelter demand is estimated to be about 1.6 million annually
Based on demographics (65%), replacement demand(25%), and speculative demand including 2nd homes(10%).
(to date, the main drivers have been speculators/investors and people paying cash: E.g., in 1st qtr investors were 17% of existing home sales while cash sales were 43% of total purchases)



Source: Federal reserve bank of st.louis (https://research.stlouisfed.org/fred2/categories/32302)

Single Family starts become smaller share of total – new trend or temporary change?

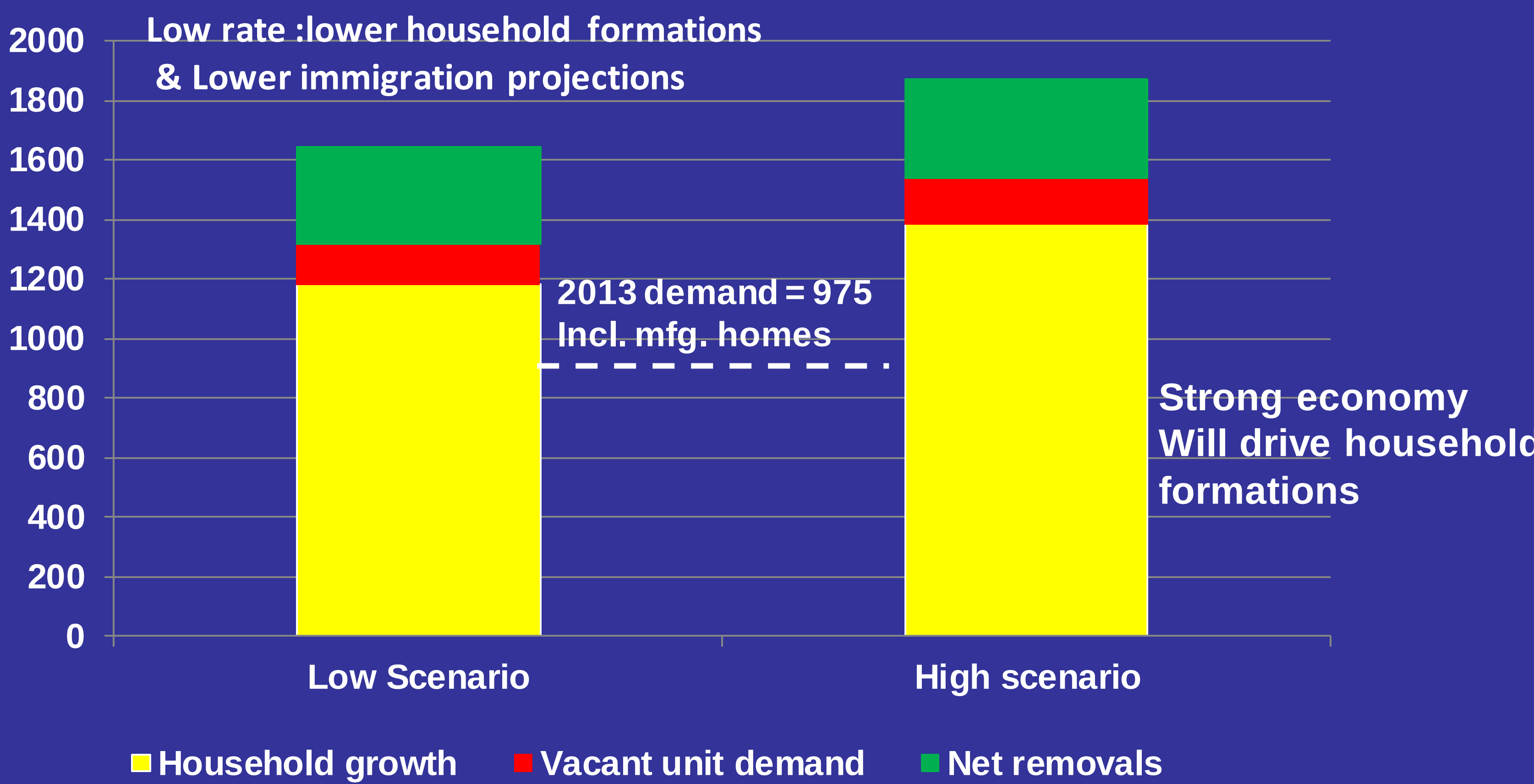


Return TOC

Harvard* Housing Demand Forecasts
2010 – 2020 (latest - September 2010)

Vacancy demand – 2nd homes, speculative building
Removals – net loss from existing inventory of housing stock

Annual rate (000)



Source: HJCHS, W10-9 , amended (http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/w10-9_masnick_mccue_belsky.pdf)

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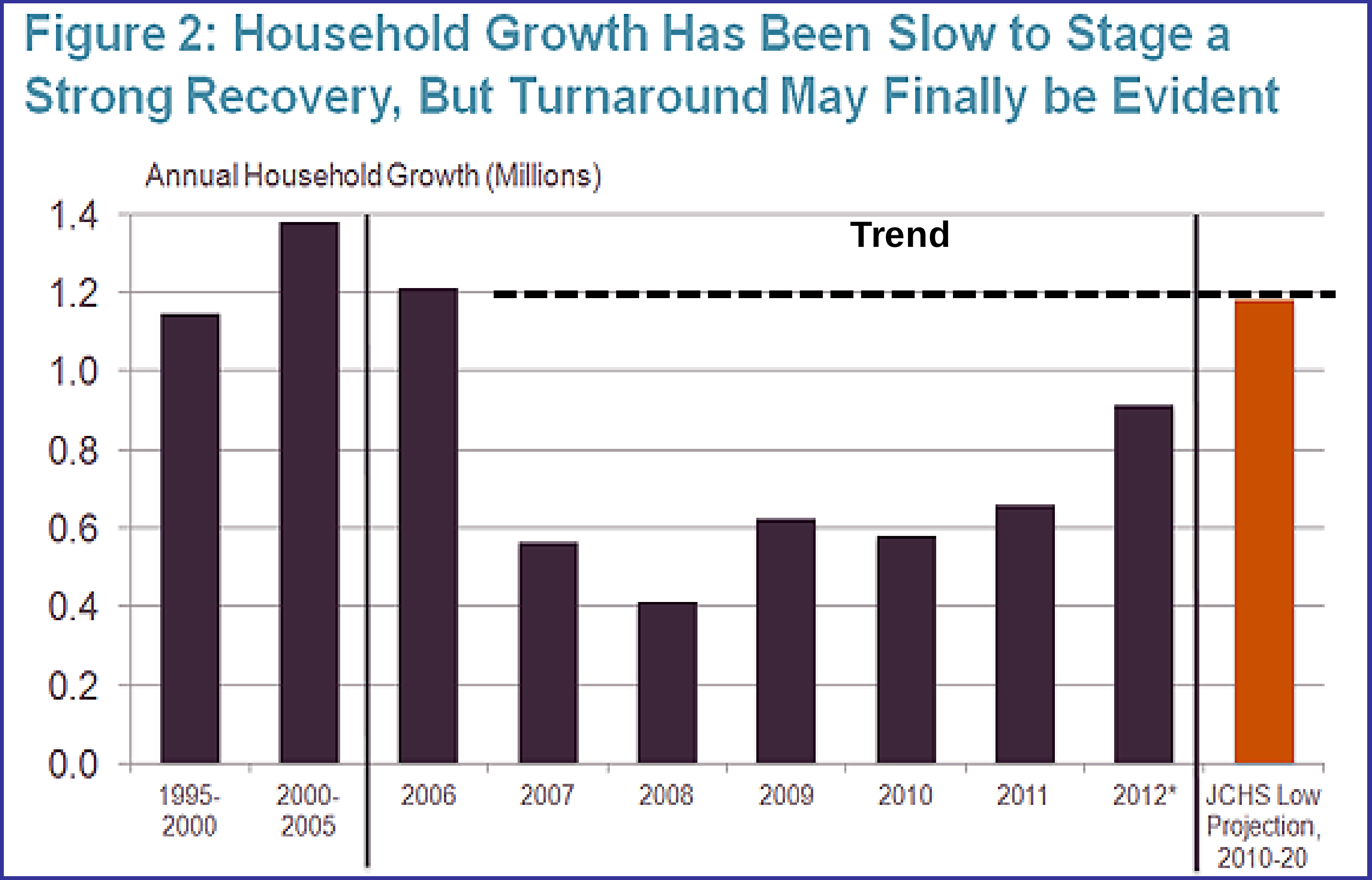
Recent Harvard study has household formations returning to trend Of 1.2 million annually once the economy improves. During 2007 – 2012, the economy forced many young people to return home while many postponed getting married; - - key reasons why HH formations fell dramatically



Source: HJCHS (http://housingperspectives.blogspot.com/2012/11/the-resurrection-of-household-growth.html)

Return TOC

Estimate from Trulia on number of households that were not formed Annually During 2008 – 2013 due to the economy – this suggests that when the Economy picks up, this “pent up demand” will help drive demand for Housing!!

Year	# of “missing” households(annually), millions
2008	0.9
2009	1.8
2010	2.6
2011	2.6
2012	2.3
2013	2.4

Note: estimate takes into account changes in the age distribution of the population. See note at end of post.

Source: Trulia (http://www.trulia.com/trends/2013/07/kids-arent-moving-out-yet/)

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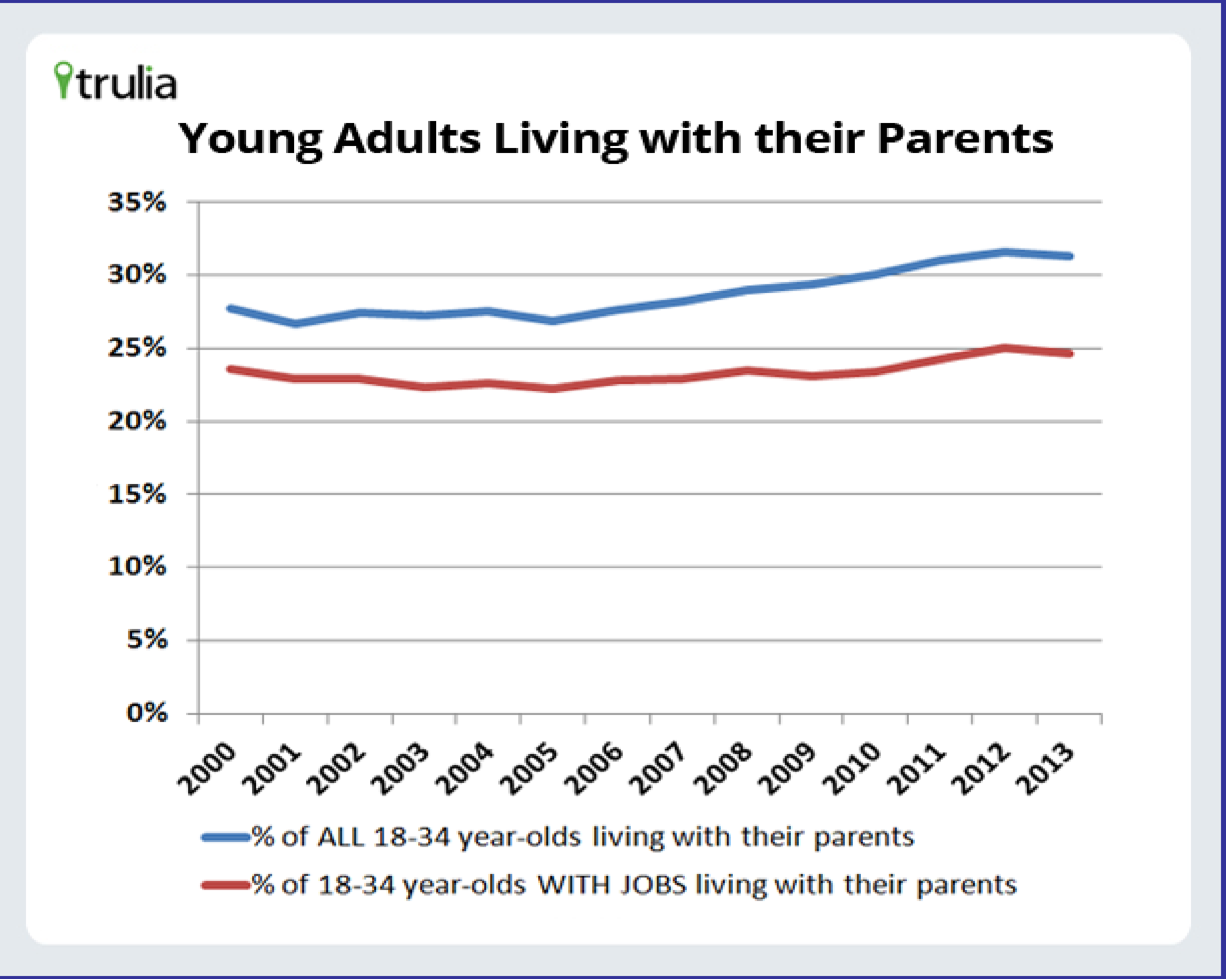
Key reason why household formations are weak

