

The Mortgage Corner

HOUSING CONSTRUCTION HIGHEST IN 2007

The Commerce Department estimated that construction of new homes increased 0.8% in March to a seasonally adjusted annual rate of 1.518 million, the highest level this year. Building permits also increased 0.8% in March to a seasonally adjusted annual rate of 1.544 million. The figures were slightly higher than expected by economists, perhaps because of warmer weather in the Midwest, where starts surged 44 percent, the largest increase in 16 years, according to CBS Marketwatch. Construction contracted in other regions.

Housing starts are down 23 percent from March 2006, while permits are off 26 percent. Whether the figures show renewed optimism on the part of builders is open to question. The National Association of Home Builders reported that builder optimism sank in April, with builders warning that tighter lending standards for subprime loans could prolong the slump through 2008.

Completions of new homes fell 0.7 percent to a seasonally adjusted annual rate of 1.63 million, an indication that builders are ramping down their inventories. It's the lowest number of completions since August 2003. It takes about 6 months for a home to go from groundbreaking to completion.

Builders' optimism fell in the NAHB survey to 33 percent, from 36 percent in March, the lowest level since December. It had been rising for the past 3 months, until problems with subprime lenders began to heat up. Government regulators have also issued stiffer qualification requirements for subprime and the teaser rate Option ARMs that allowed negative amortization to be added to the loan principal.

"While we still expect to see some improvements in housing-market activity beginning late this year, the downside risks and uncertainties surrounding that forecast are considerable," said David Seiders, NAHB chief economist, in a statement.

Economists said that favorable weather in March compared with February probably had a major impact on construction. While February was colder and wetter than usual, March was warmer and drier in much of the nation.

There were 1.2 million homes under construction in March, down 16 percent from the previous March. The 1.5 million unit start total has in fact not varied appreciably for the past 10 months, showing that the building slump has now lasted one year.

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