



The Mortgage Corner

Housing Construction In Limbo

In the latest indication that the housing market remains in a correction phase, housing starts rose 2.3 percent in June to a seasonally adjusted annual rate of 1.467 million following downward revisions for the previous two months, reported the Commerce Department on Thursday.

Building permits, which generally are a harbinger of future building activity, were down sharply last month for both single-family and multifamily construction. Total building permits fell 7.5 percent in June to a seasonally adjusted annual pace of 1.406 million units and were down 25.2 percent from a year earlier.

The construction downturn is one reason the Federal Reserve has turned cautious on economic growth for the rest of 2007, since construction employment is a large component of overall employment.

"Today's housing report is consistent with what builders have been telling us in our own surveys. They are dealing with challenging market realities by cutting back on new construction activity and by working down their inventories in the face of weak consumer demand by trimming prices and offering other types of incentives to boost sales and limit cancellations," said Brian Catalde, president of the National Association of Home Builders (NAHB).

For sale inventories for both new and existing-homes have risen from a low of 4 months during the past several years to as high as 8 months, an unsustainable level at current sales' rates. Both new and existing-home sales have seen drops of more than 20 percent in their annual sales' rates in 2007.

Existing-home sales are expected to total 6.11 million this year and 6.37 million in 2008, down from 6.48 million last year, according to the National Association of Realtors. New-home sales are projected at 865,000 in 2007 and 878,000 next year, compared with 1.05 million in 2006. Housing starts, including multifamily units, are forecast at 1.43 million units this year and 1.44 million in 2008, down from 1.80 million last year.

"The small overall increase in total housing starts does not signal the end of the housing downswing," said NAHB Chief Economist David Seiders. "All of the gain occurred on the multifamily side, which is subject to sizeable month-to-month volatility, and single-family starts actually registered a slight decline following downward revisions to both April and May. Looking toward future single-family production, permit authorizations fell to their lowest level since December of 1996 and now stand 43 percent below the recent peak in the fall of 2005.

"In view of current market challenges, we expect to see further erosion in housing starts during the second half of this year. However, we expect to see signs of stabilization by the end of this year and we're projecting a gradual recovery process in 2008."

Starts of new single-family homes slipped by 0.2 percent during June to a seasonally adjusted annual rate of 1.151 million units, 21.6 percent below a year earlier. Multifamily housing starts, on the other hand, increased 12.5 percent during the month to a seasonally adjusted annual rate of 316,000, which was 9.7 percent below the rate of June 2006.

Existing-home prices are likely to rise 1.8 percent to a median of \$222,700 in 2008 after a 1.4 percent decline this year to \$218,800, according to the NAR. The median new-home price should rise 2.2 percent to \$245,400 next year following a 2.6 percent drop in 2007 to \$240,100.

"Markets that sharply reduce new construction in 2007 will generally experience respectable price increases in 2008," said NAR senior economist Lawrence Yun. "Local conditions vary considerably, but with

historically low mortgage interest rates this summer and sustained job gains, it could be a good time for first-time buyers with a long-term view to test the housing waters.”

Regionally, starts of new homes and apartments in June were up 9 percent in the West and 2.4 percent in the South, following sharp declines in May. Starts were down 3.7 percent in the Midwest and 2.4 percent in the Northeast. All four regions experienced a construction pace that was down substantially from a year earlier.

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