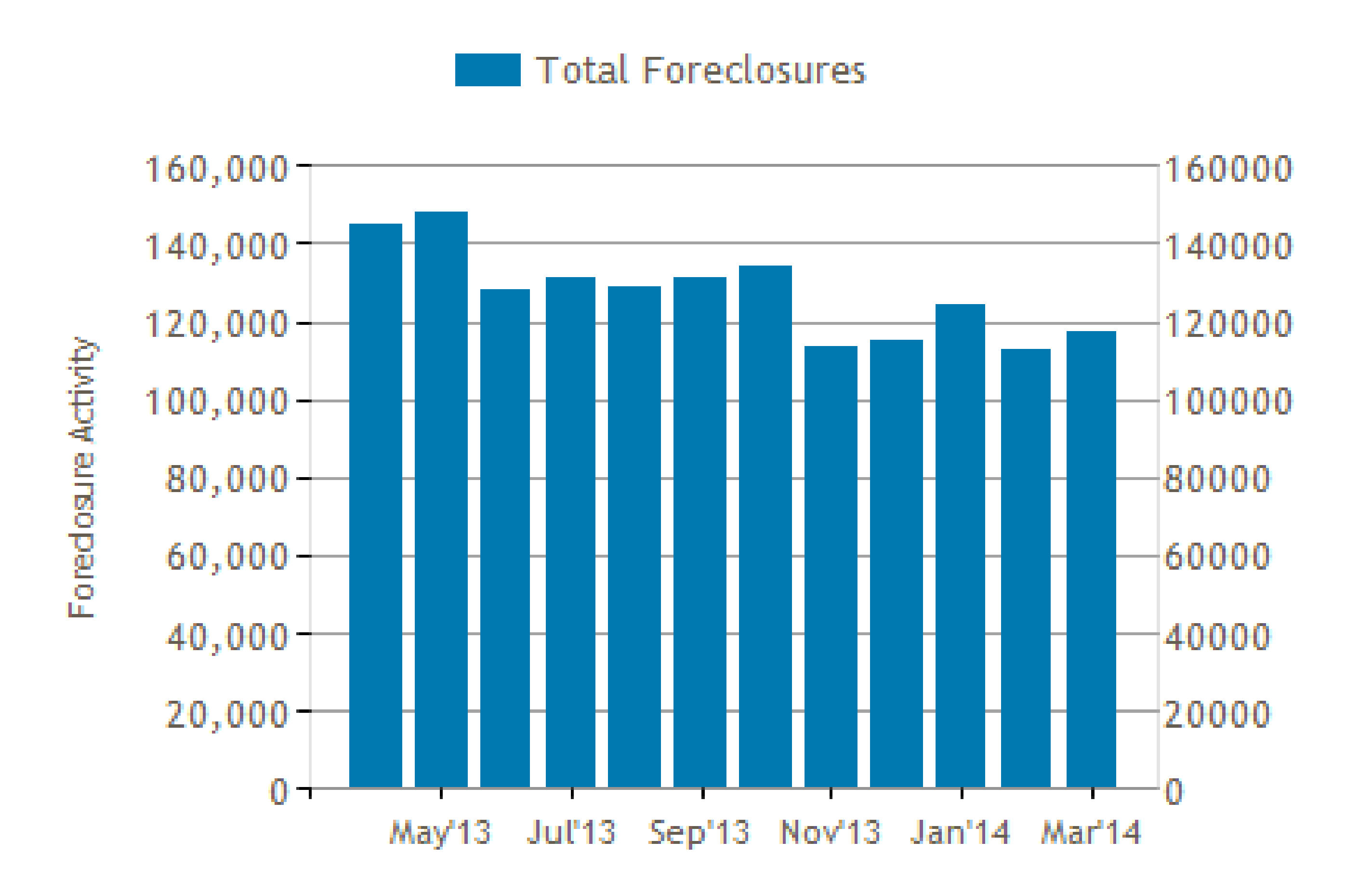
Many young people can't find jobs *(these are your 1st time buyers and they hold the key to any housing recovery)*



Source: Trulia (http://www.trulia.com/trends/2013/07/kids-arent-moving-out-yet/)

Foreclosures coming down, but they are still high

Peaked at 12.8 million (29% of mortgages) in 2nd qtr 2012 – today (1st qtr 2014), at 9.1 million (17%) (at least 25% underwater). Many of these people are reluctant to list their homes and this contributes to the low supply of homes on the market.



Source: RealtyTrac (http://www.realtytrac.com/statsandtrends/foreclosuretrends)

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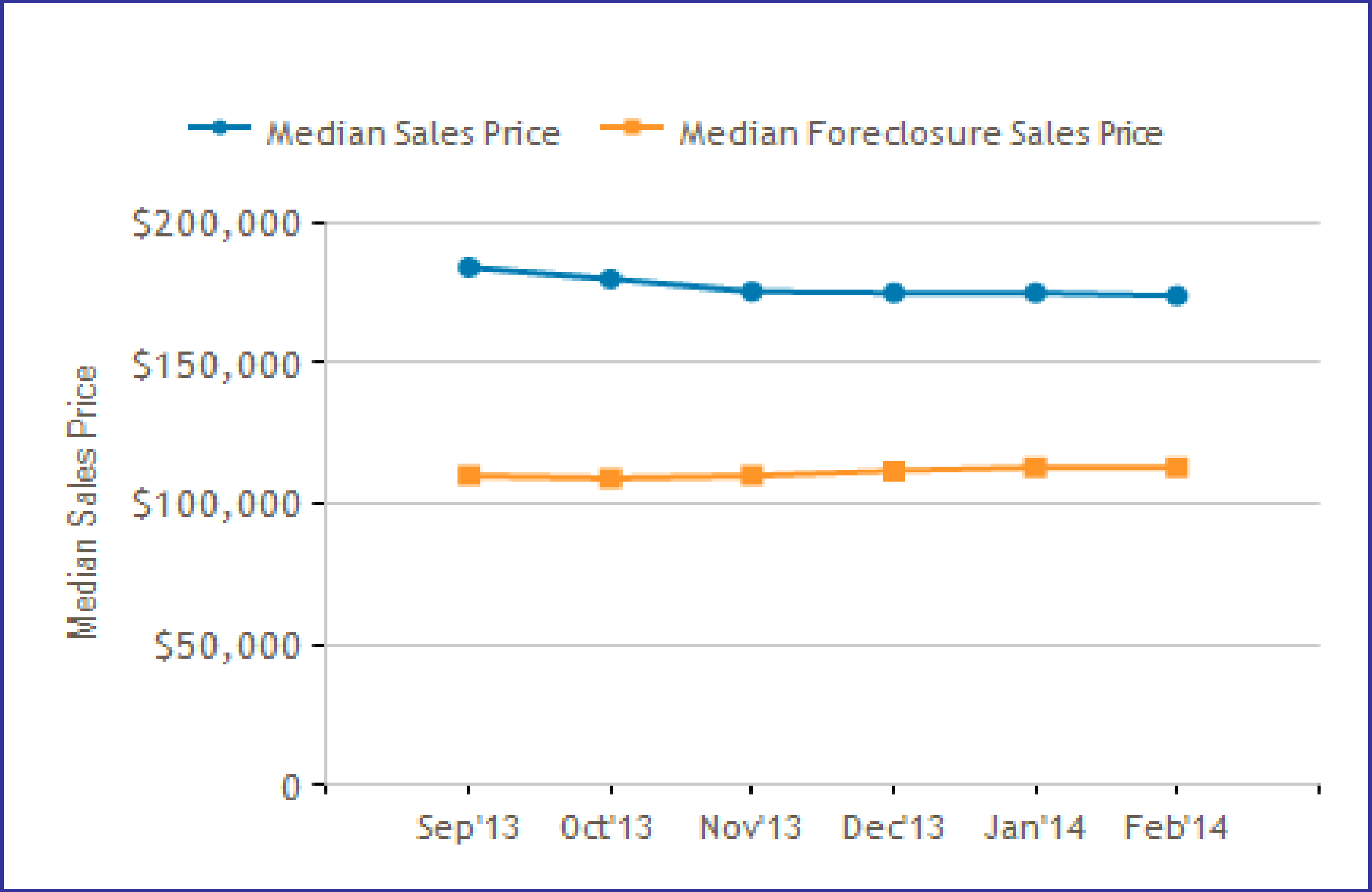
Foreclosures sell for deep discount
$61,000 or 35% in February 2014



RealtyTrac (http://www.realtytrac.com/statsandtrends)

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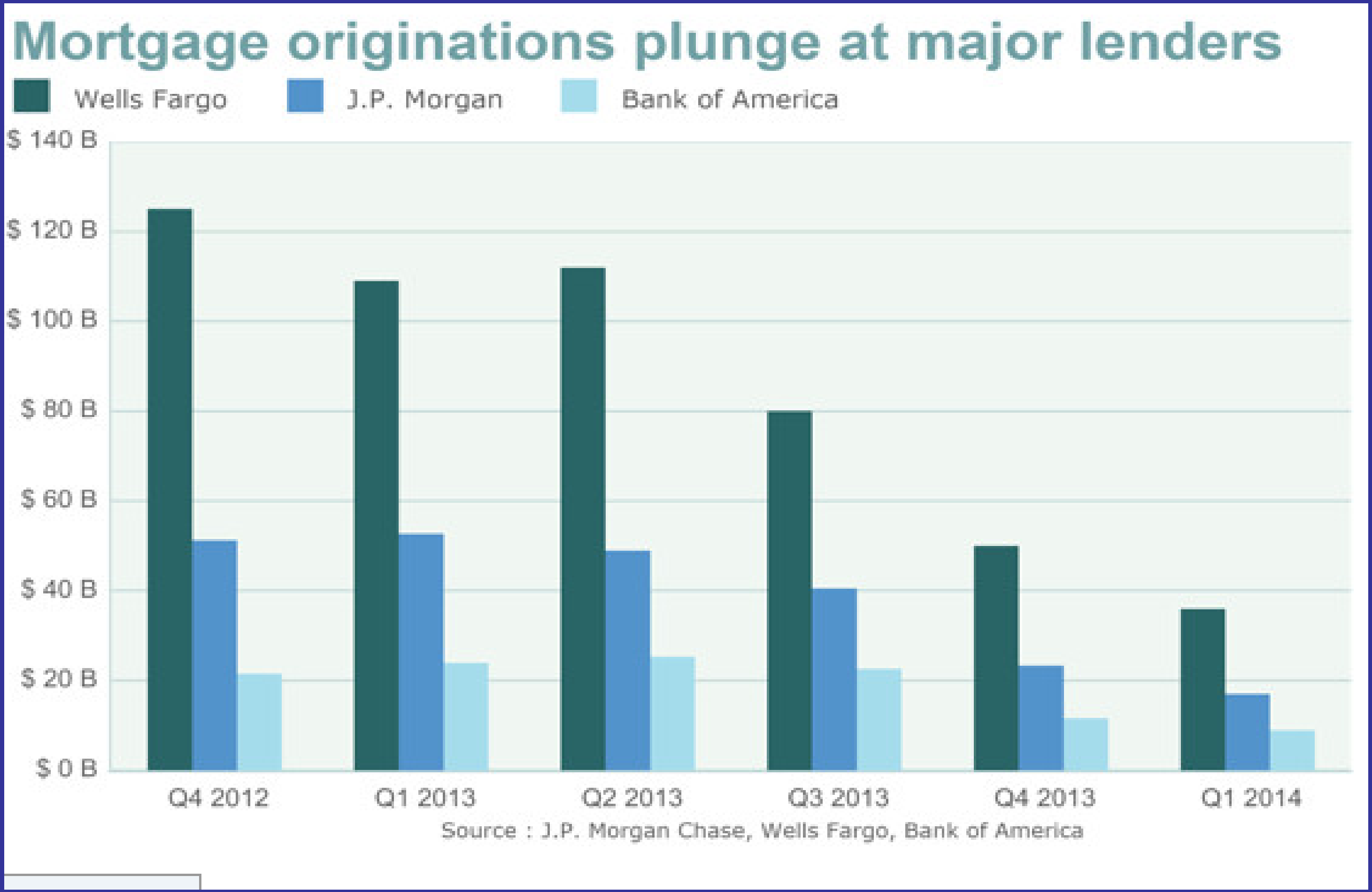
Another indication that demand for homes may continue to remain weak???

