

The Mortgage Corner

Home Builders Maintain Confidence in Face of Katrina's Damage

Homebuilder optimism in the market for new single-family homes remains in a positive zone this month, albeit with some further erosion from the cyclical high in June, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI).

"Many builders appear to be taking on a more cautious attitude because of uncertainties in the economy and this post-Katrina environment, particularly with regard to sales expectations in the near term," observed Dave Wilson, NAHB president.

The full extent of the impact of Hurricane Katrina on the overall economy and on the housing market is still unclear, and the immediate focus is properly on human life and health, but the number of homes destroyed by this catastrophe is almost certain to dwarf the losses from any previous U.S. natural disaster. Past experience, together with the visible devastation, provides some basis for projecting the effects on construction activity, the supply and cost of building materials and construction labor, and other implications for the housing market.

The number of housing units destroyed (made uninhabitable and beyond economically-justified repair) by Hurricane Andrew in 1992 was estimated at over 28,000. The combined effect of Hurricanes Jeanne, Ivan, Frances, and Charley in 2004 was almost as large, with nearly 27,500 housing units destroyed, according to estimates compiled by the American Red Cross. In those cases, most of the destruction was caused by winds or the immediate force of the storm surge. The number of homes with major but reparable damage was more than twice the number destroyed. The 1906 San Francisco earthquake/fire reportedly destroyed 28,000 "buildings."

The overall HMI declined two points in September to a score of 65, which is the lowest it has been since July of 2003 when it also hit 65. This was the third consecutive month of declines since June's 72 reading.

"As expected, the housing market is beginning to show signs of cooling and builders are reacting to that," agreed NAHB Chief Economist David Seiders. "While the HMI survey was taken immediately following Hurricane Katrina in early September, a combination of factors are likely in play, and Katrina impacts are only one part of the equation. In fact, the current HMI does not include responses from Katrina-hit areas, which typically account for about 2 percent of survey responses."

Katrina also caused widespread immediate damage in Louisiana, Mississippi, and Alabama, but the flooding in New Orleans, Mobile, and elsewhere is likely to translate into much larger numbers of homes destroyed. Although the floods generally did not tear off roofs or walls or cause structures to collapse, many homes will be permanently uninhabitable. The floodwaters carried contaminants that cannot easily be removed, and even if the water were clean, prolonged submersion would cause structures to be damaged beyond repair. This is likely to be the fate of a large share of the more than 200,000 homes in the city of New Orleans.

“In general, concerns about rising interest rates down the line, some buyer resistance to the strong house-price appreciation we’ve seen for several years, higher gas prices – which not only drive up the cost of doing business but also cause some people to rethink their decision to live in further-out communities – and other factors such as lot shortages and high impact fees for development, are all contributing to take a bite out of builder optimism looking forward,” Seiders said.

The September HMI’s component indexes gauging current sales and traffic of prospective buyers registered marginal declines of one and three points (to 72 and 47, respectively). However, the component gauging sales expectations for the next six months declined by a more substantial eight points, to 69. Additionally, builder confidence measures were down by an equal margin of three points in each of the four major regions.

“Keep in mind that builder confidence is still well above the break-even point of 50 on the HMI, and more respondents are reporting good conditions than bad in their markets,” noted Seiders. “Even so, today’s results show that builders are cognizant of the anticipated signs of slowing housing activity in certain areas.”

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