

# Rising Risks for the Housing Market



*Economic Summit*  
*Northern Virginia Association of Realtors*  
*September 13, 2018*  
*Annandale, Virginia*

*Stephen Melman, J.D.*  
*NAHB Economics & Housing Policy*

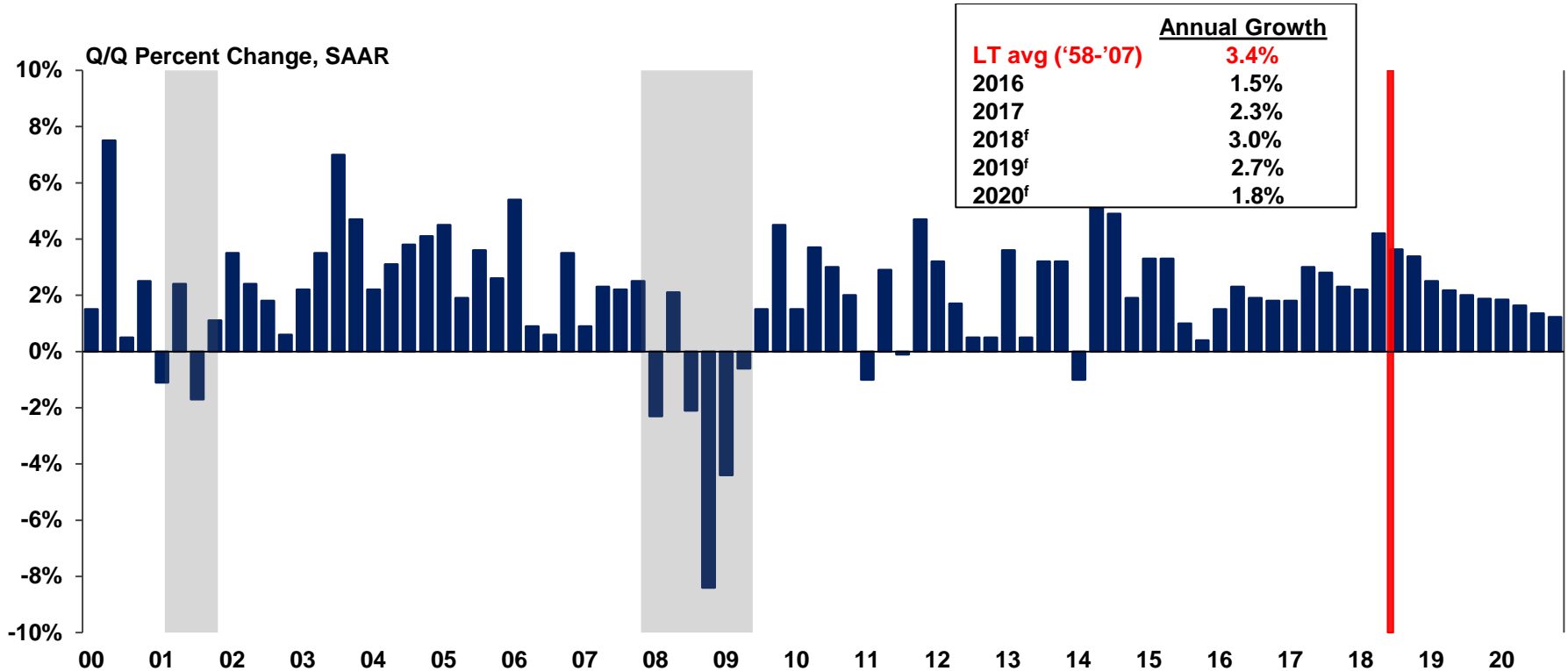




# Signs of Sustained Growth

# GDP Growth

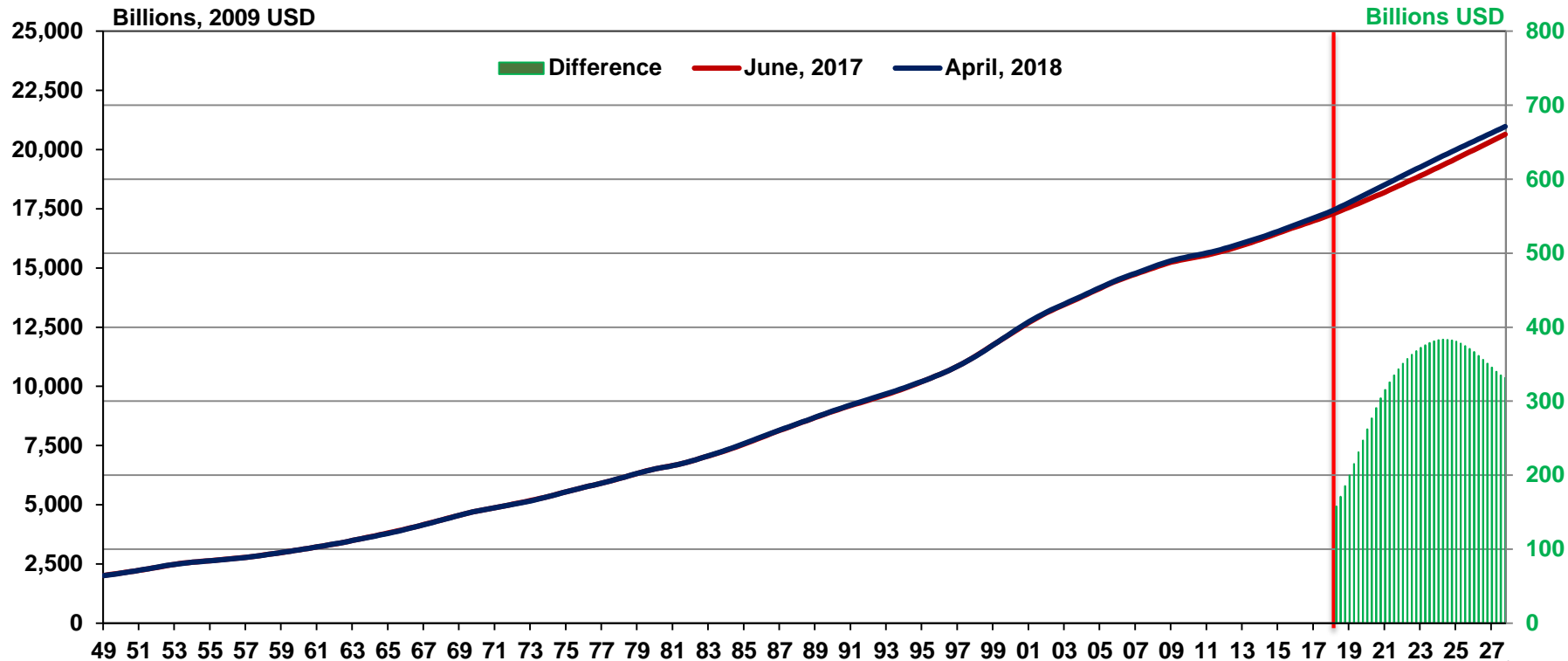
*Stronger growth expected post-tax reform*



Source: U.S. Bureau of Economic Analysis (BEA) and NAHB forecast.

# Tax Reform Boosts Potential GDP

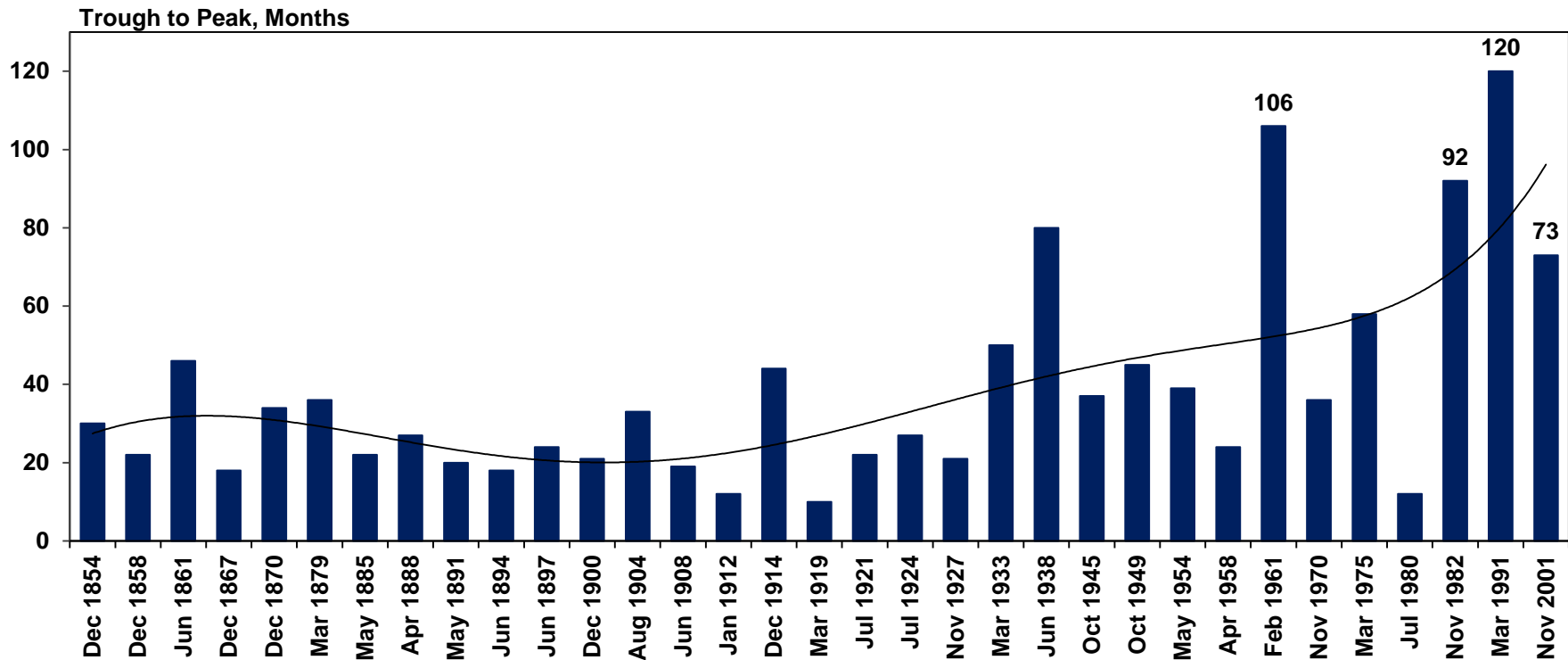
*Added economic efficiencies yield more room to grow*



Source: Congressional Budget Office.

# Expansion is Aging

*Current expansion is 111 months old – second longest*



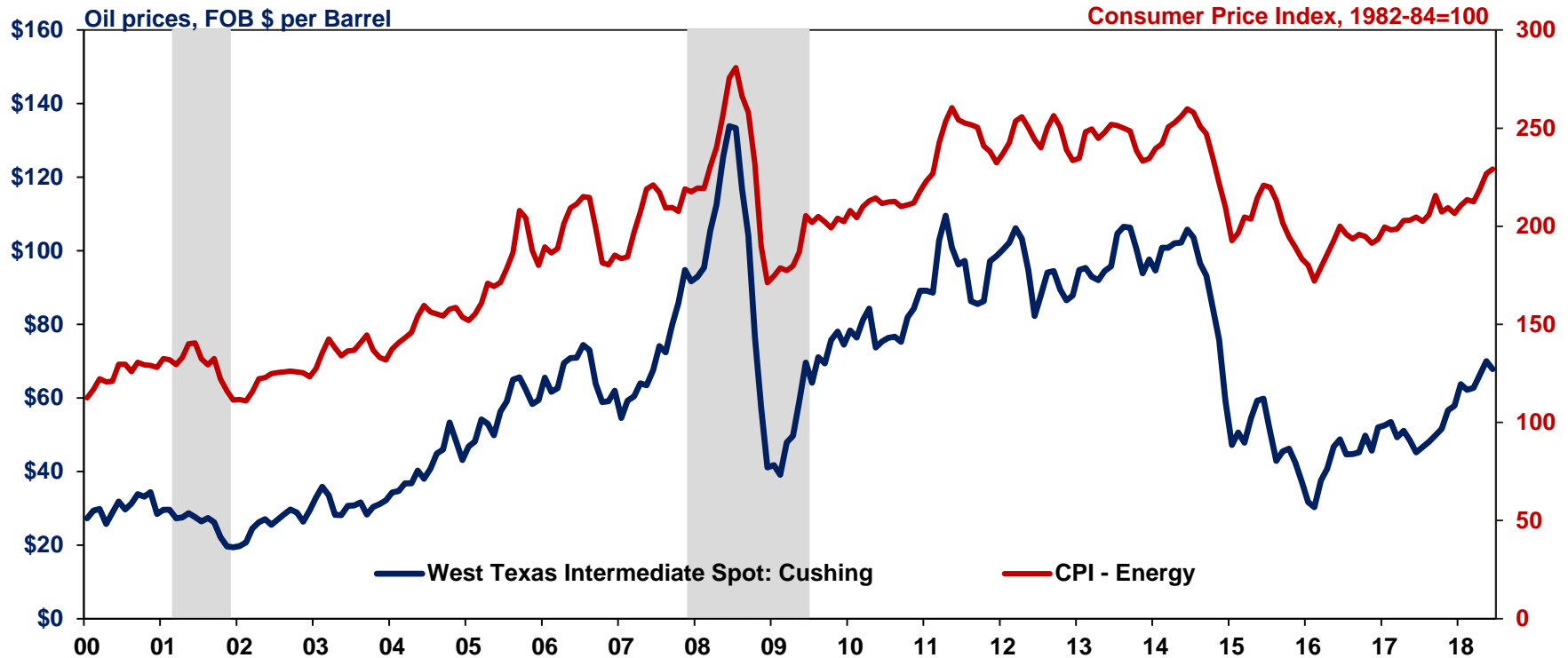
Source: The National Bureau of Economic Research (NBER).



Expansions don't die of old age, but this streak is likely to end in the next three years.