Major problem for 1st time buyers are tougher credit requirements -
And many have significant student loan debts – historically, they are 40 – 45%
Of the market, but today, they are <35%



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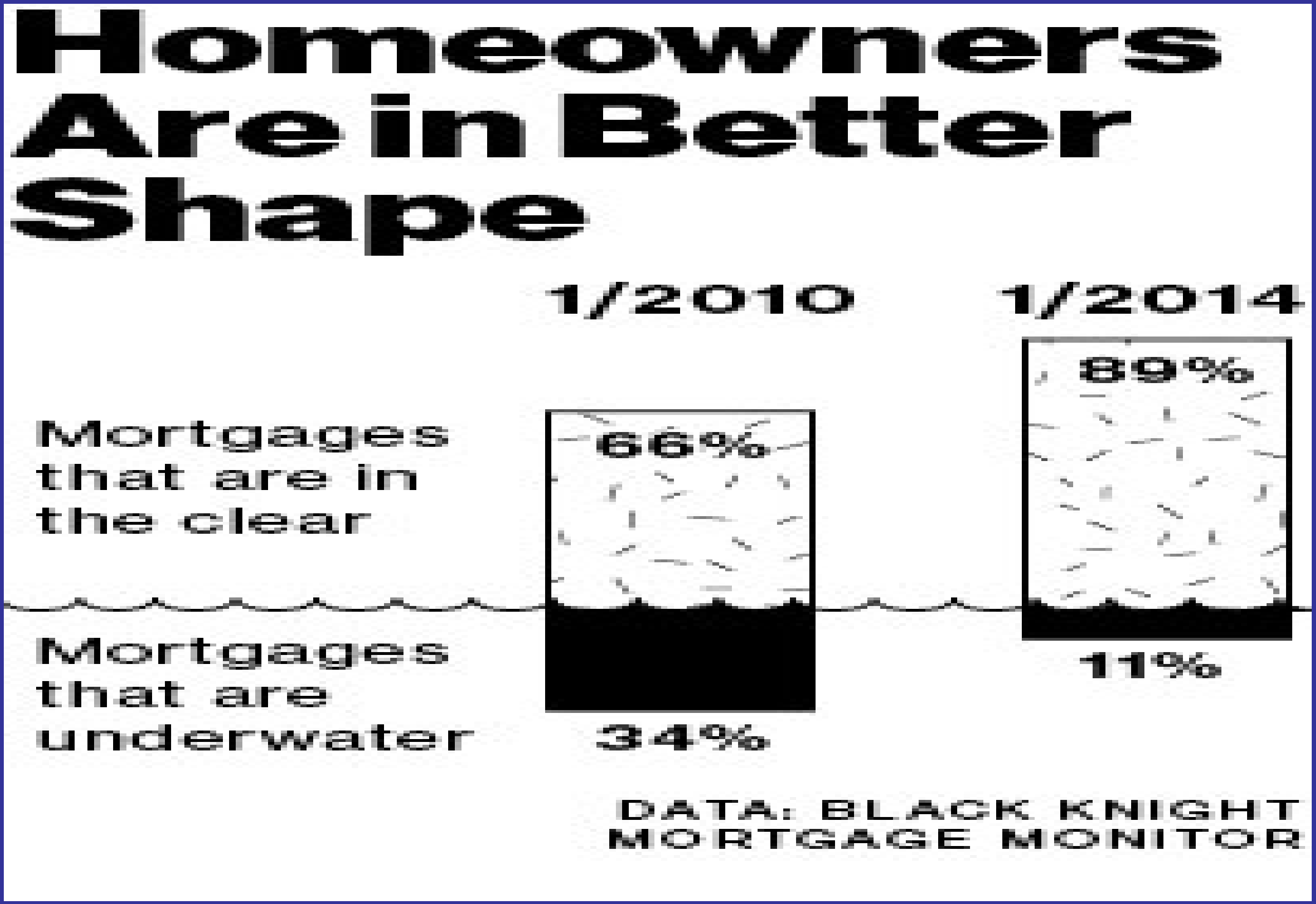
Some Good news – will encourage more people to list their homes - - move to better job prospects – upgrade - …..



Business Week (http://www.businessweek.com/articles/2014-05-05/americas-underwater-homeowners-are-afloat-once-again#r=hpt-ls)

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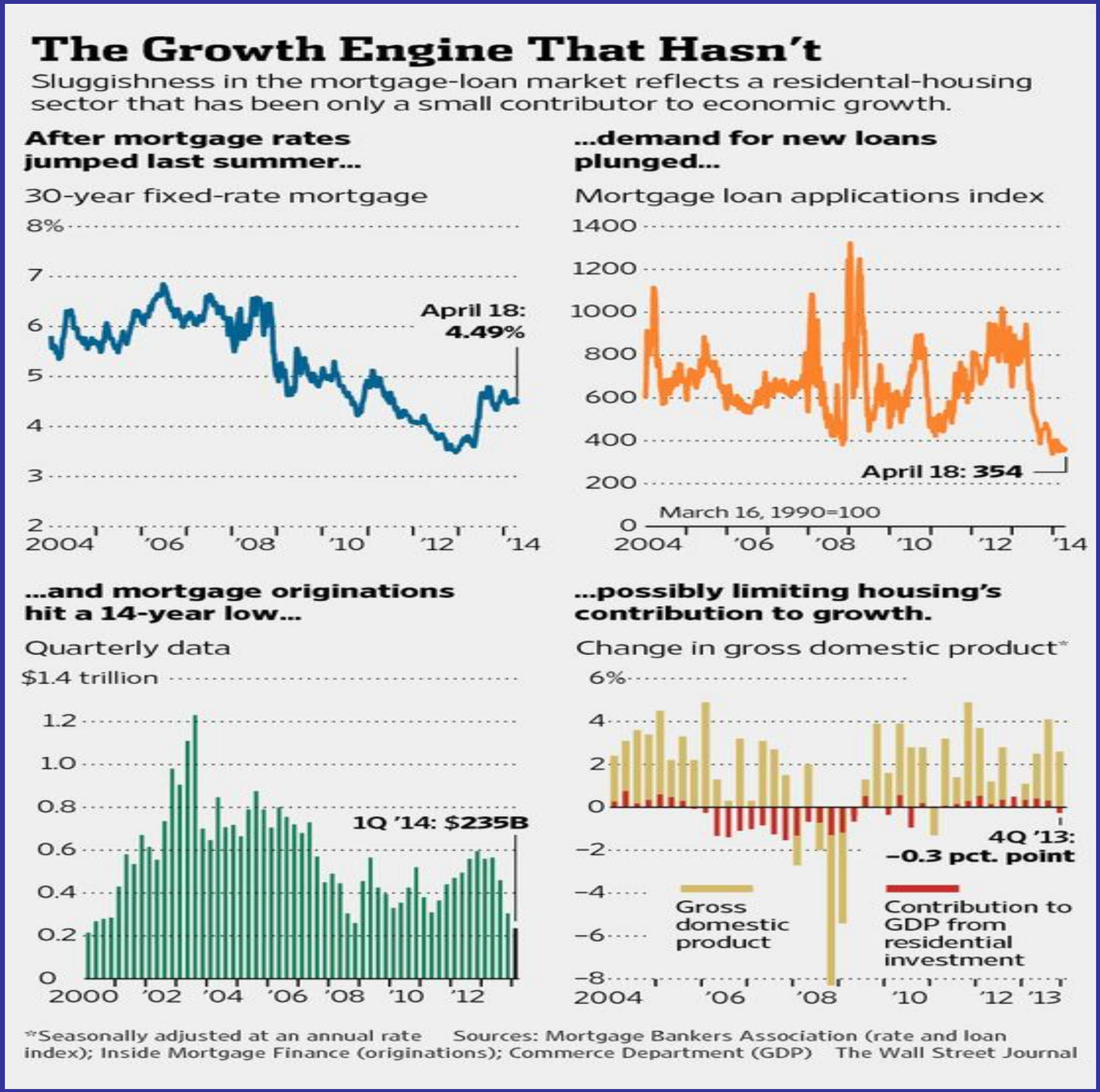
Today’s housing market still skewed to cash buyers and investor purchases.
Cash buyers are 33% of total sales, double the historical rate while investor purchases are 17% of total existing home sales. As recent TD economics article suggests, as Interest rates increase, investor purchases will decline and traditional buyers will have to Return for housing to get back on its feet.



1st qtr 2014
cash sales = 43%
Realty Trac

(http://www.marketwatch.com/story/43-of-2014-home-buyers-paid-all-cash-2014-05-08?siteid=yhoof2)

Source: WSJ (http://online.wsj.com/news/articles/SB10001424052702304788404579522051733228402?mod=WSJ_hp_LEFTWhatsNewsCollection&mg=reno64-wsj)

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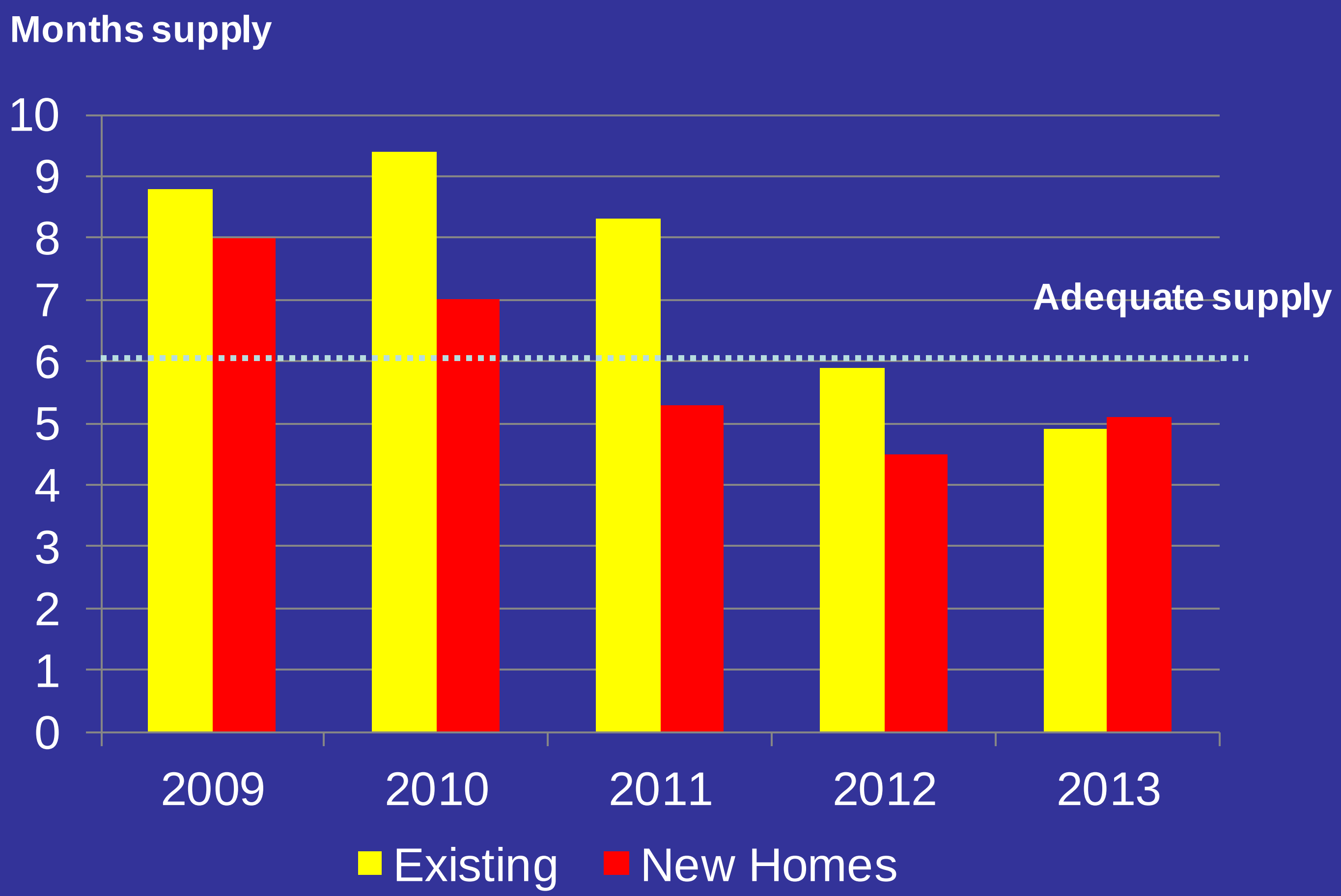
OK – you're reading about bidding wars in some locations and you think housing is starting to overheat??? Don't believe it! (OK – some markets, but Not the general housing market).

