Real Life

ECONOMY

Wanted: Builders Building Homes



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INSIDE VIEW

Learn what the latest economic indicators mean for the real estate industry. **http://economistsoutlook.blogs.realtor.org**

The inventory of homes for sale peaked at 4.5 million units in 2007, fueling the big drop in home prices that we've seen. Today, we have the opposite problem: Only 2.49 million homes are for sale, even though demand has risen some 10 percent from a year earlier.

At the same time, the shadow inventory of distressed homes is no longer the threat that it was. While seriously delinquent mortgages remain high, at 7 percent, their share of the market is down from a peak of 10 percent in 2009. That suggests inventory will further decline—unless home builders start building again. But most builders can't do that because lenders are making few construction loans. Housing starts have been running at a 700,000 annualized pace since the beginning of the year, less than half the average rate over the last 50 years.

For much of the downturn we could get away with this low number of new starts because household formation had halted during the recession, as young adults found roommates to share costs or moved back in with their parents. But like a recoiled spring, household formation can't stay suppressed forever, and it's ready to pop. The economic recovery, even though it's at a slow pace, is leading to notably higher household formation, census figures show. So we can expect to see increased housing demand over the next several years, assuming no return to recession. What could cause a slide? Political polarization in Washington could if the White House and Congress fail to resolve budget issues looming this year.

I believe lawmakers will find a compromise, and rising sales and rents will convince lenders to make construction loans again. Housing starts could jump by up to 70 percent in 2013, corresponding to about 1.2 million new homes. That's still below the historical average of 1.5 million but an improvement. If builders can't ramp up production, we'll see price gains of near 10 percent annually—and that's not healthy. ■

EXISTING-HOME SALES RATE FOR MAY

4.55 million

This is a seasonally adjusted annual rate, which is the actual rate of sales for the month, multiplied by 12 and adjusted for seasonal sales differences.

INVENTORY FOR MAY

2.49 million

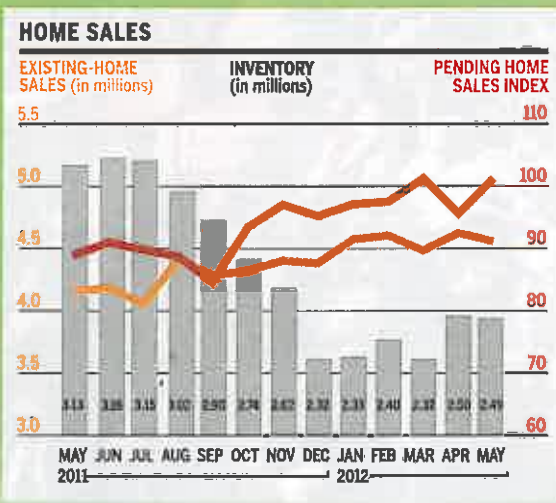
This measures the number of existing homes on the market at the end of the month.

PENDING HOME SALES INDEX FOR MAY

101.1

This index measures housing contract activity. An index of 100 is equal to the level of activity during 2001, the benchmark year.

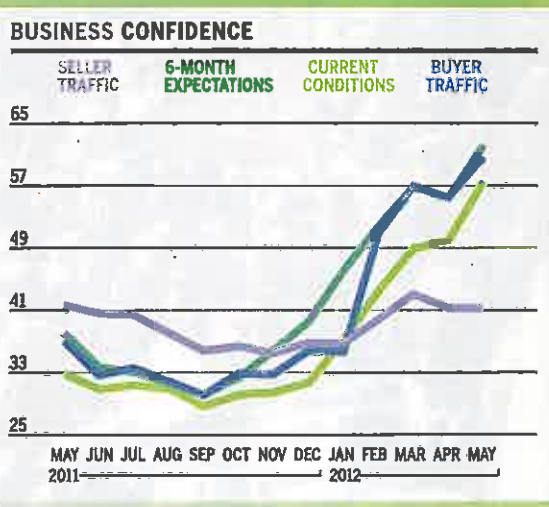
Source: NAR Research



Sustainable Gains Expected

Existing-home sales dipped in May from the previous month to 4.55 million units, but sales remain above year-ago levels. And gains in NAR's forward-looking pending home sales index suggest sales are poised to improve. The index in May was up almost 6 percent to 101.1 from 95.5 in April, while inventory of for-sale homes remained level.

Revised from figures published in previous issue



Practitioner Confidence Gains

Practitioner confidence in current and future housing market conditions is up from the previous month. Confidence in seller traffic is weakest, showing no gain from last month. That's consistent with continuing low inventory levels. But other confidence measures are up.

Results are based on 3,436 responses to 6,000 surveys sent to large and small real estate offices. The survey asks practitioners to indicate whether conditions are strong (100 points), moderate (50), or weak (0).