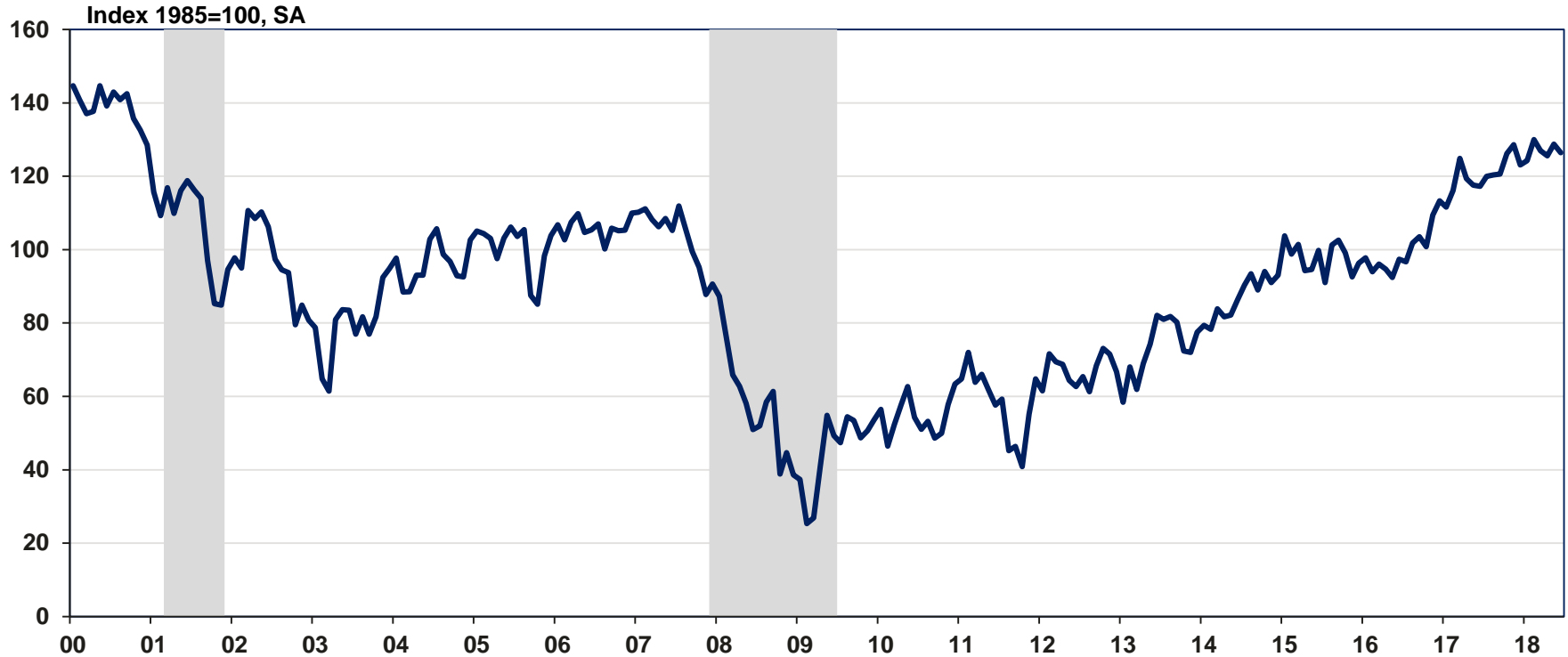
# Lower Energy Costs

A "tax cut" that prevented a growth recession in 2016



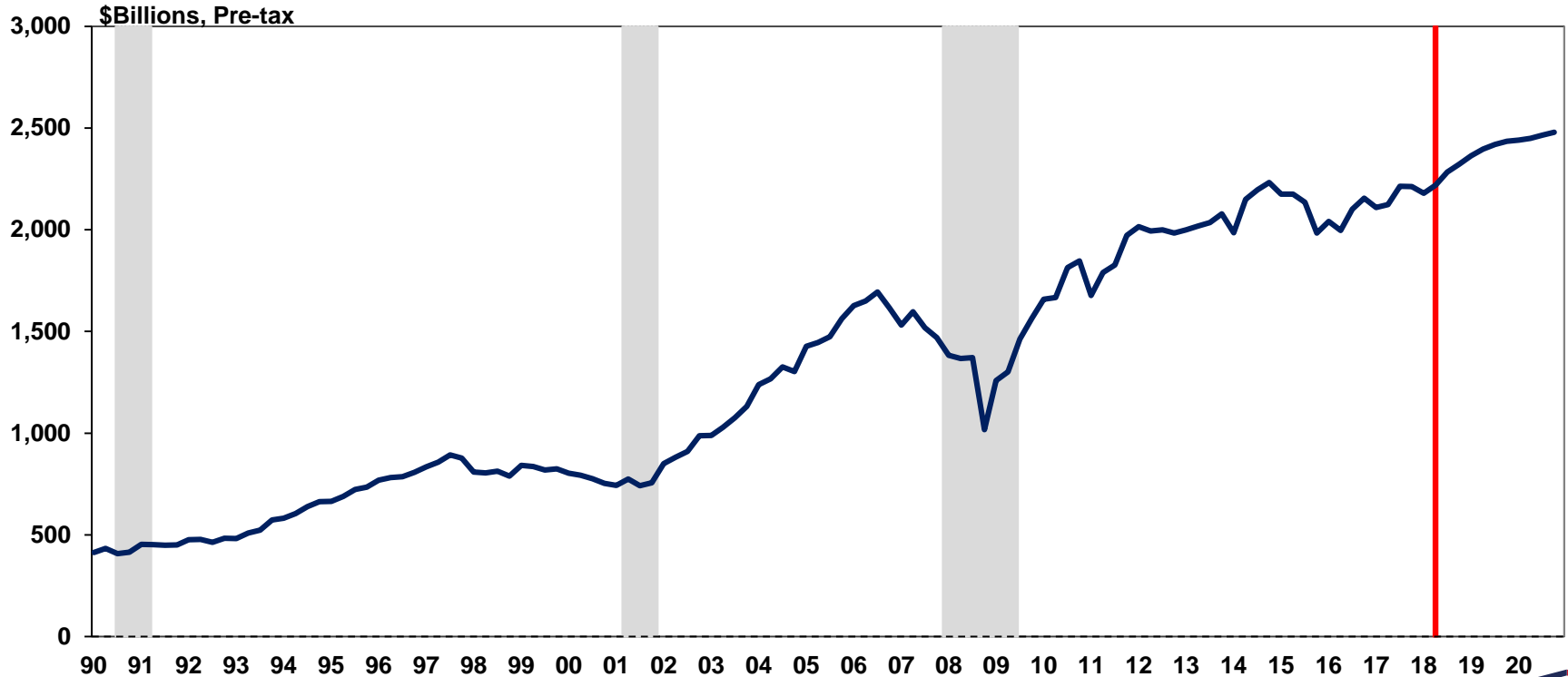
Source: U.S. Energy Information Administration (EIA) and U.S. Bureau of Labor Statistics (BLS).

# Consumer Confidence Continues Positive Run



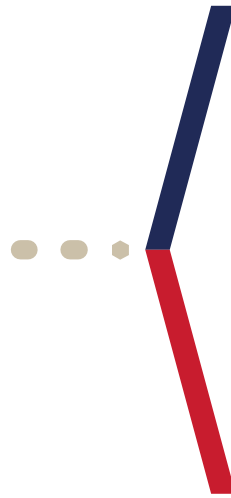
Source: The Conference Board.

# Corporate Profits Continue Rising



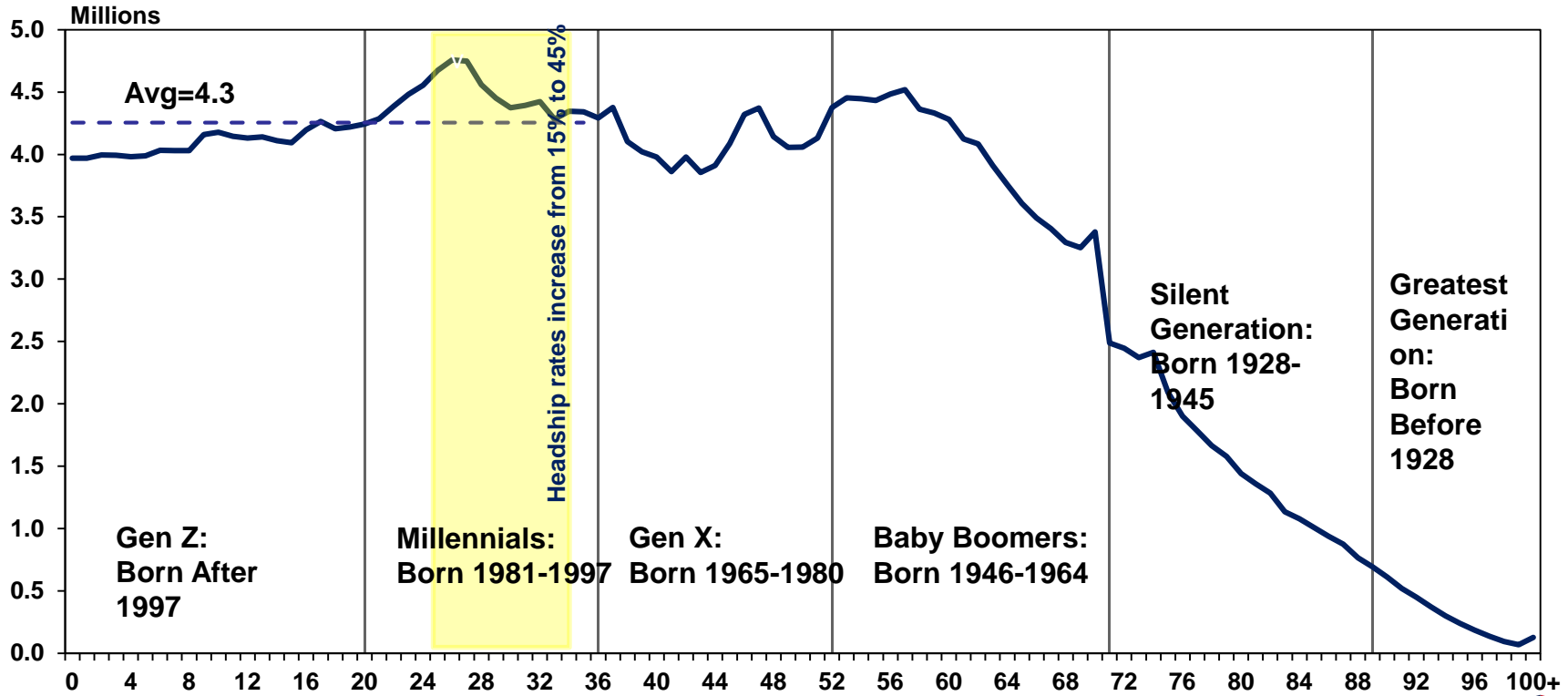
Source: U.S. Bureau of Economic Analysis (BEA) and NAHB forecast.



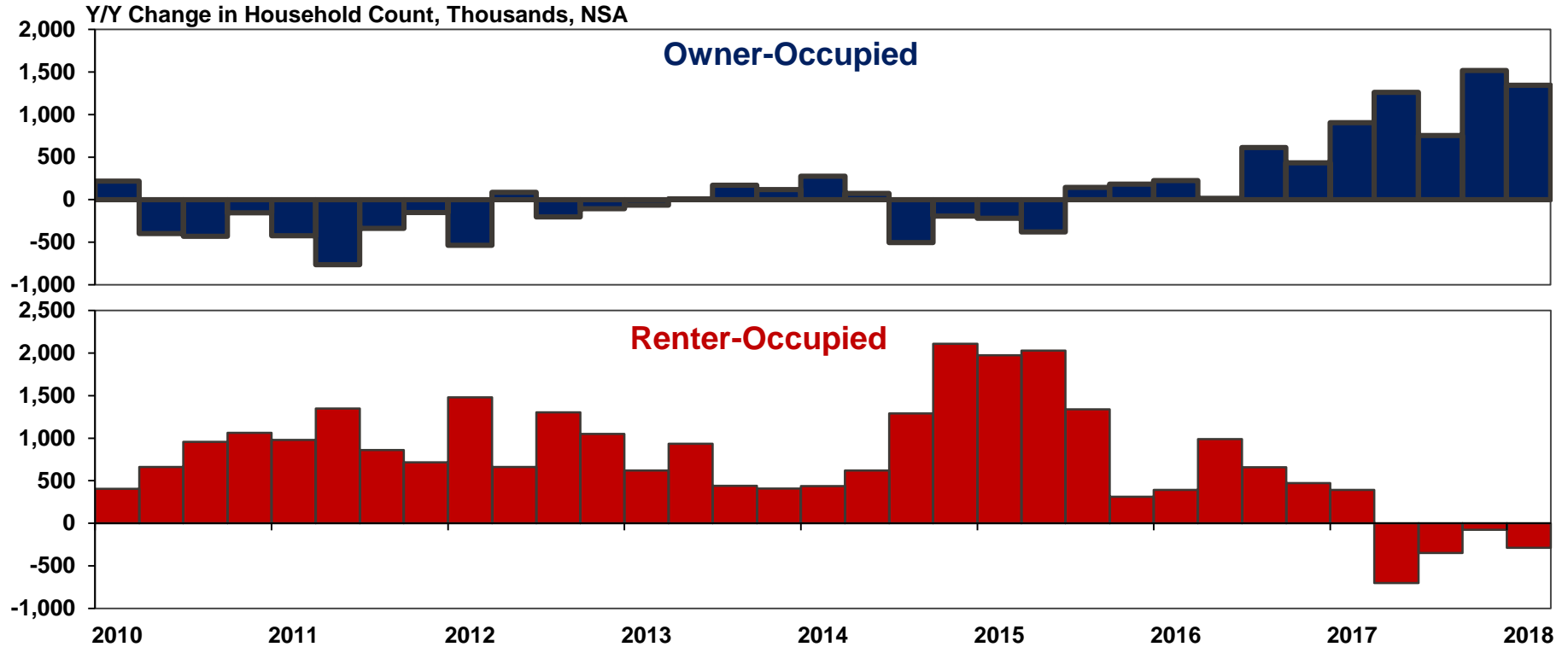


# Housing Demand and Affordability

# Rising Population Entering Housing Demand Years: 2017



# Household Formation

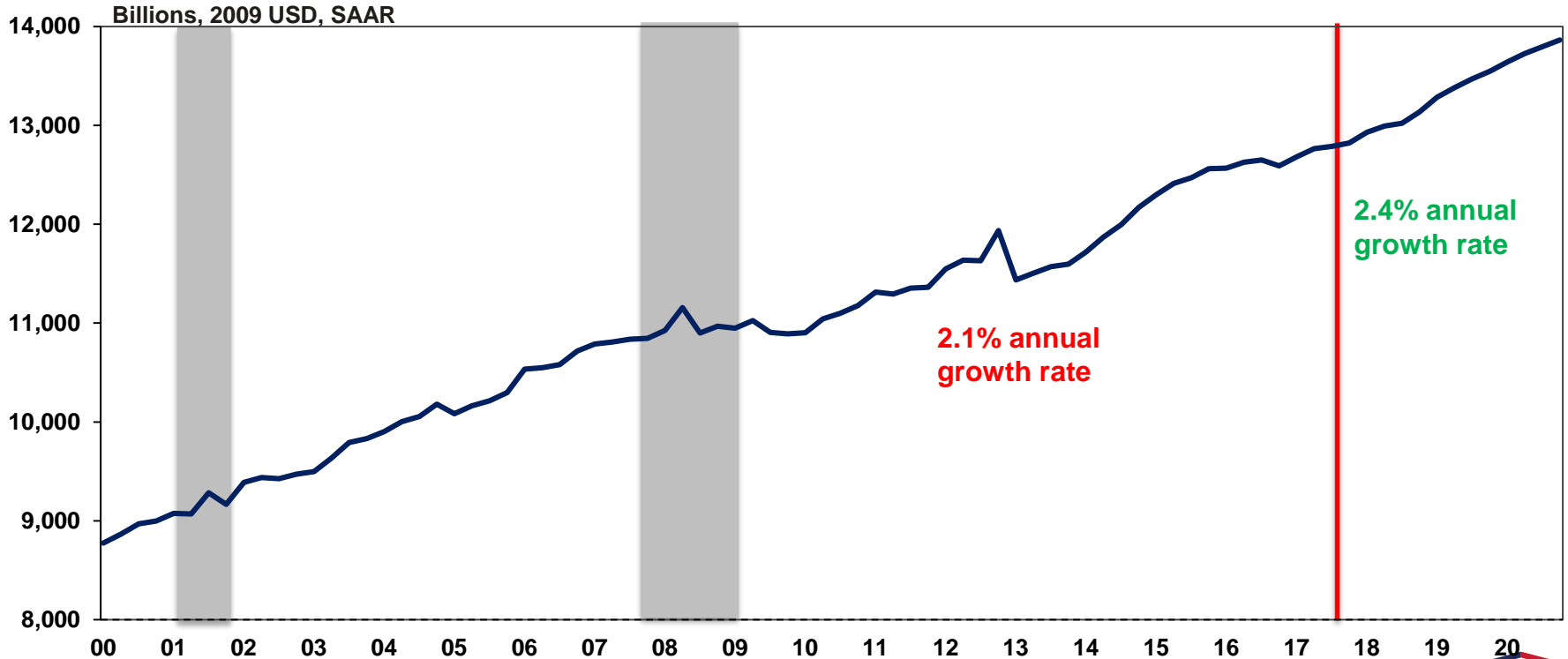


Source: U.S. Census Bureau (BOC): Housing Vacancies & Homeownership.