Historically, 6 months is the metric we use to determine adequate supply.
Low supply is key reason we are seeing "bidding wars" in some locations.
Unfortunately, it is not demand for housing by typical buyers



Source" NAHB (http://www.nahb.org/fileUpload_details.aspx?contentID=55761)

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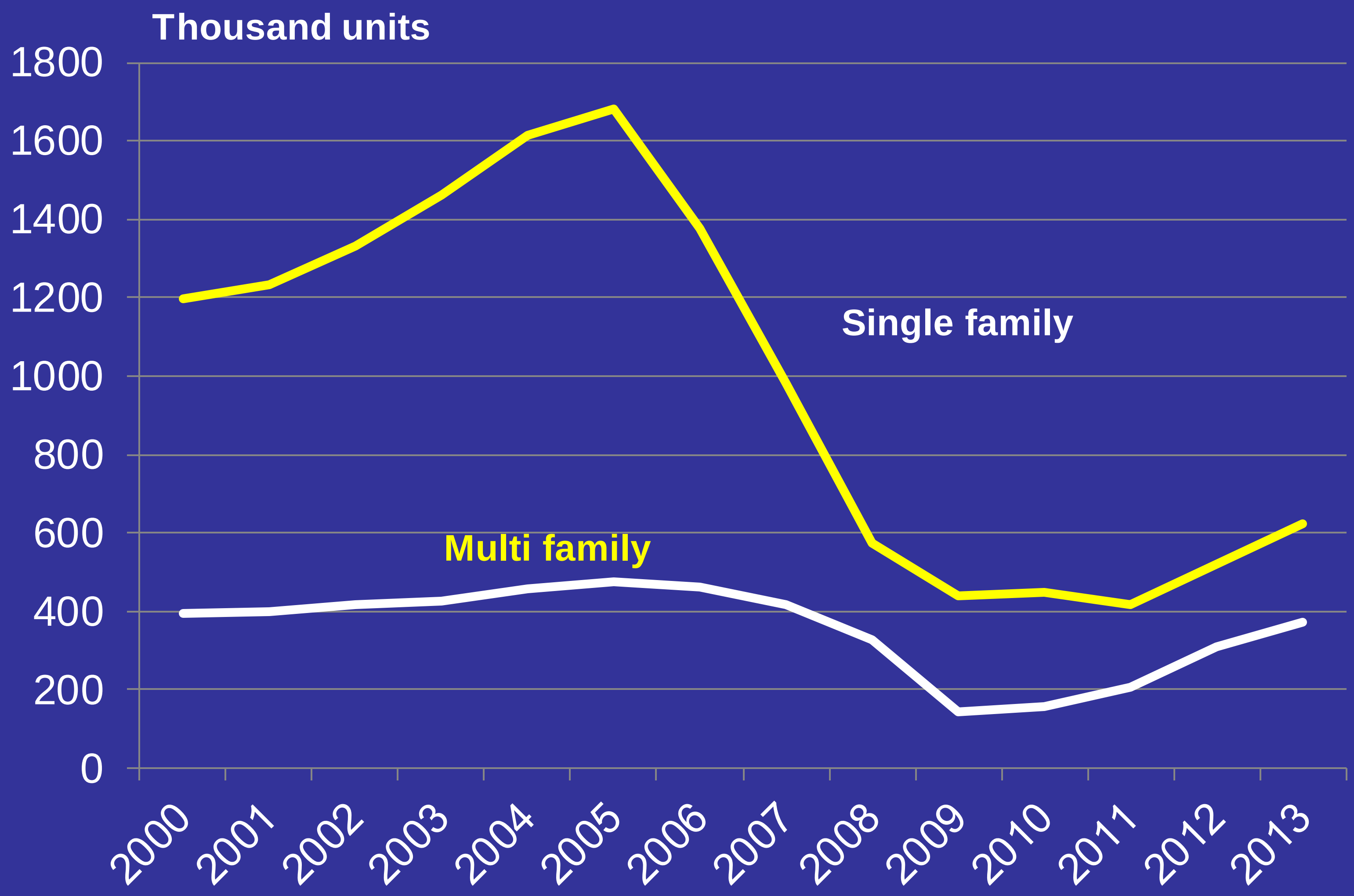
Following slides address some multi family issues

Return TOC

Multi family making a comeback??



Source: (http://www.census.gov/construction/nrc/)

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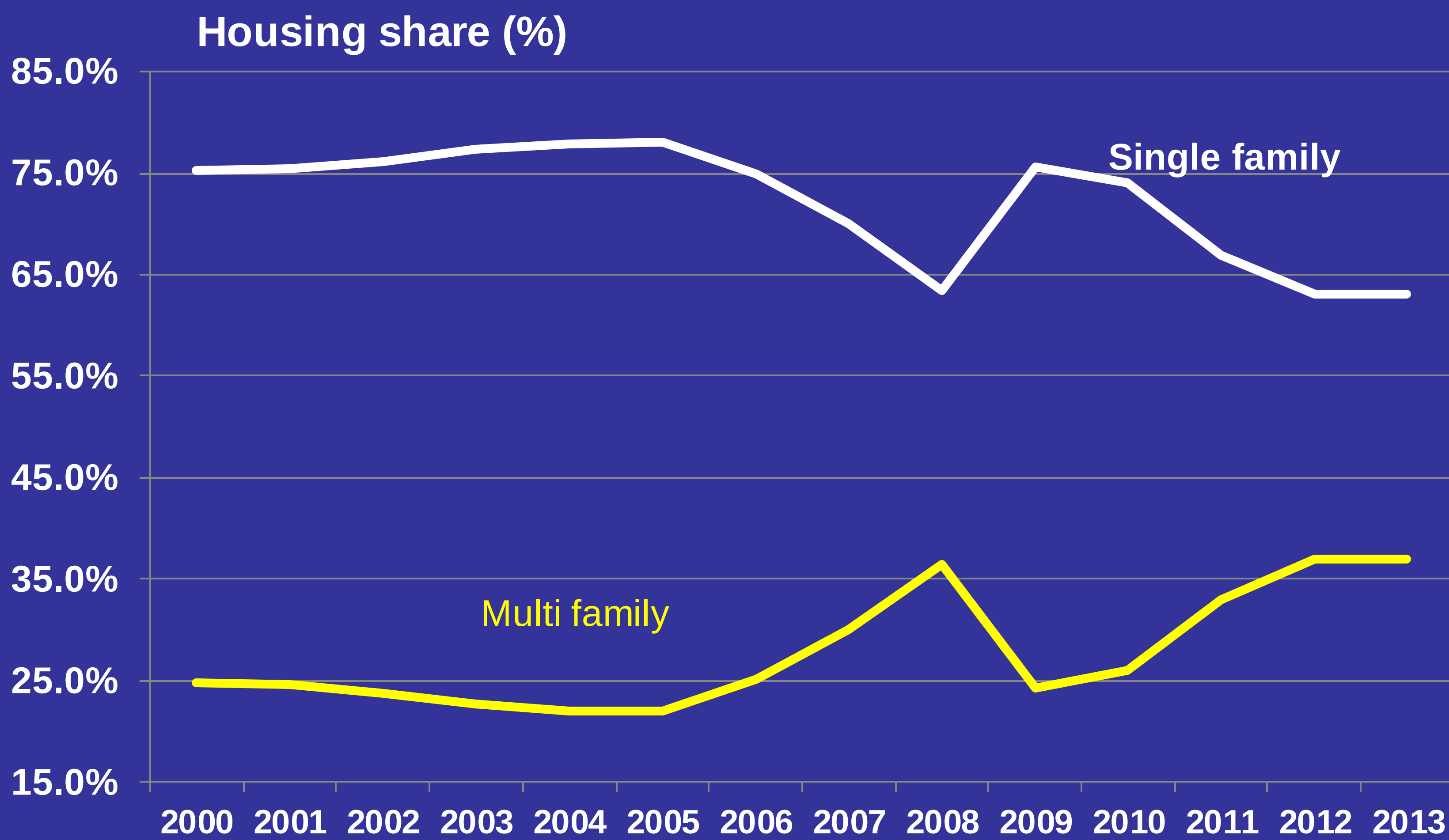
Multi family share is increasing – will it continue?

Yes – here are three drivers: financial/cost (tight credit and mortgage carrying cost big problem for buyers); social trends (suburban life Losing its appeal to many Americans); and demographics (aging population Downsizing). In addition, many young people can't find good jobs so they rent.



Source: Census (http://www.census.gov/construction/nrc/)

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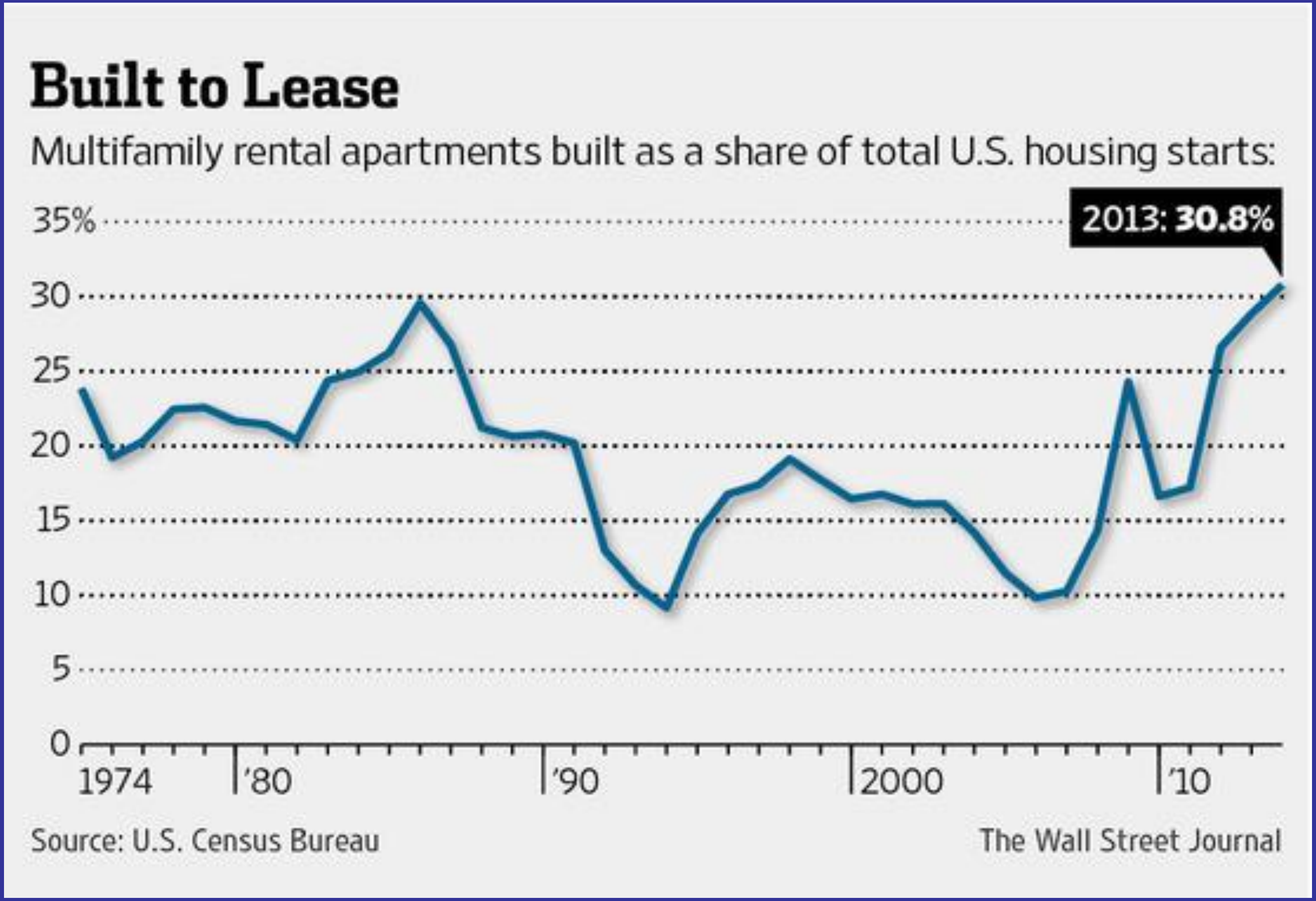
Multifamily rentals at highest level in 4 decades