Seven quarters of solid growth for homeownership.

# Tax Cuts Help Disposable Income Growth

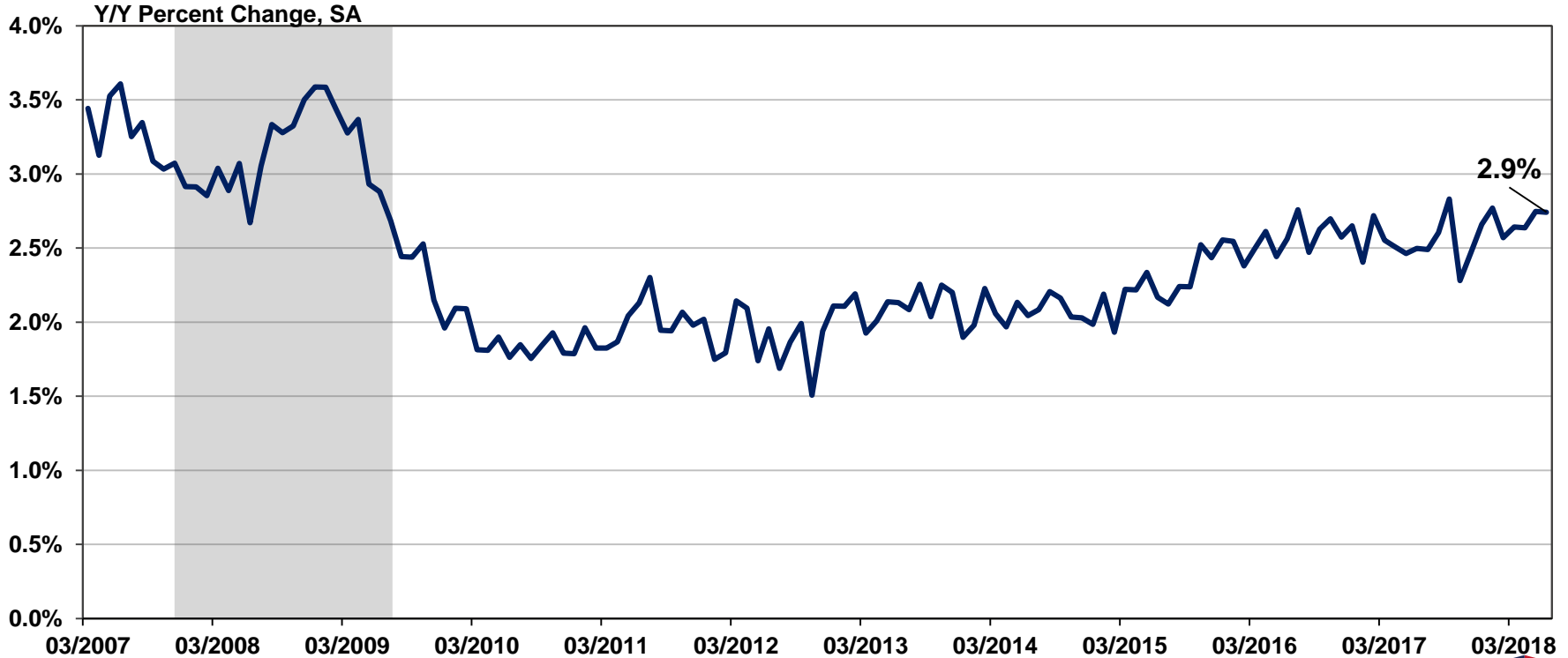
*Bonuses and wage growth will drive gains*



Source: U.S. Bureau of Economic Analysis (BEA) and NAHB forecast.

# Average Hourly Wages

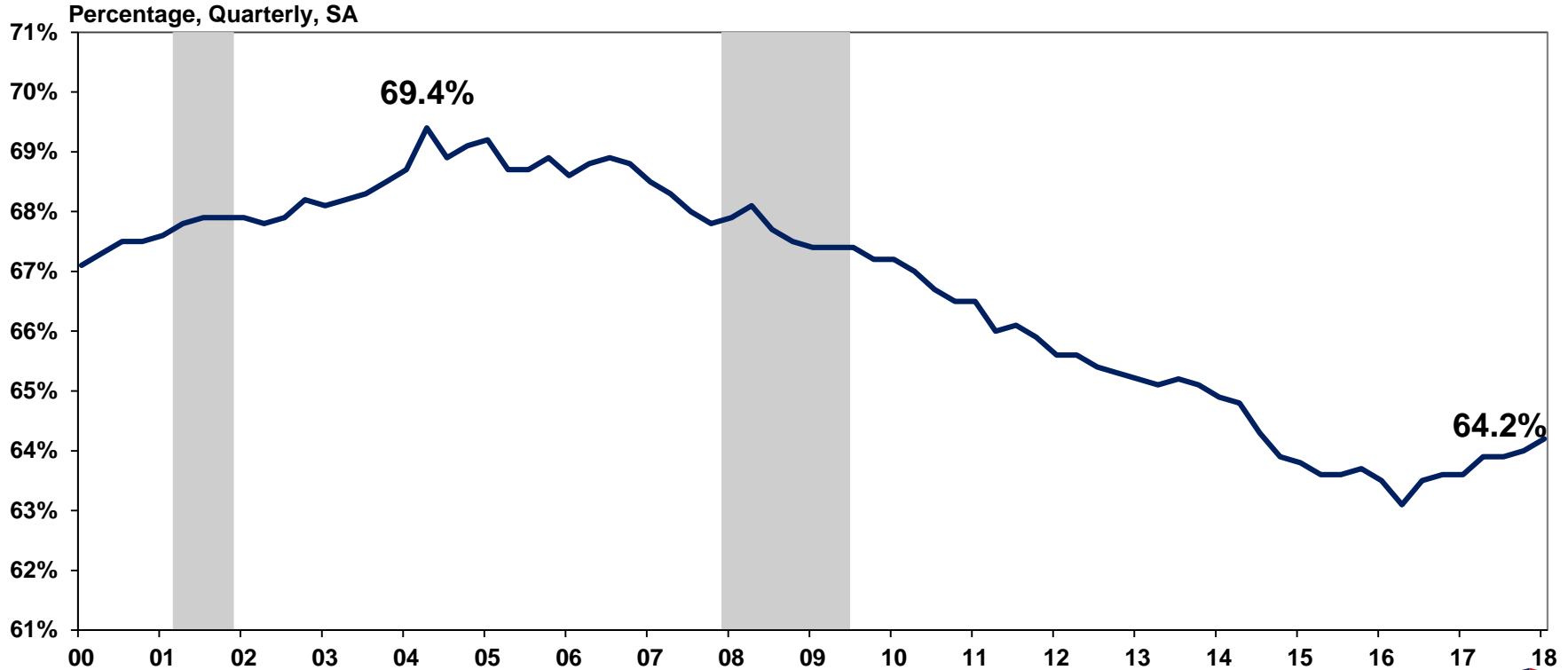
*Tight labor market plus tax reform should boost wage growth*



Source: U.S. Bureau of Labor Statistics (BLS).

Current wage growth better than the 2009-2015 period.

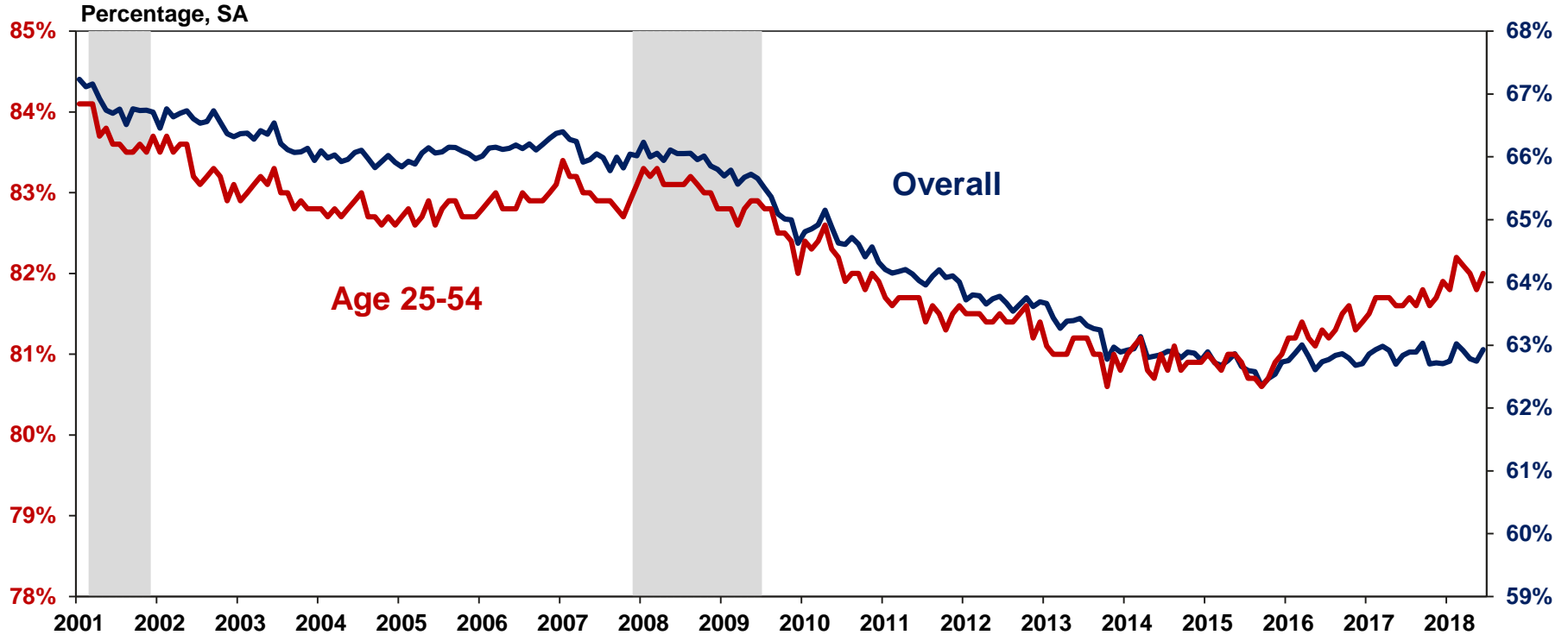
# Homeownership Rate



Source: U.S. Census Bureau (BOC): Housing Vacancies & Homeownership.

# Labor Force Participation Rate

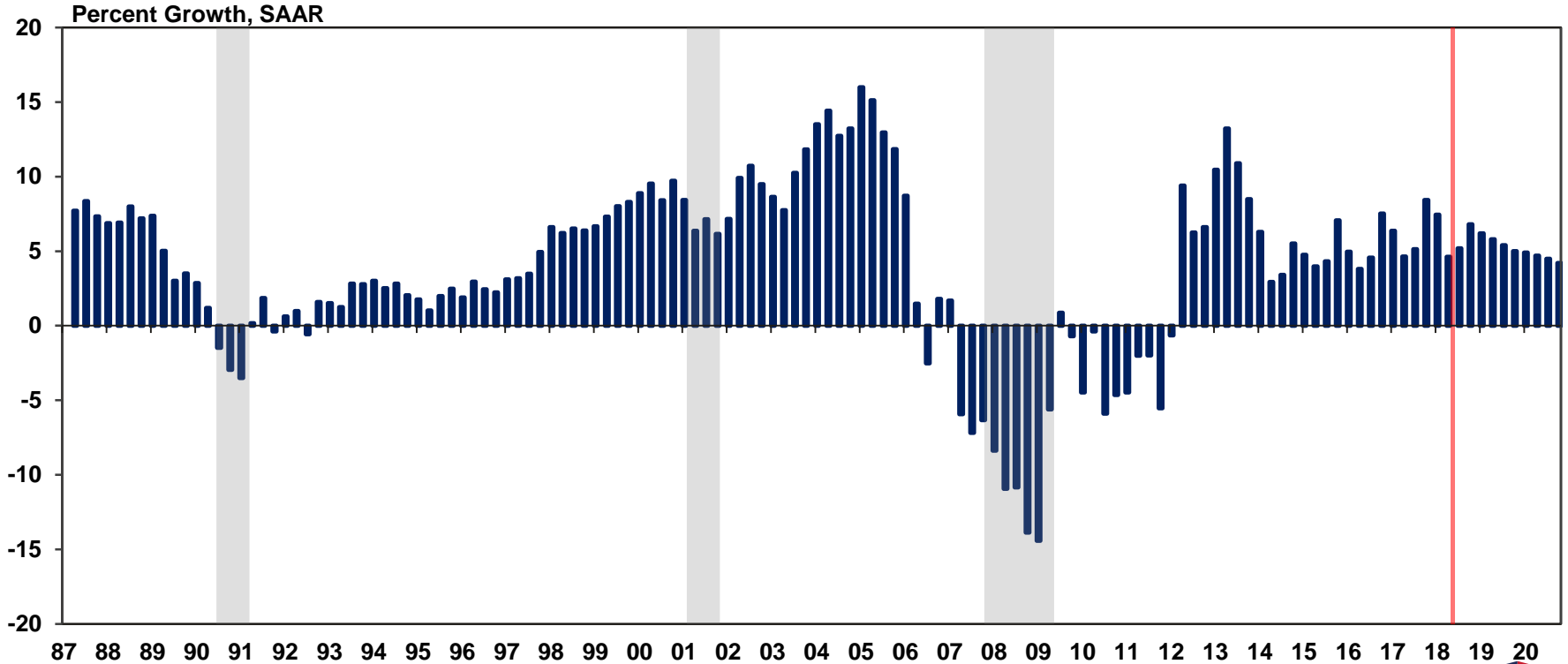
*Improving labor force participation key to future growth*



Source: U.S. Bureau of Labor Statistics (BLS).

# S&P/Case-Shiller National US Home Price Index

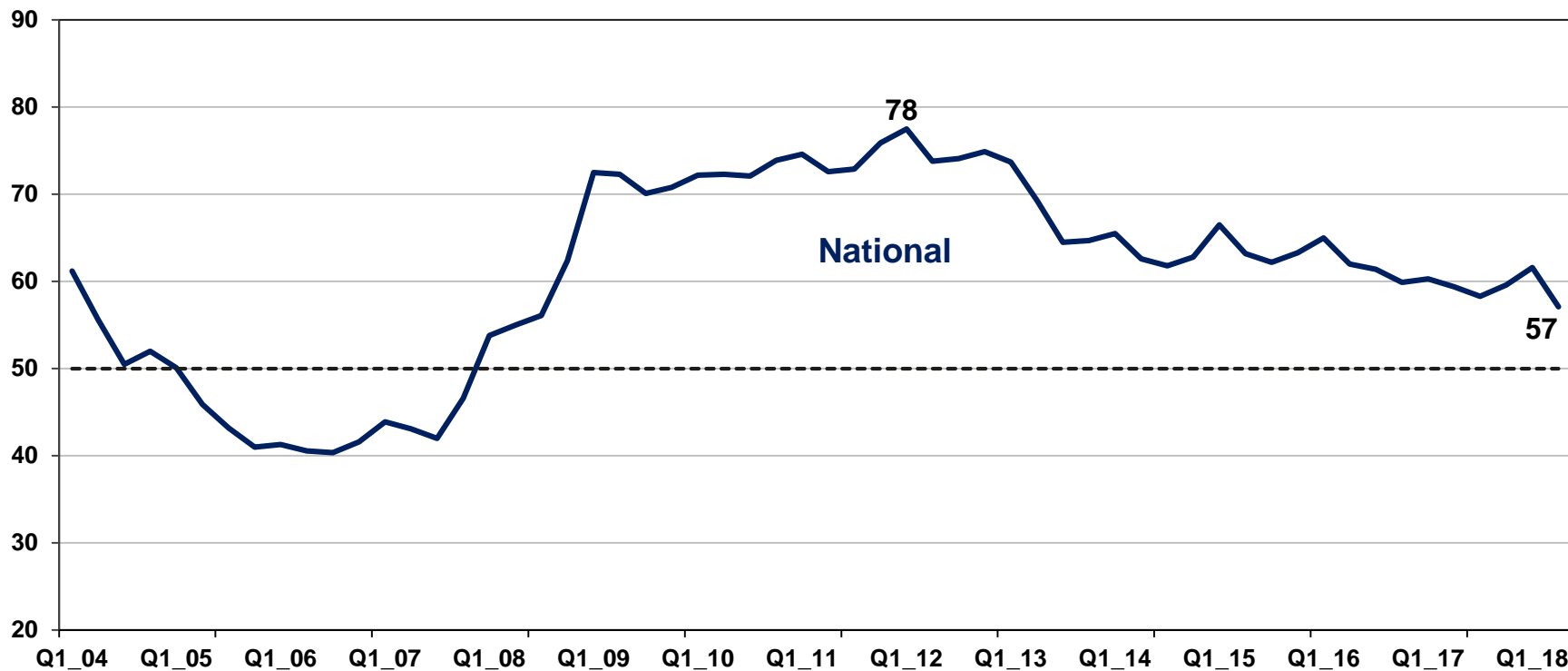
*Prices growing faster than income*



Source: S&P Dow Jones Indices LLC; CoreLogic, Inc. and NAHB forecast.



# Housing Affordability – NAHB/Wells Fargo HOI



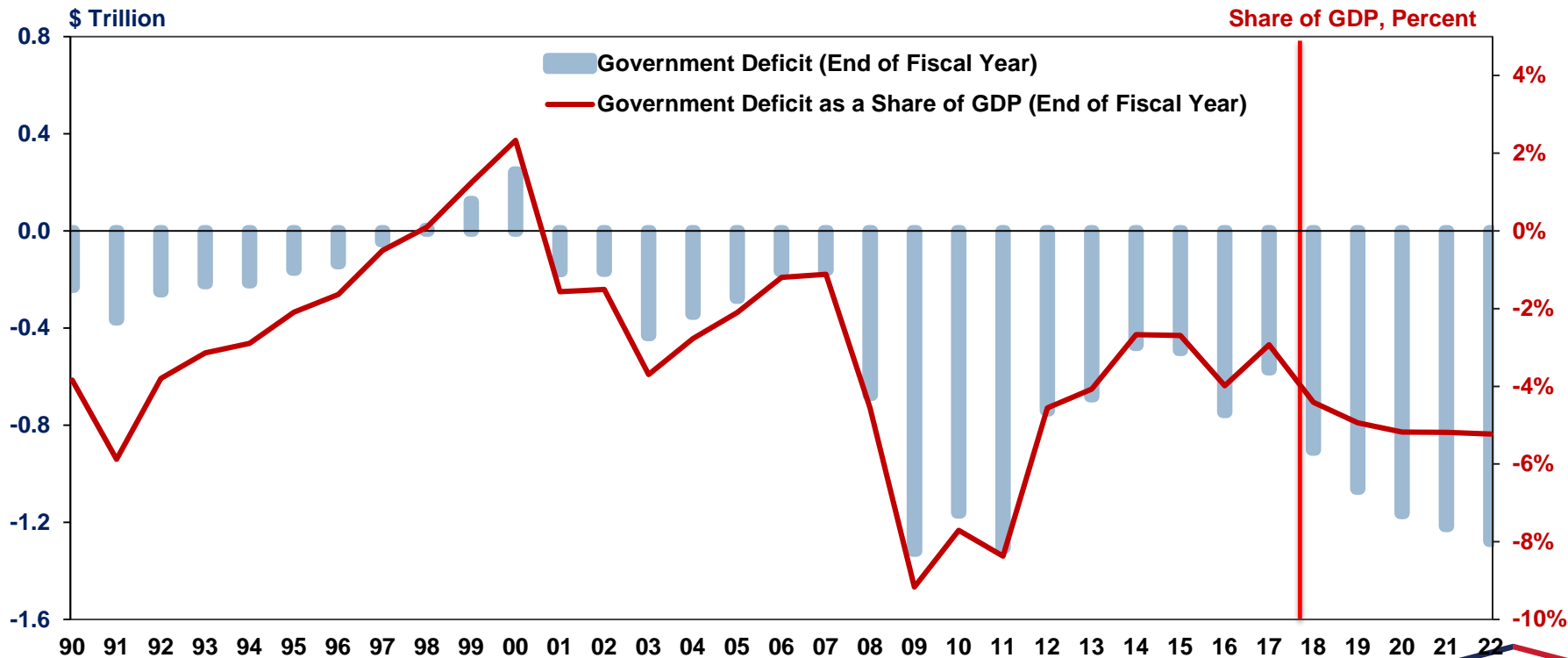
Source: NAHB/Wells Fargo Housing Opportunity Index.



Signs of  
Future  
Slowdown

# Government Deficits Growing

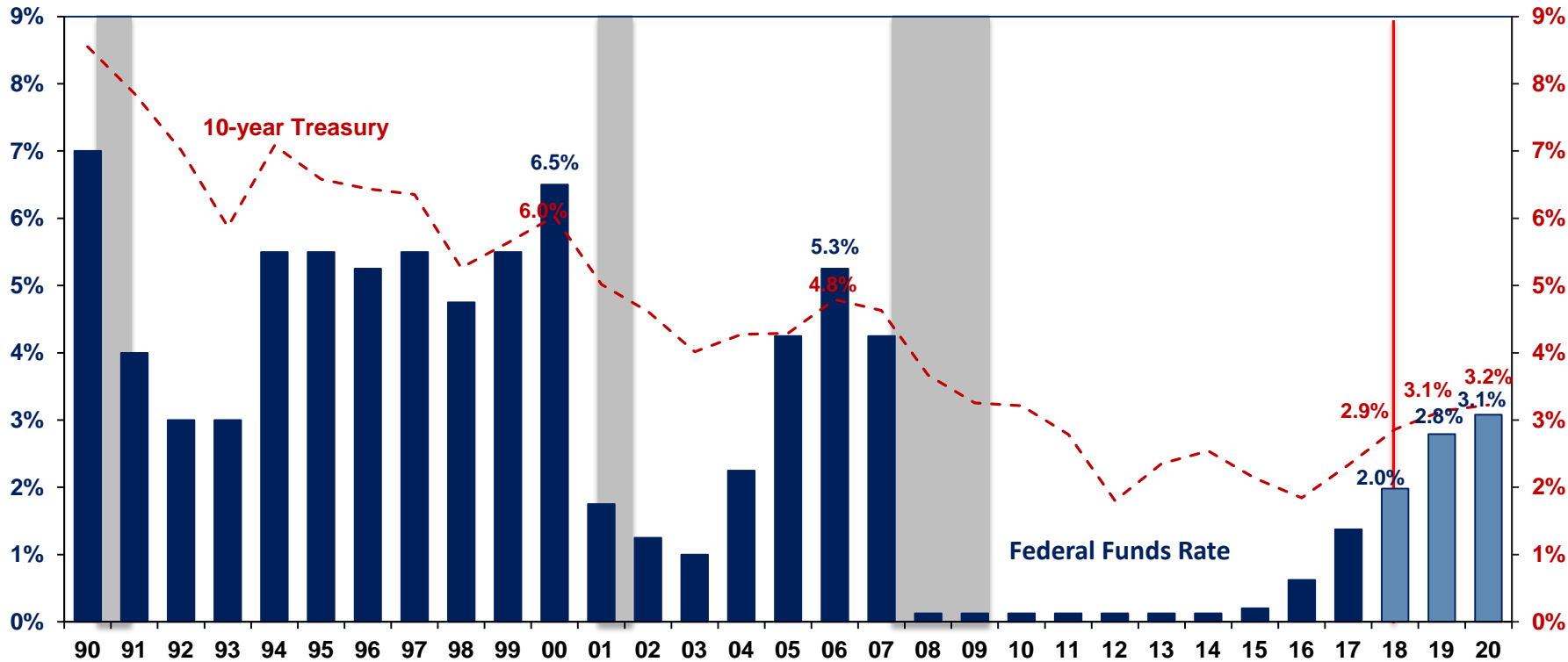
*Post-tax reform deficits add up to 30 basis points to 10-year Treasury rate*



Source: U.S. Treasury Department and Bureau of Economic Analysis (BEA) and NAHB forecast.

# Target Federal Funds Rate

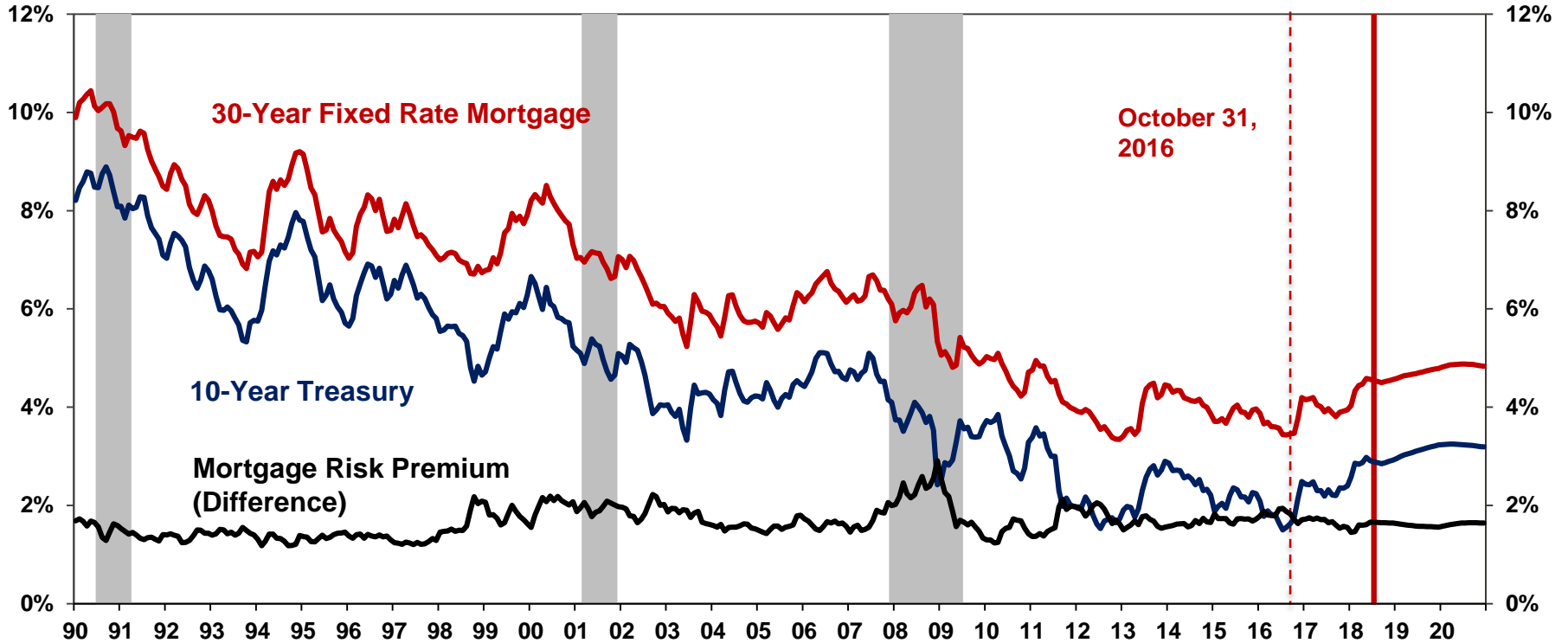
*Fed will continue to raise rates*



Source: Federal Reserve data and NAHB forecast.