Here is excellent article outlining interesting trends



Note: some multifamily are condos which are owned/not rented.

Determination of number of "rental units" isn't as simple as I thought!

Issue #1 - definition of multi family versus single family (as defined by Census)
Issue #2 – some single family units are built to rent

#1 - Multi family classification includes rentals and some units owned by occupants (e.g., Census when reporting housing starts, classifies condos as "multi family", Yet, these many of these units are owned by occupants and not rented. (http://www.census.gov/construction/chars/definitions/#one)

#2 - In addition, some single family homes are built to rent.
The next slide shows "multi family rentals" as percentage of total housing starts

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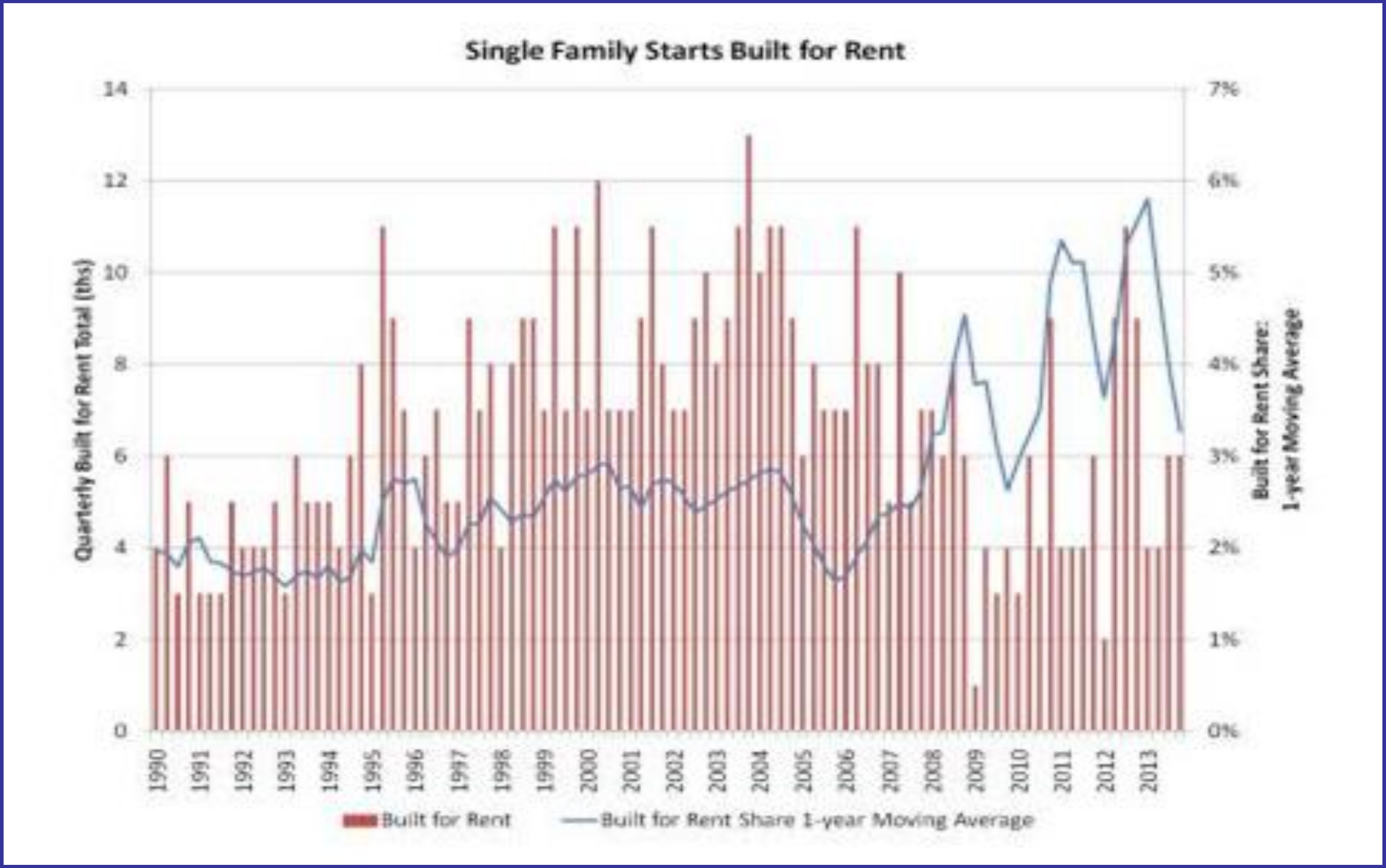
Approximately 3 – 5% of single family homes are built to rent



(http://eyeonhousing.org/tag/single-family-built-for-rent/)

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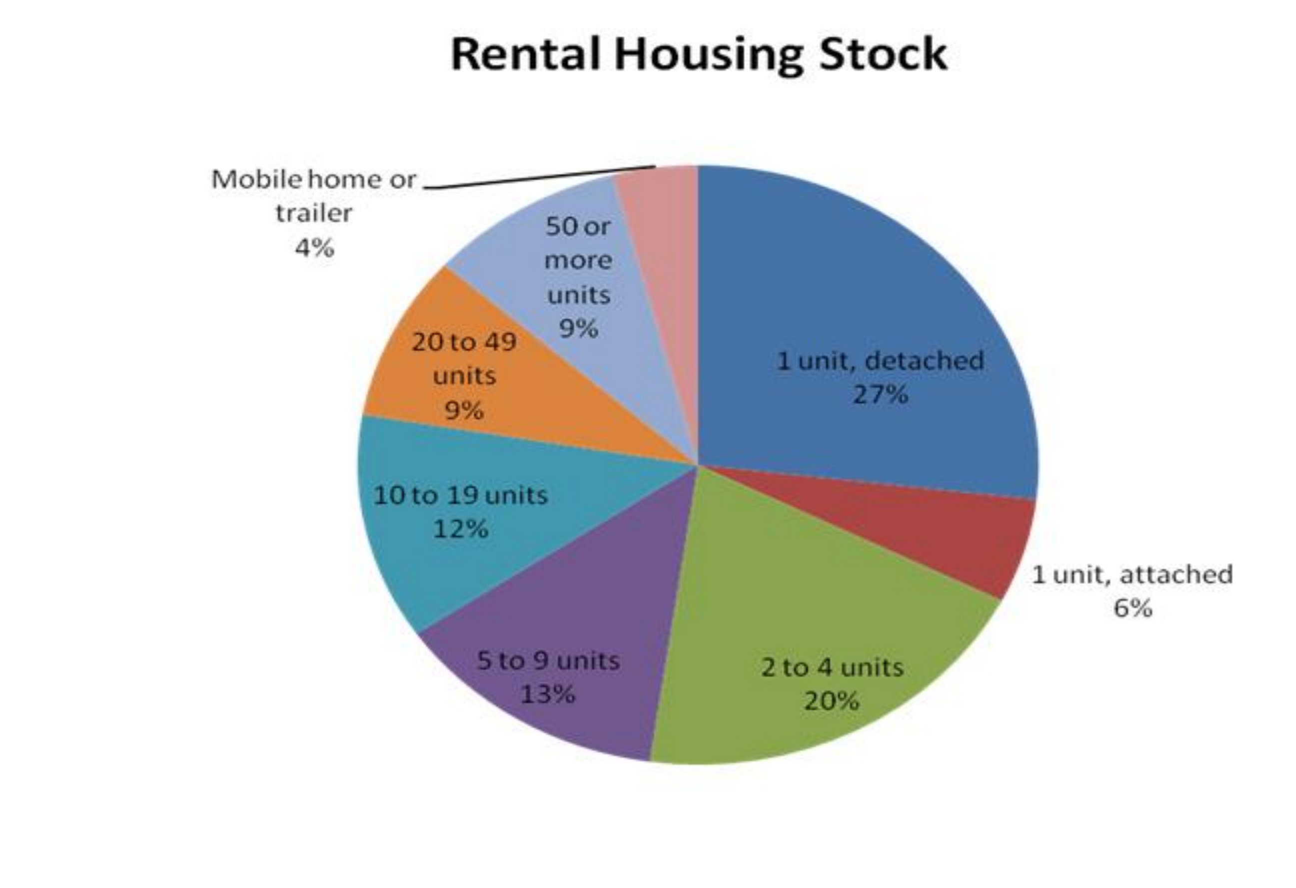
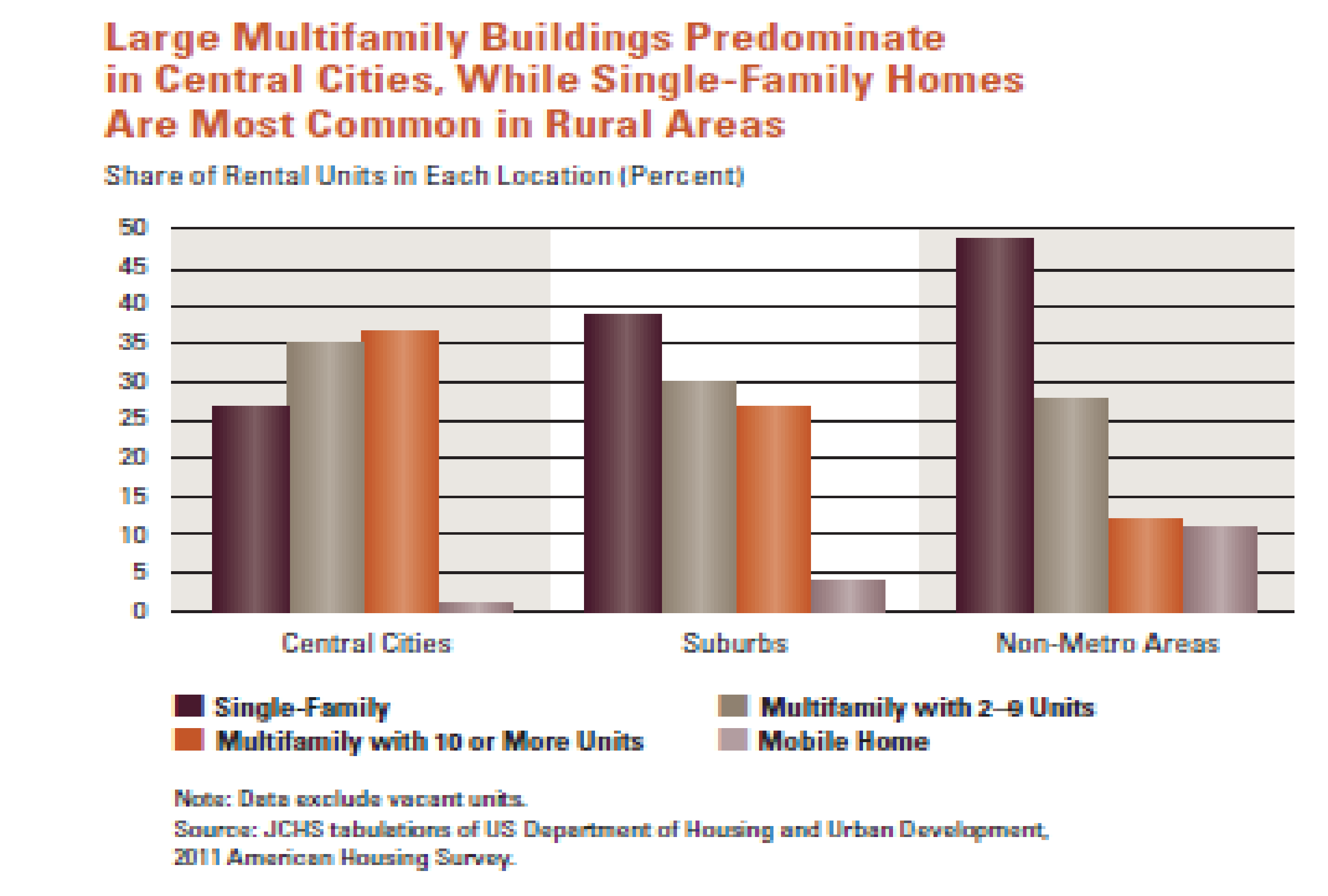
Rental Housing Stock