# 30-Year Fixed Rate Mortgage and 10-Year Treasury

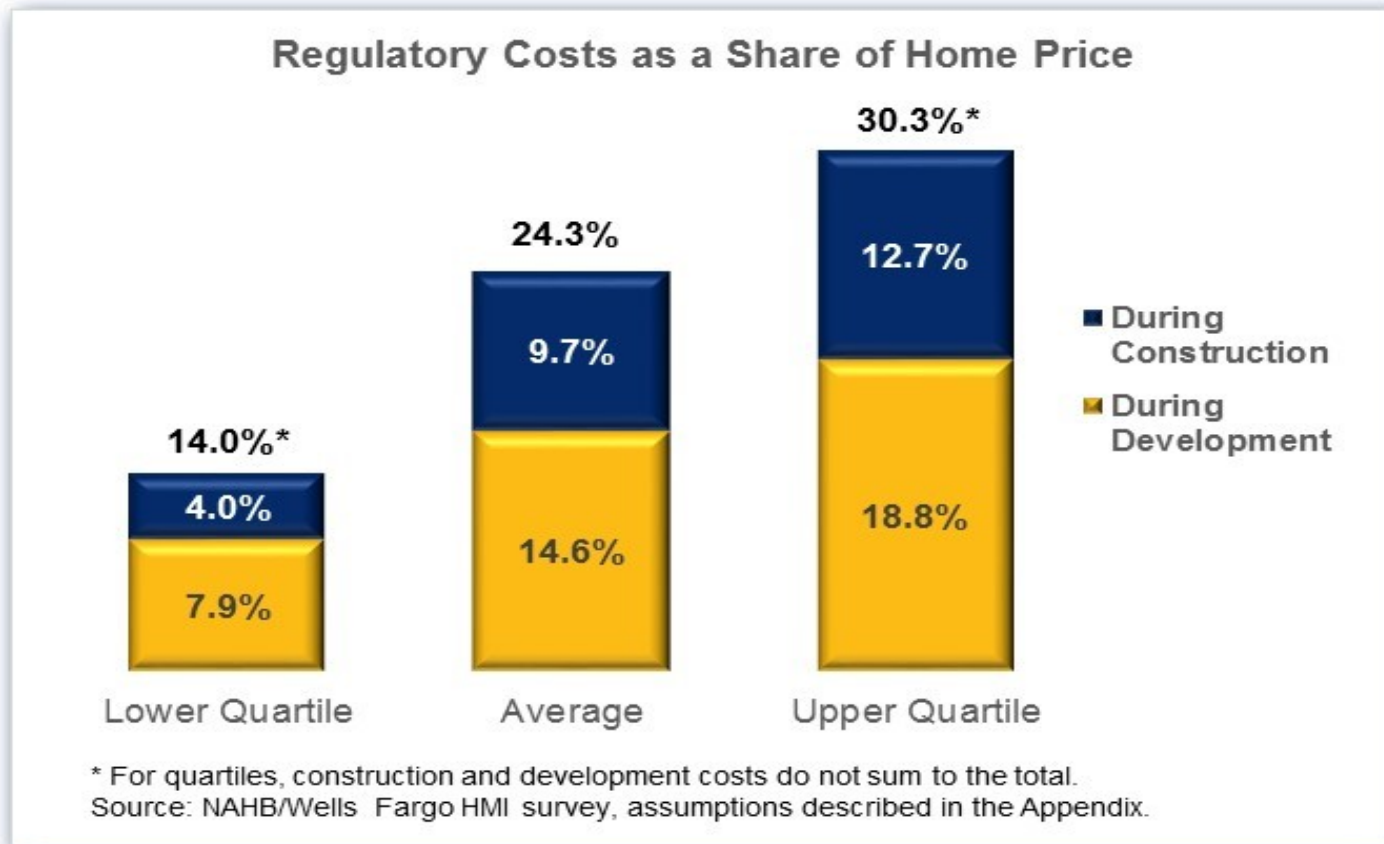
*Rates will rise due to Fed policy and tight labor markets*



Source: Federal Reserve and Freddie Mac data and NAHB forecast.

# Regulatory Costs Rising – Up 29% Over Last 5 Years

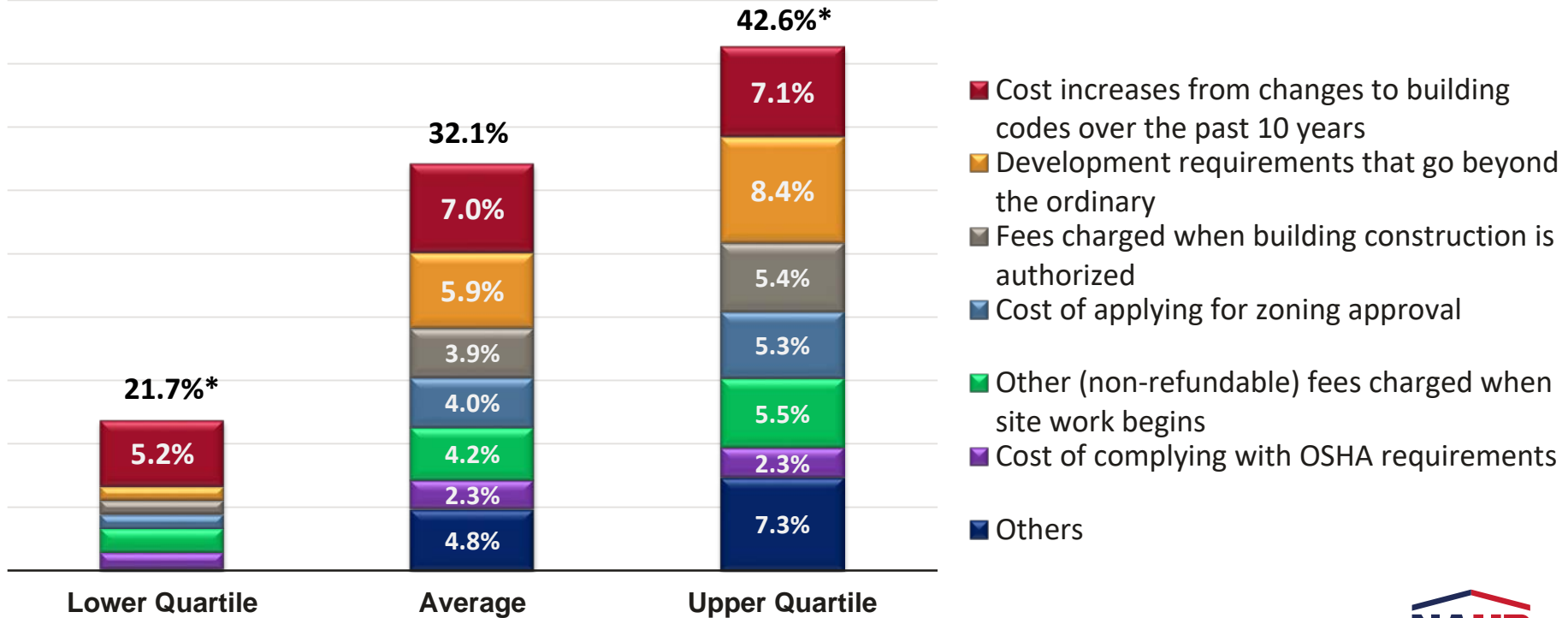
*Total effect of building codes, land use, environmental and other rules*



# Regulations - 32% of Multifamily Development Costs

New NAHB-NMHC research

## Government Regulations as a Share of Multifamily Development Costs

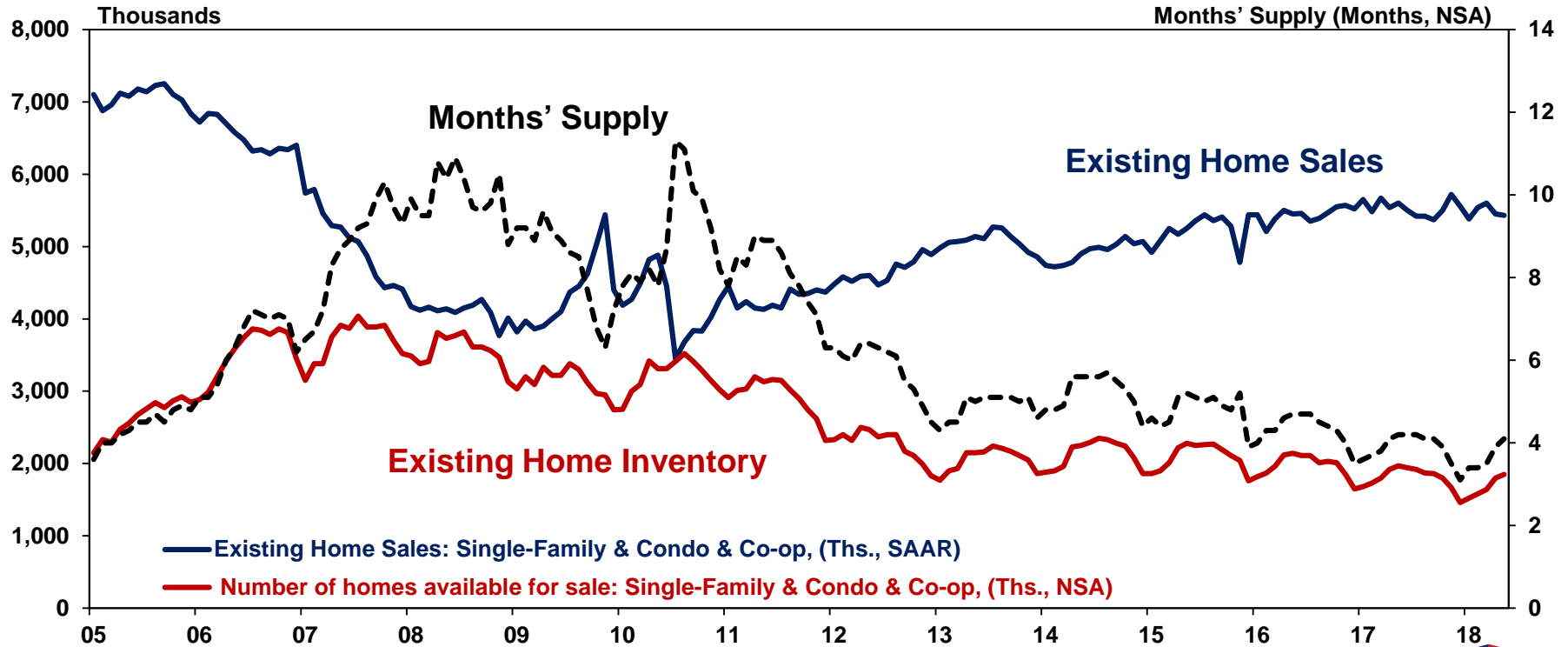


Note: \* For quartiles, all types of costs do not sum to the total.

Source: NAHB/Wells Fargo HMI survey.

# Existing Home Sales

*Low inventory*



Source: National Association of Realtors (NAR).