Using the 2009 American Housing Survey, the data show that 30% of all housing units in the United States (about 40 million units) are renter-occupied or vacant for-rent – ***1/3rd are single family homes***



Source: NAHB (http://eyeonhousing.org/2011/07/20/the-rental-housing-stock/)

Rental units are not simply multi family high rises.
A recent Harvard study (http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs_americas_rental_housing_2013_1_0.pdf) - interesting
Read – good charts and data – thought provoking analysis,…..



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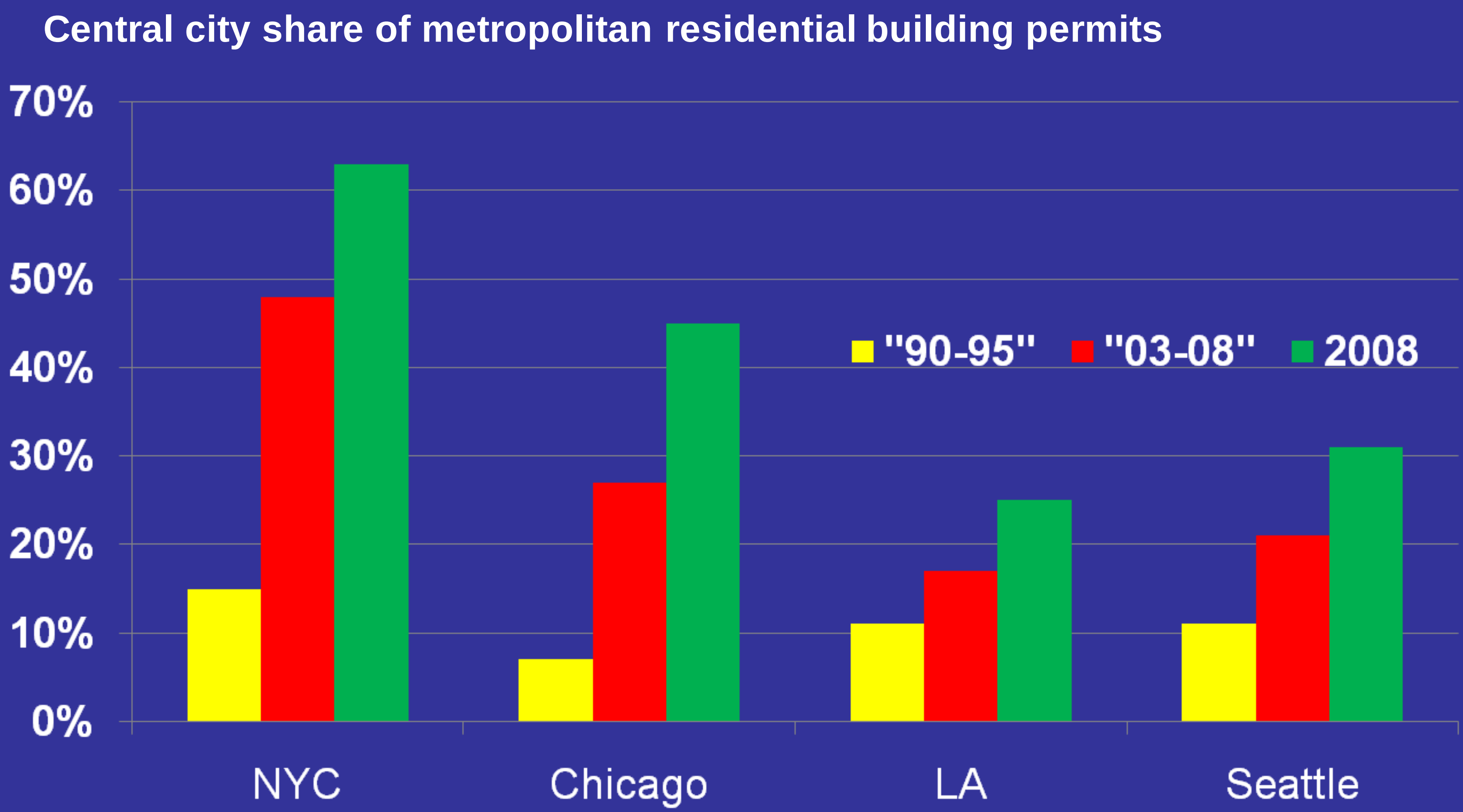
Shift from suburbia to urban redevelopment??
More people are moving back to the cities – most prevalent with young people and empty nesters
Implications for detached SF versus rental units?



Source: residential construction trends in America's Metropolitan regions
EPA, January 2010. (http://www.epa.gov/smartgrowth/pdf/metro_res_const_trends_10.pdf)

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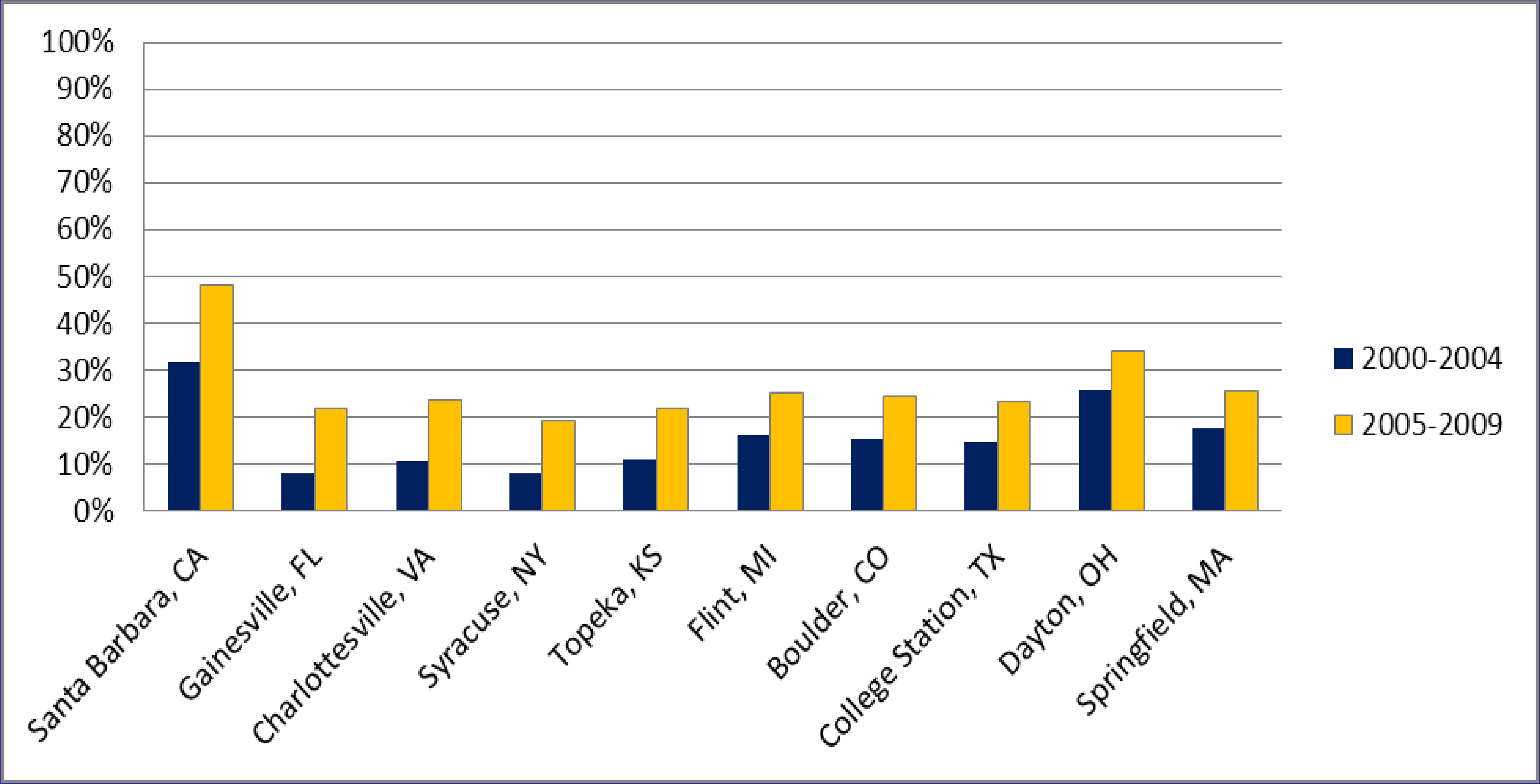
Large metropolitan regions with largest share of infill construction

Parking lots, underused commercial properties, and former industrial sites are being replaced by condominiums, apartments, townhouses, and small-lot single-family homes. These are examples of <u>residential infill or building new homes in previously developed areas - another trend suggesting smaller homes and more rental units?</u>



Source: EPA (http://community-wealth.org/sites/clone.community-wealth.org/files/downloads/report-ramsey_0.pdf)

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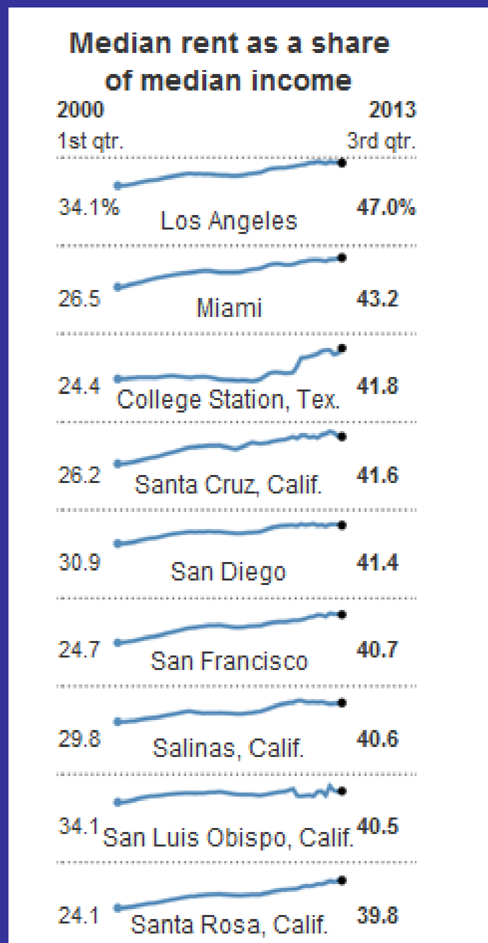
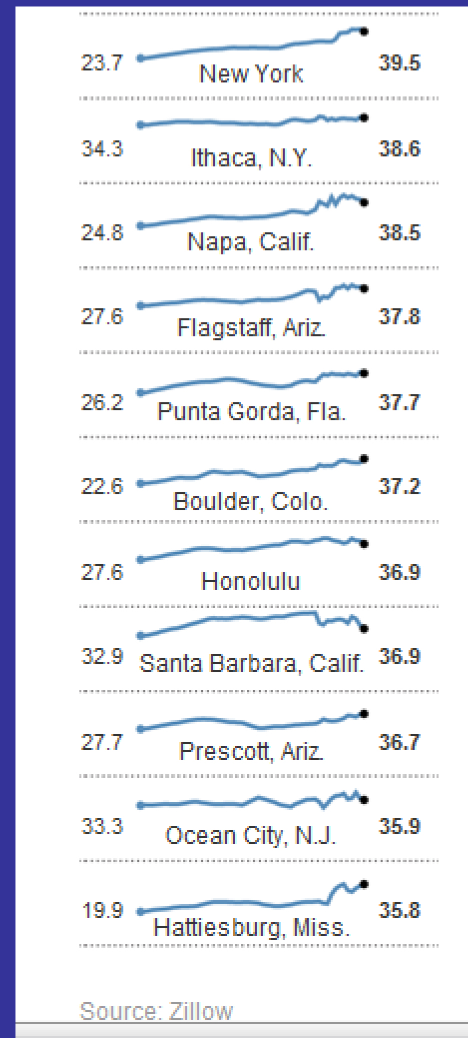
As rentals increase in popularity, rental prices escalate