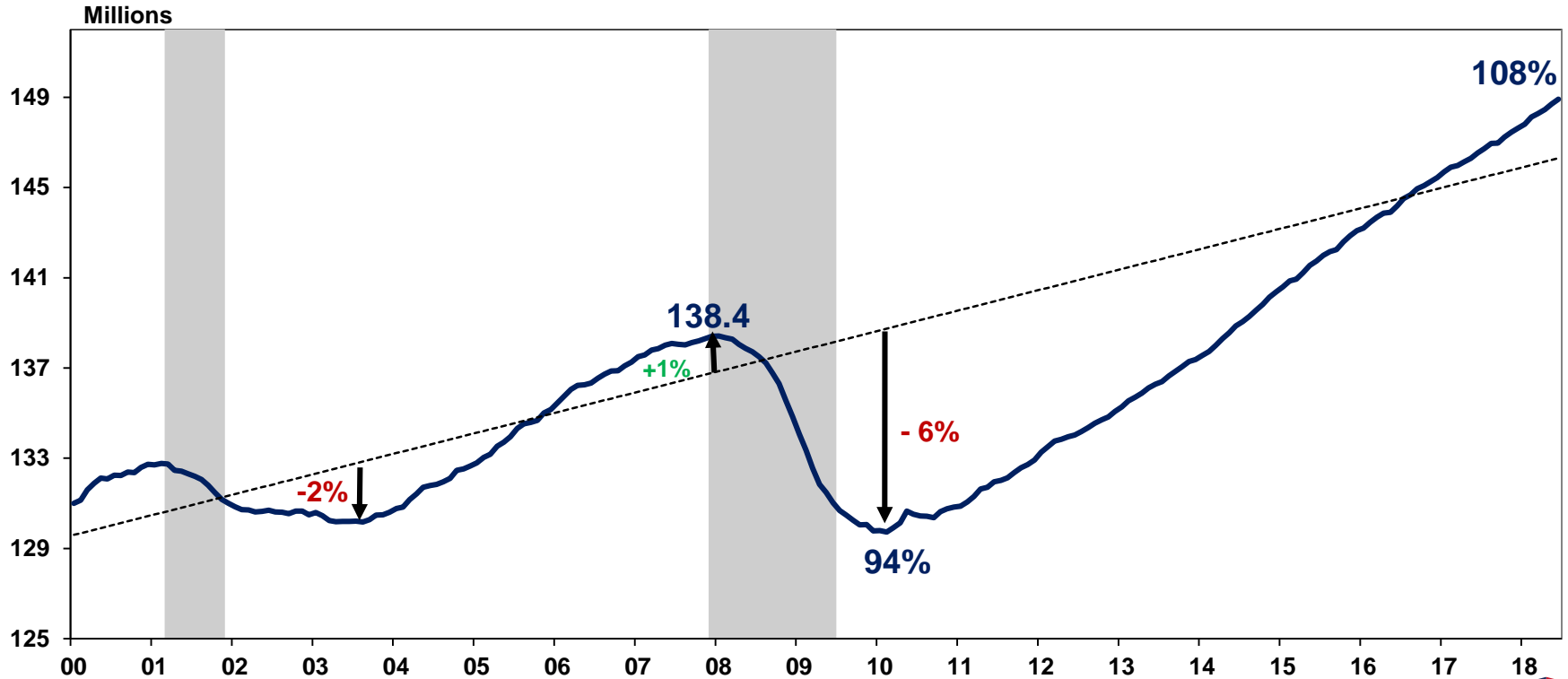




# Supply Constraints

# US Payroll Employment

Adding jobs



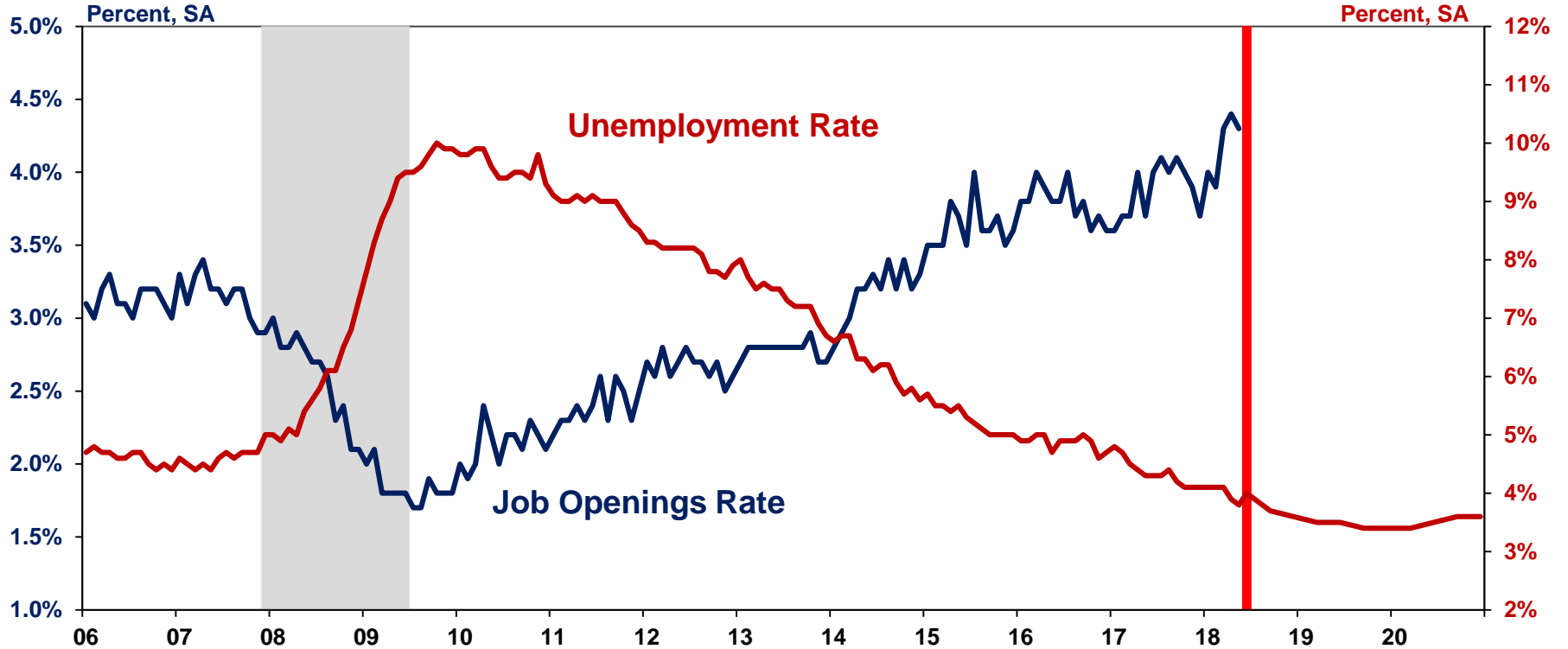
Source: U.S. Bureau of Labor Statistics (BLS).



Job growth continues and is limited by available workers seeking employment.

# Tight Labor Market

*How low can unemployment go?*



Source: U.S. Bureau of Labor Statistics (BLS) and NAHB forecast.



# Young People

**Median Age Residential Construction – 41 years**

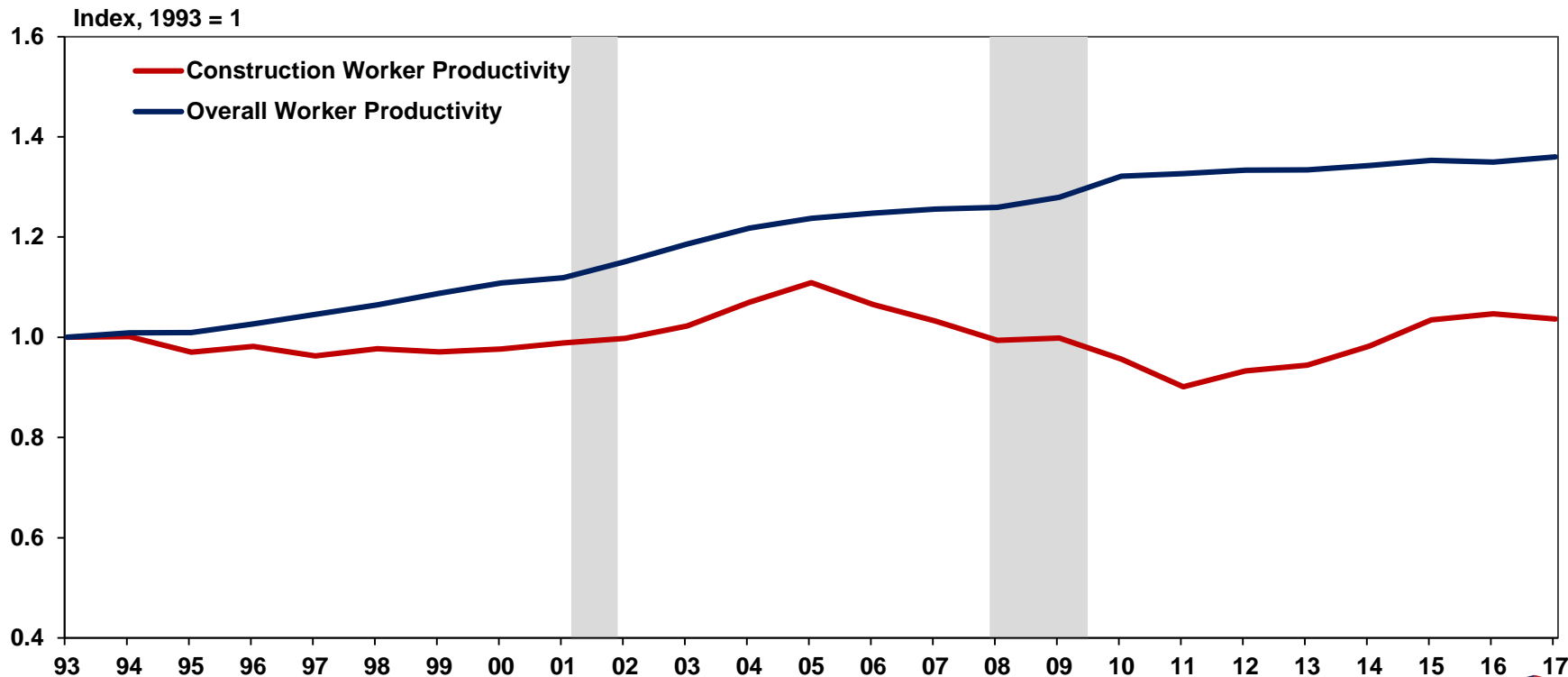
**Training and marketing to gen Z, and parents.**

**1 million high school grads not going to college, or drop out of college.**

- **Home Builders Institute partnerships**
- **Colorado Springs Home Builders Association**
- **National Housing Endowment**
- **National Council for the American Worker**
- **What would it take to interest high school students**

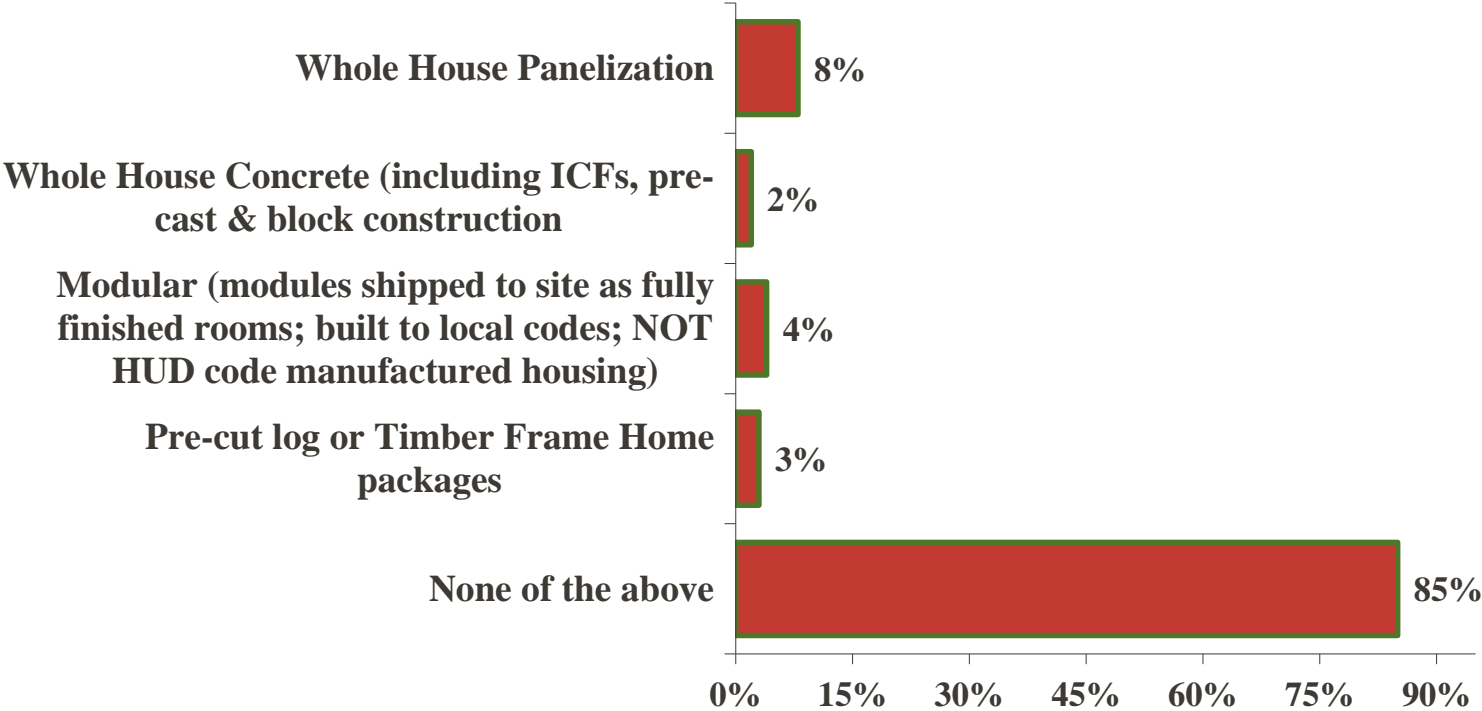
# Construction Sector Productivity

*Lagging overall economy*

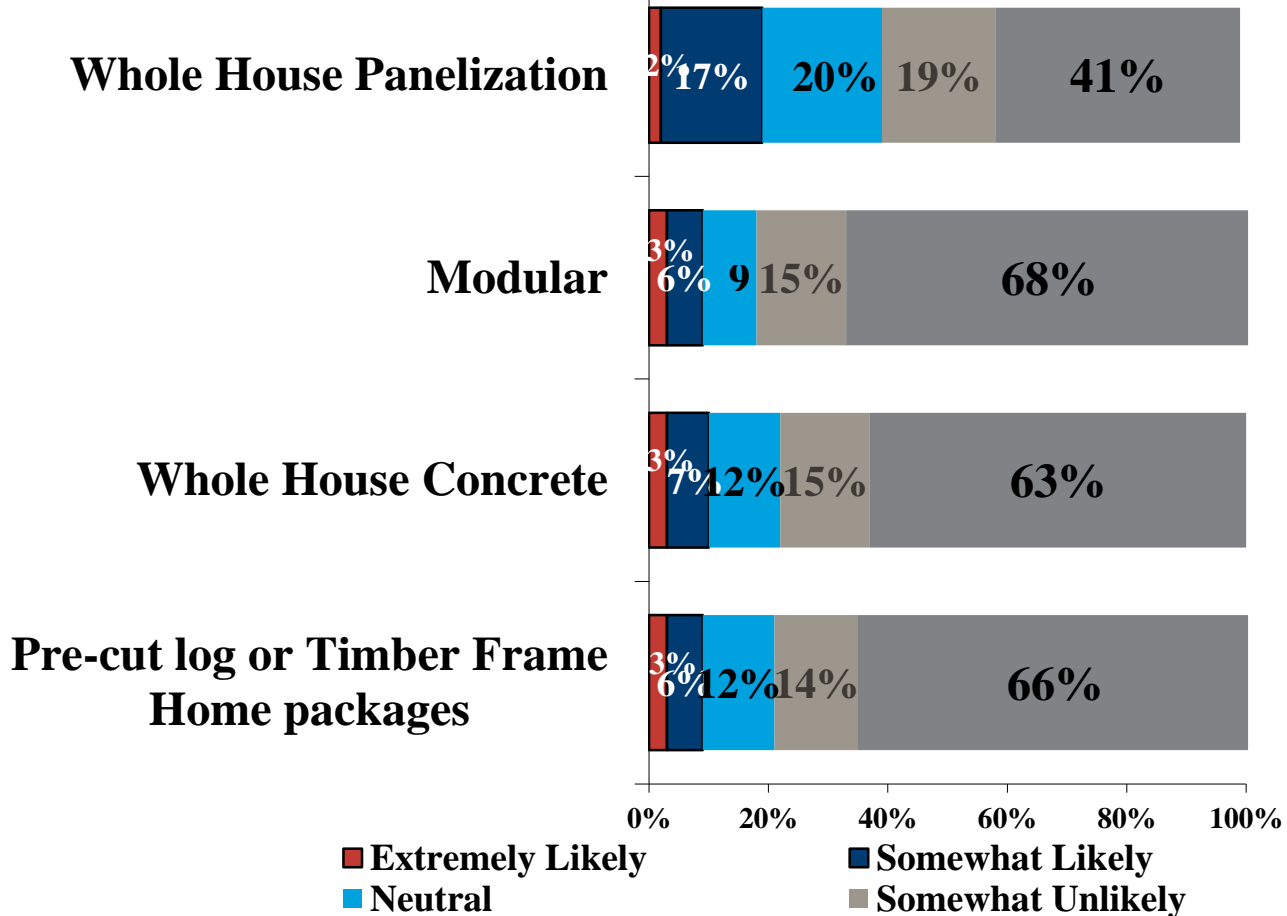


Source: U.S. Bureau of Labor Statistics (BLS).

Indicate if you are currently using any of the following construction methods in the homes you build (% Respondents)

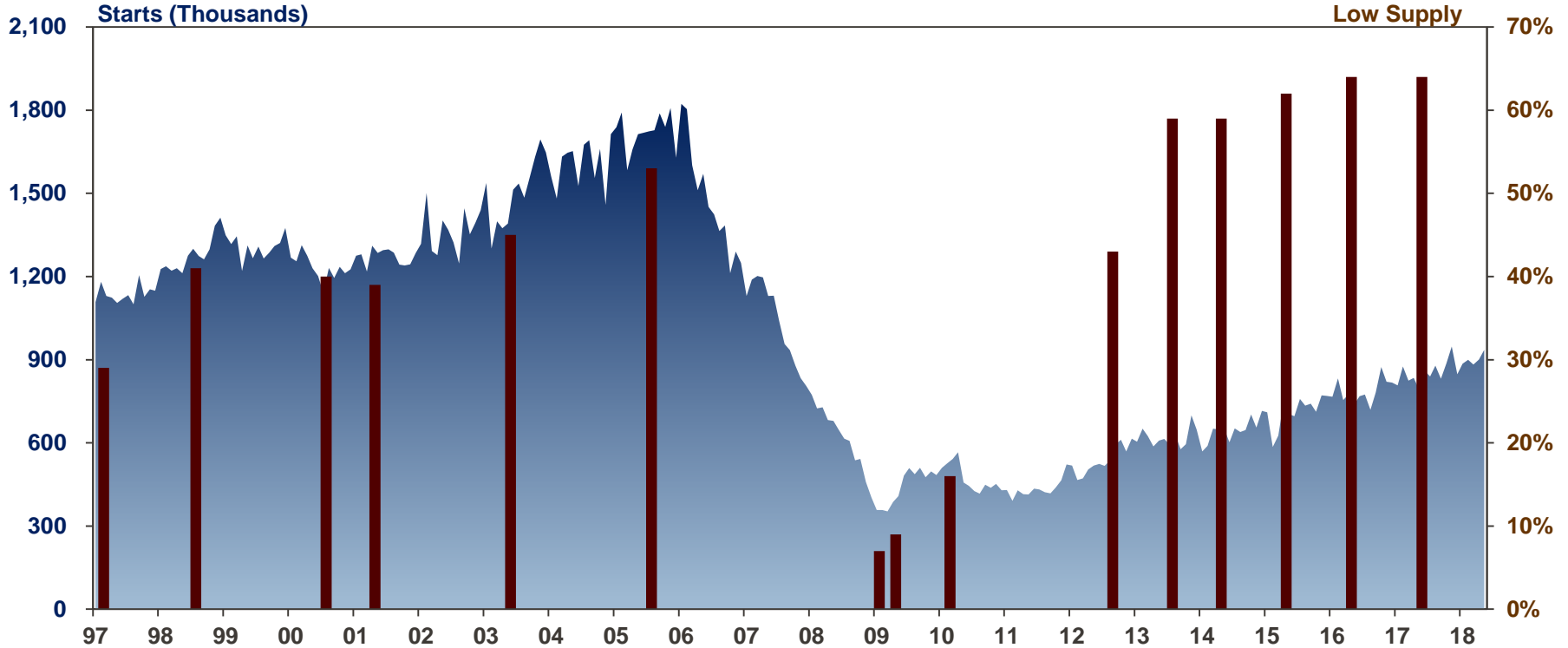


# If currently not using, how likely you are to use these in future? (% Respondents)



# Lots

Housing Starts (Area) and Low/Very Low Lot Supply (bars)

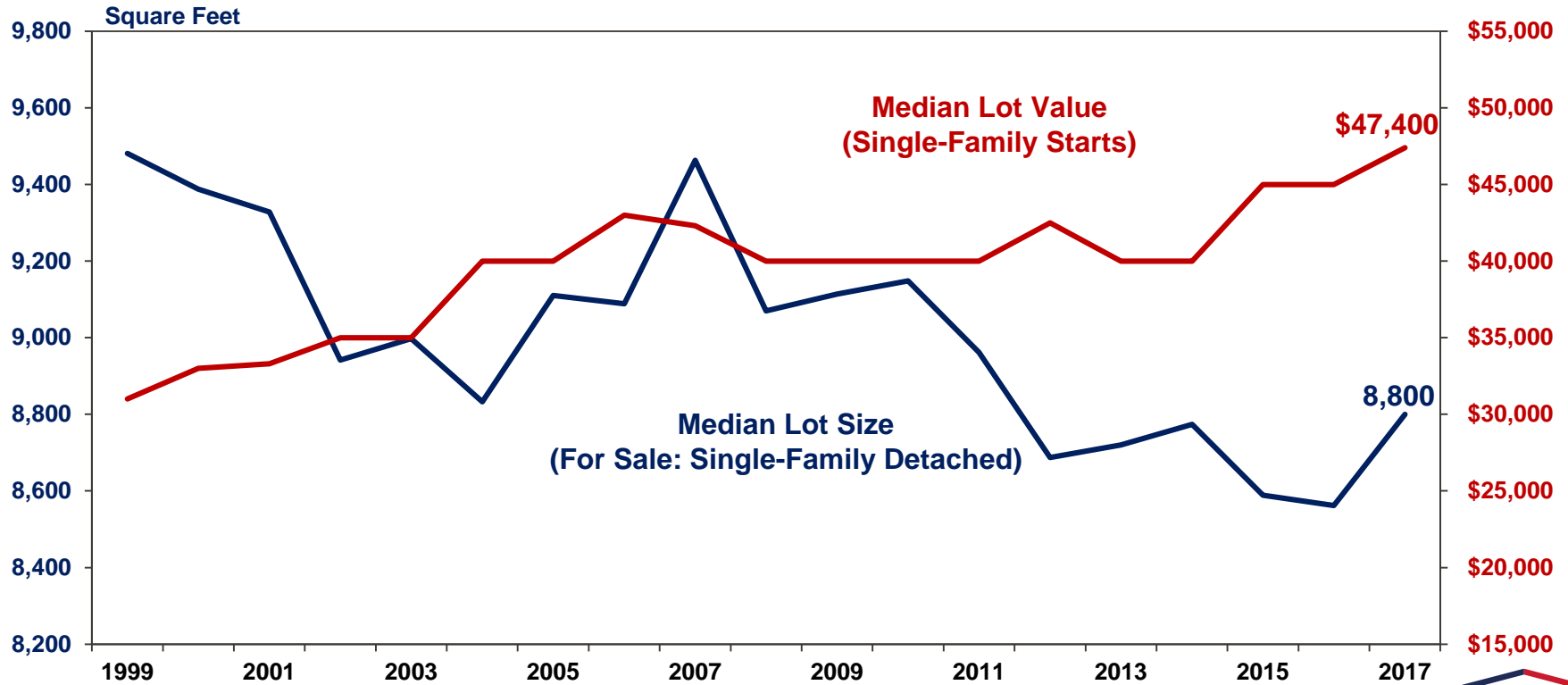


Source: Census Bureau and NAHB/Wells Fargo HMI survey.



# Median Lot Value and Size

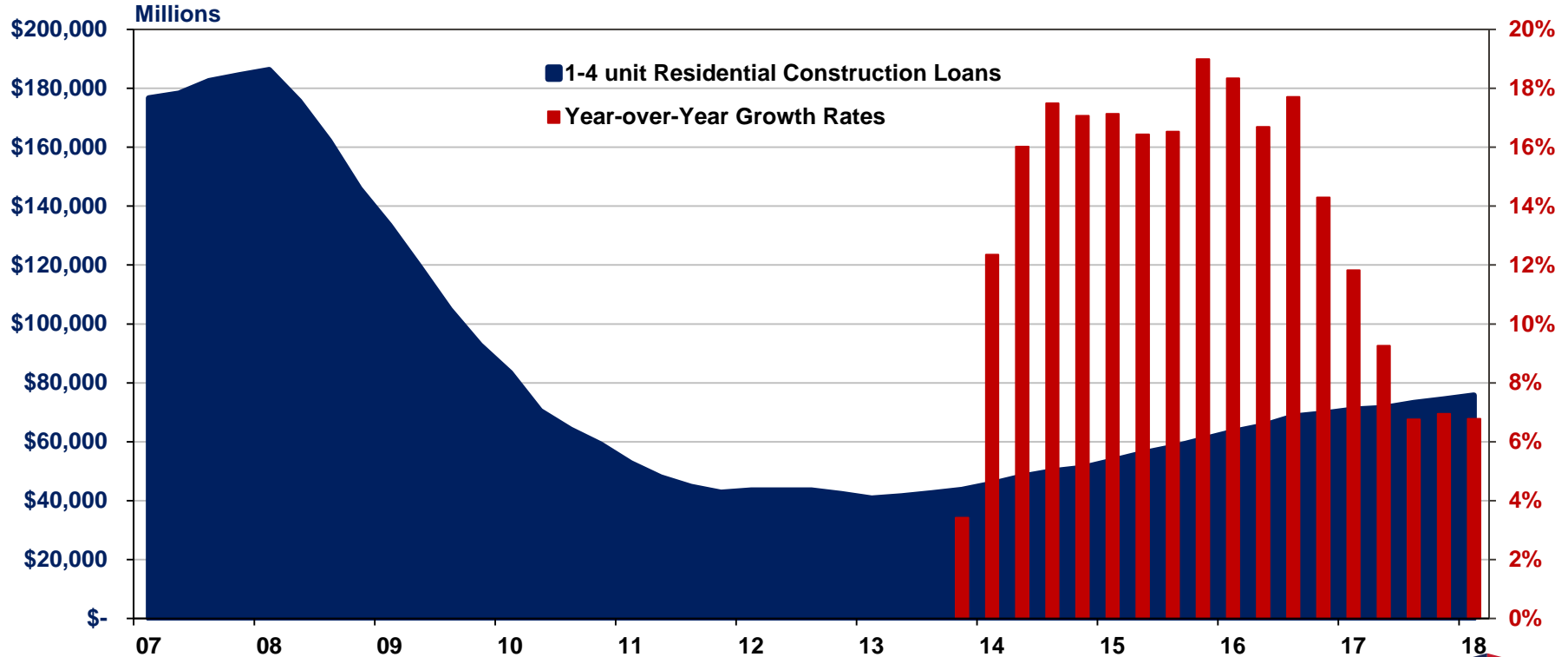
*Lot size declining --- lot value increasing*



Source: 2015 Survey of Construction (SOC) and NAHB Economics Estimates.

# Lending – AD&C Access

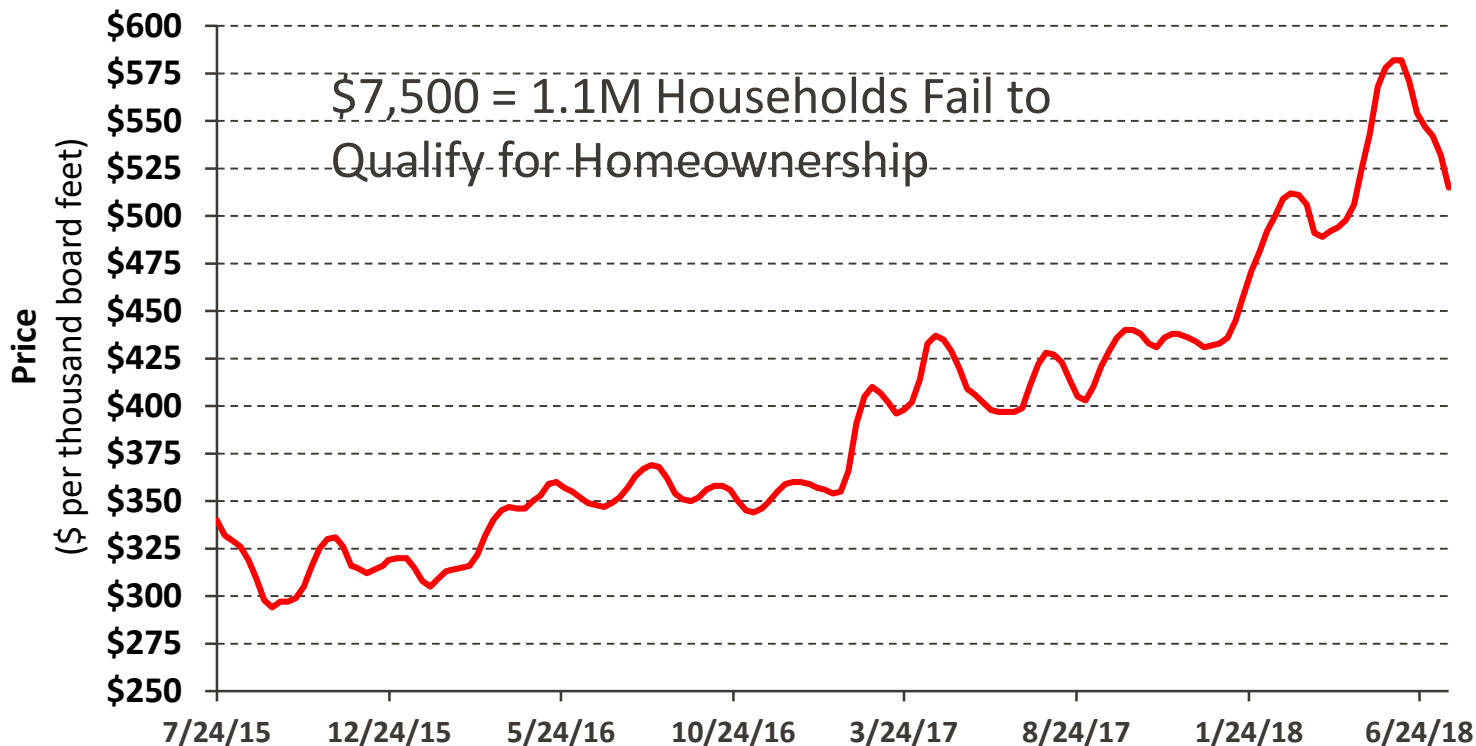
*Loans growing but at a slower rate*



Source: Federal Deposit Insurance Corporation.