According to a recent study by Zillow, in more than 90
Cities, median rents, excluding utilities, exceed 30% of household
Income (30% is the metric often used to gauge affordability)
<u>A sign for builders to build even more rental units???</u>





Source: Sheila Dewan, NYT, (http://www.nytimes.com/2014/04/15/business/more-renters-find-30-affordability-ratio-unattainable.html?_r=0)

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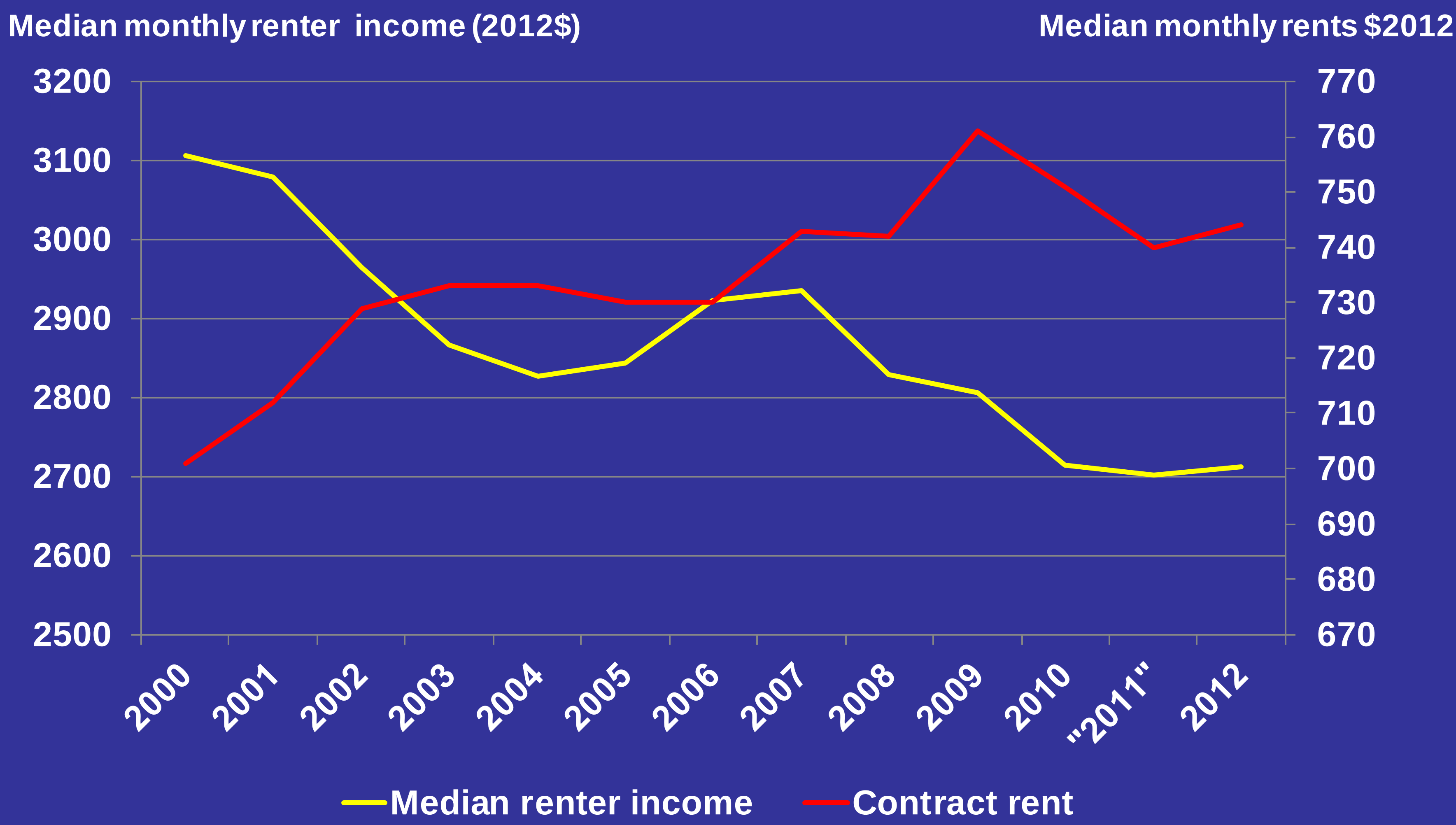
Incomes are falling as rents increase



Source: HJCHS (http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs_americas_rental_housing_2013_1_0.pdf)

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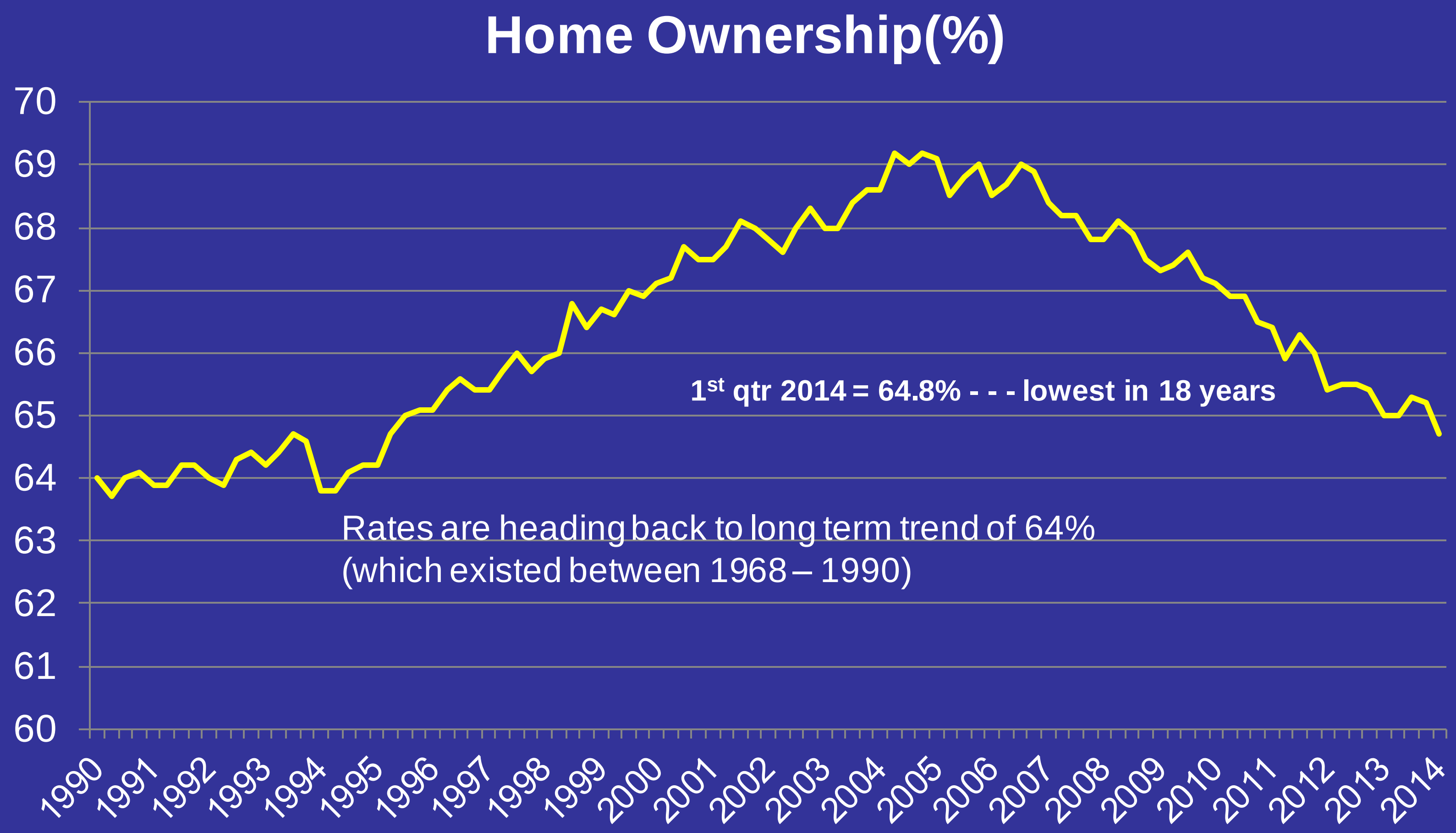
Homeownership rates have been falling for the past seven
Years – when the economy gets back to normal,
Will people go back to single family or will we see more renting?
There will be impacts on wood products demand



Source: Census (https://www.census.gov/housing/hvs/data/q413ind.html)

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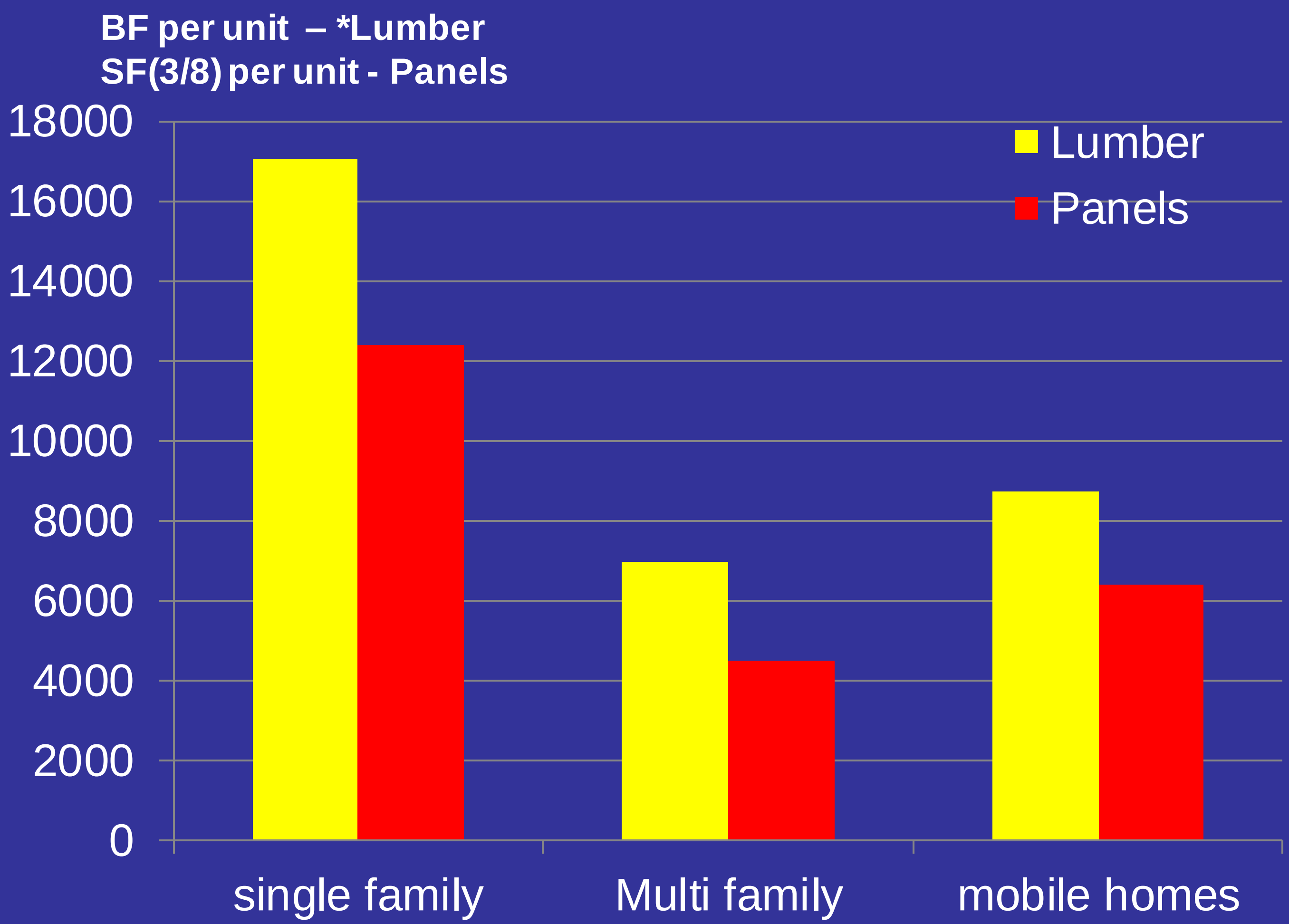
Wood Products Use per Unit



Source: Wood Products Council Table #7 and #13, ES4, 2006

(*Lumber includes BFE of engineered wood per unit)

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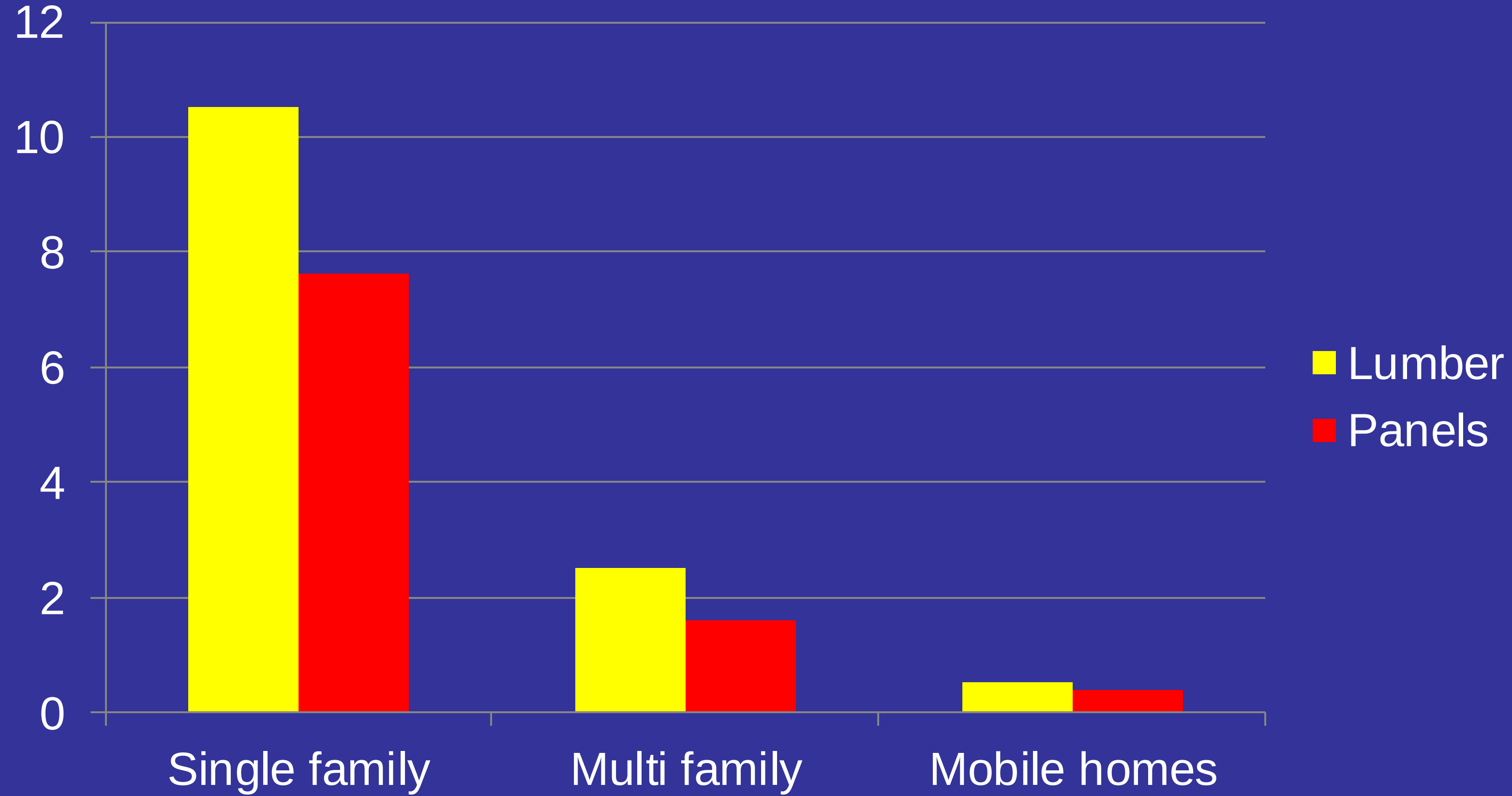
New residential markets – 2013 basis

Single family dominates! – any switch to multifamily/rental has major impact on wood consumption

Lumber – BBF; Panels – BSF(3/8);



Source; WPC, Wood used in New Residential Construction, table #7, 2009

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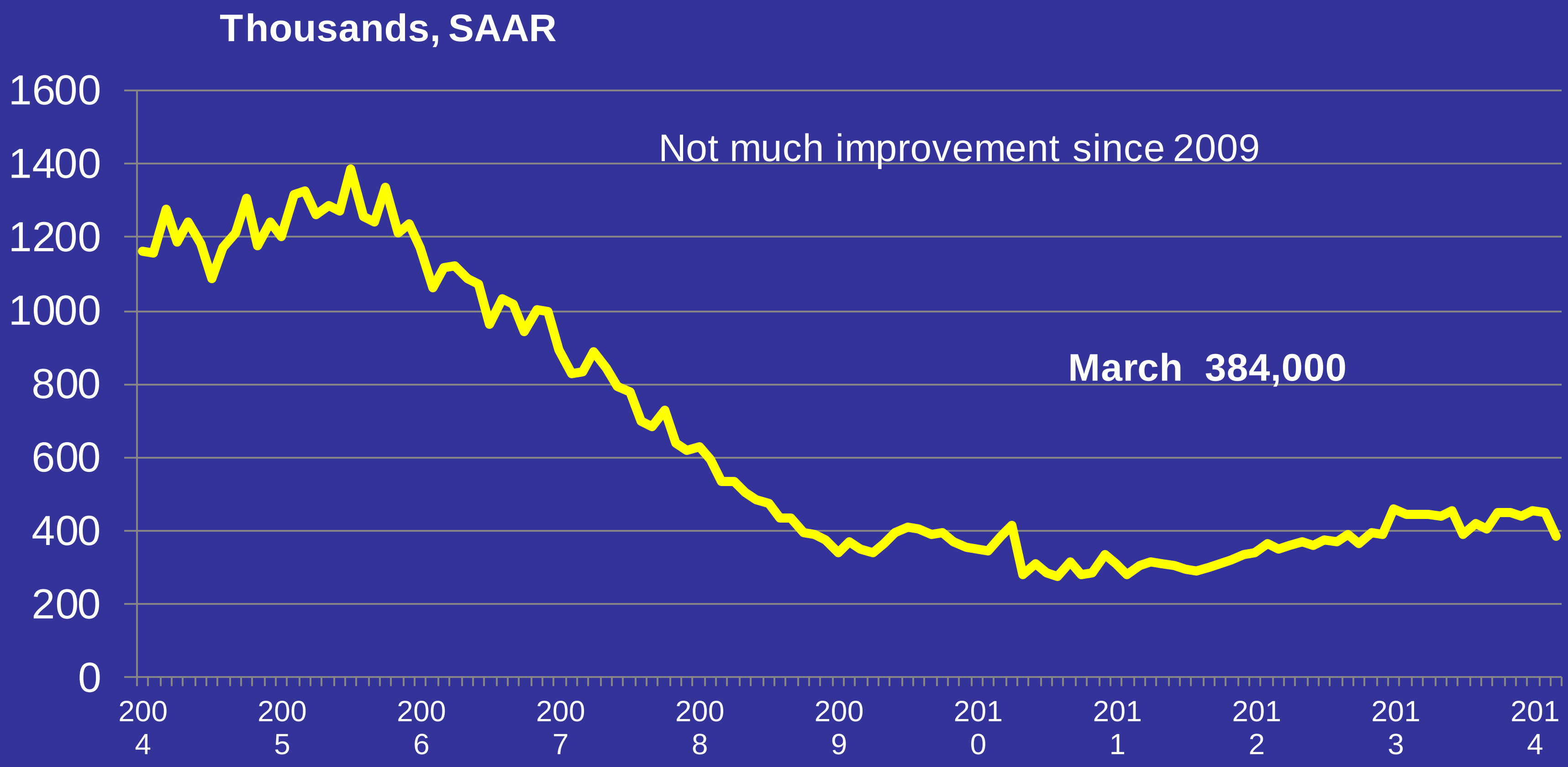
New Single Family Home sales is the key statistic to watch – Sales drive housing starts – this drives demand for wood products!!! **All we can say so far is that sales have stabilized**



Source: Census (http://www.census.gov/const/www/newressalesindex.html)

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Resale market – higher prices and mortgages slow the rebound

Single family (incl condos), Monthly, Thousand units, SAAR

Source: NAR (http://www.realtor.org/research)

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Bottom line – **when** economy returns to normal, demand for shelter will strengthen.

Question – what will the mix be between detached single family and multi family housing and what are the Implication for the wood products industry? Also, implications if house size gets smaller??

Most of you have seen this article by Craig Adair and Myself and it is three years old, but there is some material there that addresses the question posed above as it relates to the wood products industry (http://www.nxtbook.com/nxtbooks/naylor/EWAB0110/index.php?startid=16#/16)

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Another issue to ponder – the role of the federal government
In housing. There is a huge federal presence – more than in
Any other country. Federal agencies (Fannie, Freddie, FHA, VA, etc.),
Control over 90% of the residential mortgage market. That means there is
Too much temptation to influence housing according to political whims. Fannie,
and Freddie are still in "conservatorship" – i.e., wards of the state., and
Therefore depending on taxpayer support.

The real key to a housing recovery is the return of mortgage purchase Business – i.e., owner occupant buyers in lieu of "REFI" business and Speculators paying cash for distressed sales which are then rented.

Again, That requires JOBS!!!!!!

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Some conclusions – housing continues to improve albeit slowly

(1) Economy will muddle along until 2015? Depends on world economy, China, Europe, ….. Question – can the economy "stand on its own" without QE?

(2) What will housing look like in the near future? My guess – renting continues to gain favor as more people move back to the city(due to demographic trends and changes in social values), and the economy keeps ownership elusive for many, especially young people.

(4) This has implications for demand for wood products in housing

(3) We're in "uncharted waters" territory right now (i.e., massive money printing) to date, it has helped prevent worsening of economy, but, certainly hasn't had the impact the FED had hoped for (i.e., jump start the economy)

(4) Problems going forward are higher interest rates and continuing uncertainty.

(5) The key to a recovery in housing is the return of 1st time buyers, traditionally about 40- 45% of the market. Current market skewed to cash buyers and investors. 1st time buyers are mostly young people, but they can't find jobs.

(6) Longer term, housing demand will hinge on the footprint of the Federal government – will they continue to promote housing to the degree they have in the past? My guess is the federal government will slowly reduce its footprint and let the private sector play a larger role. Financing will be one of the 1st changes.

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