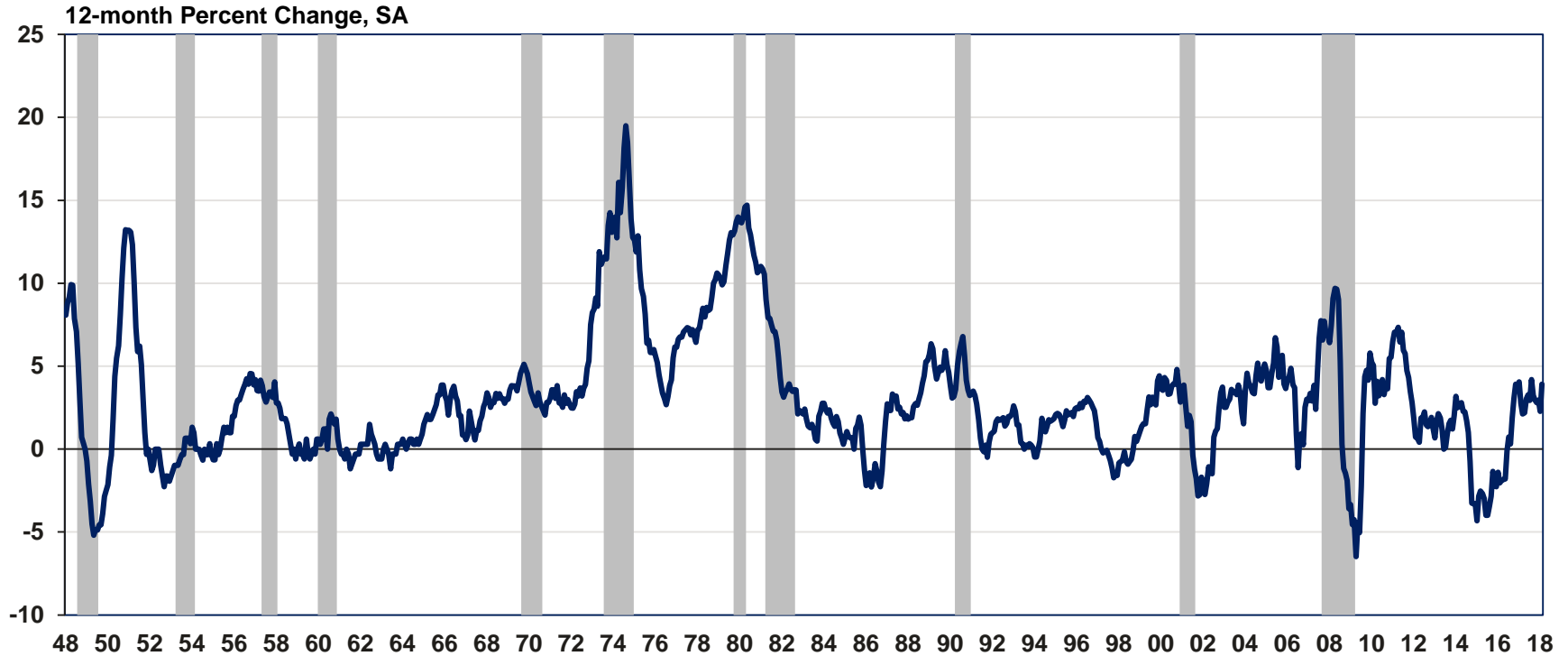
# Lumber Prices

Up 30% since 2017; 63% at peak (\$453 on September 7, 2018)



Source: NAHB Analysis; Random Lengths Composite Index

# Rising Producer Prices

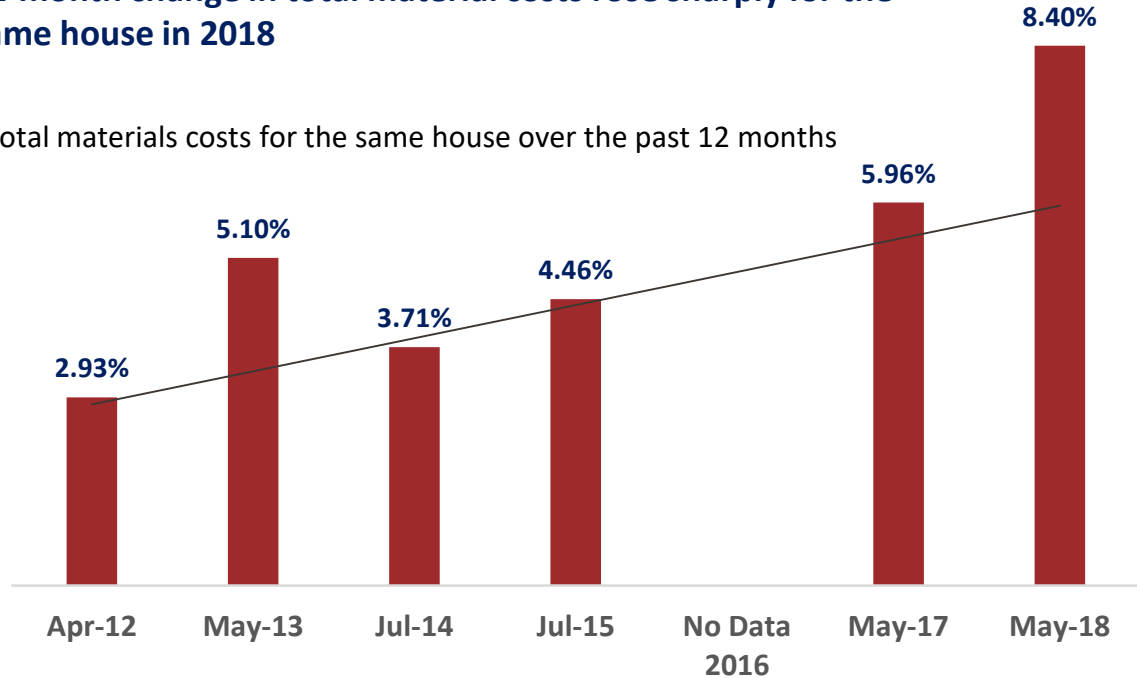


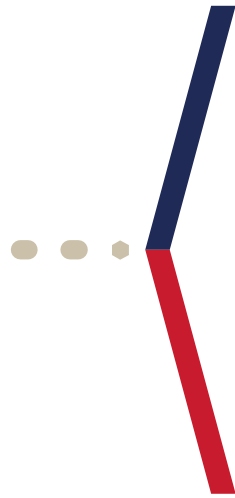
Source: U.S. Bureau of Labor Statistics (BLS).

# Material Costs

**12-month change in total material costs rose sharply for the same house in 2018**

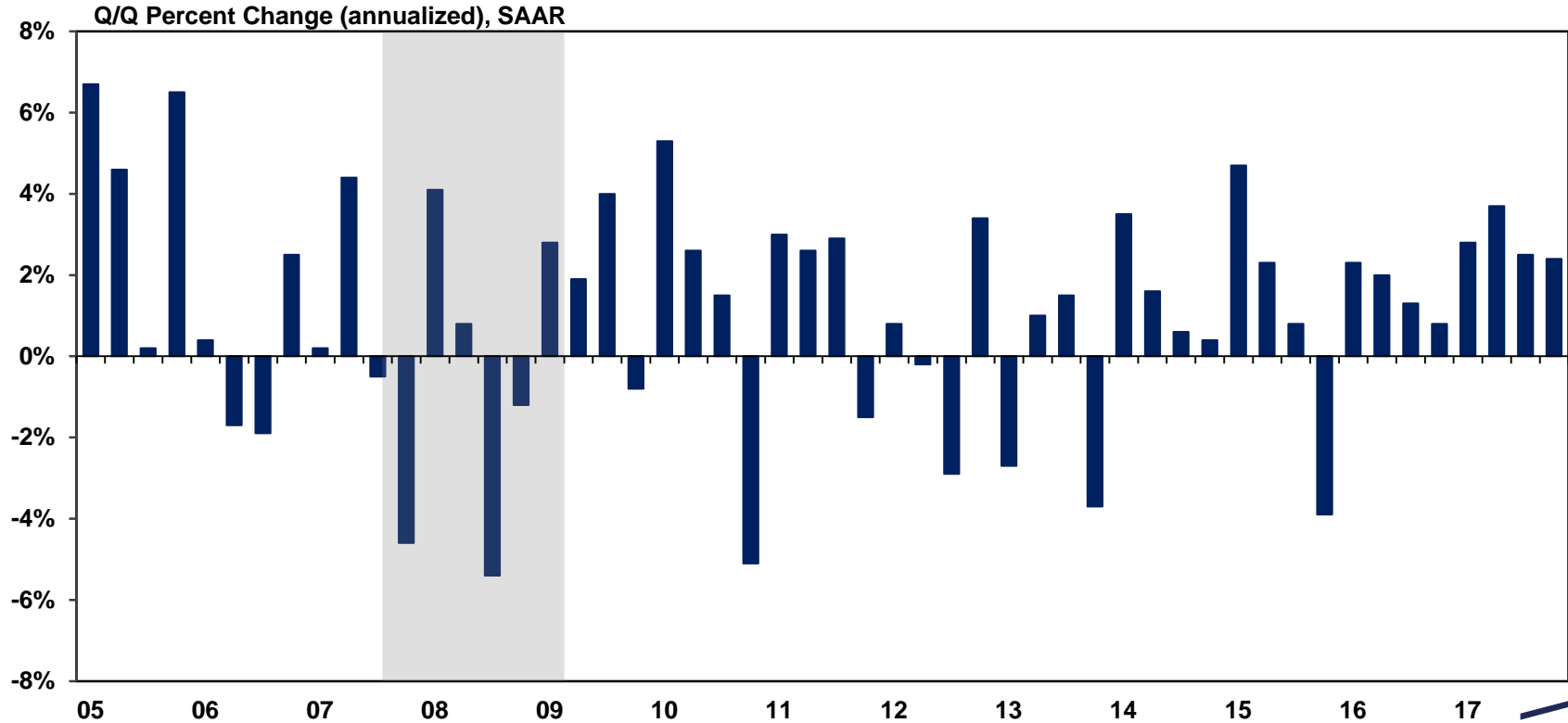
Change in total materials costs for the same house over the past 12 months



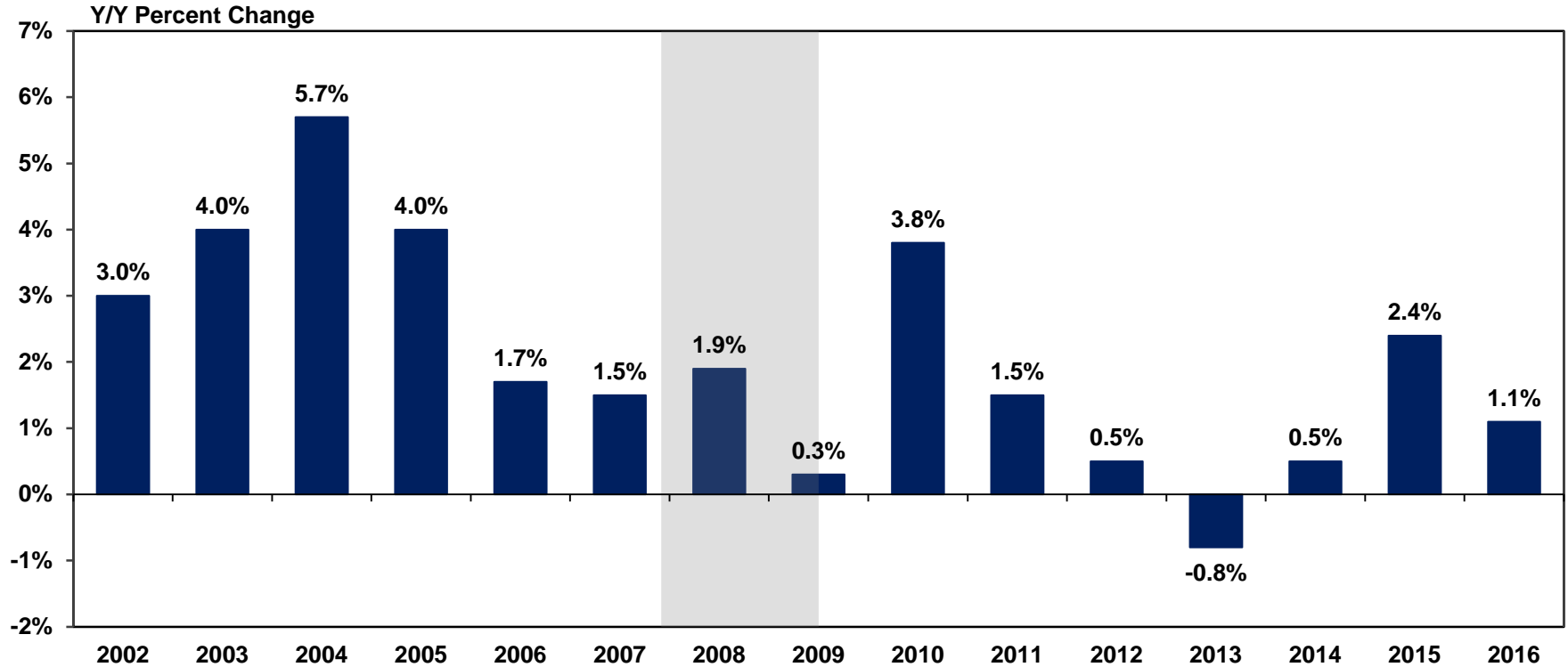


# Local Look

# Virginia GDP Growth



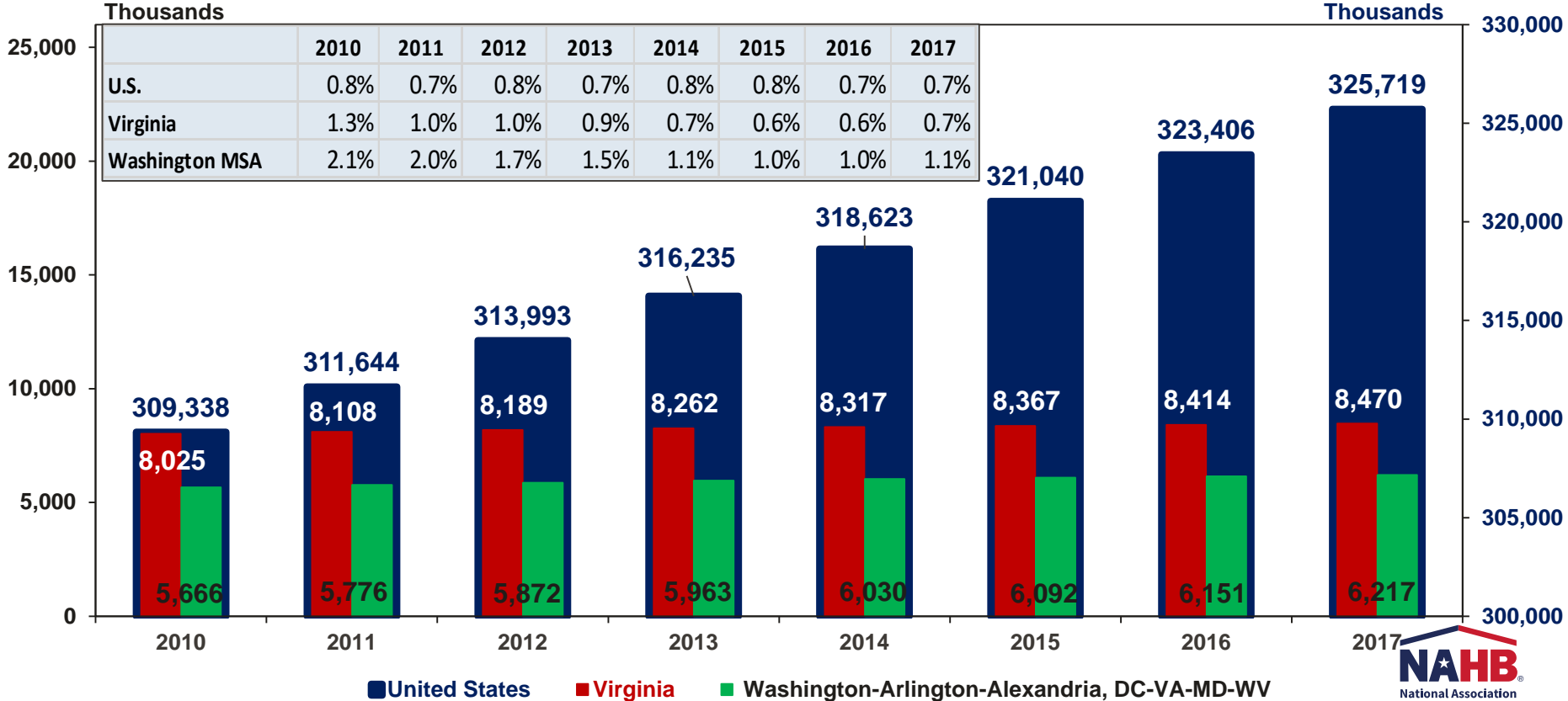
# Washington MSA Real GDP Growth





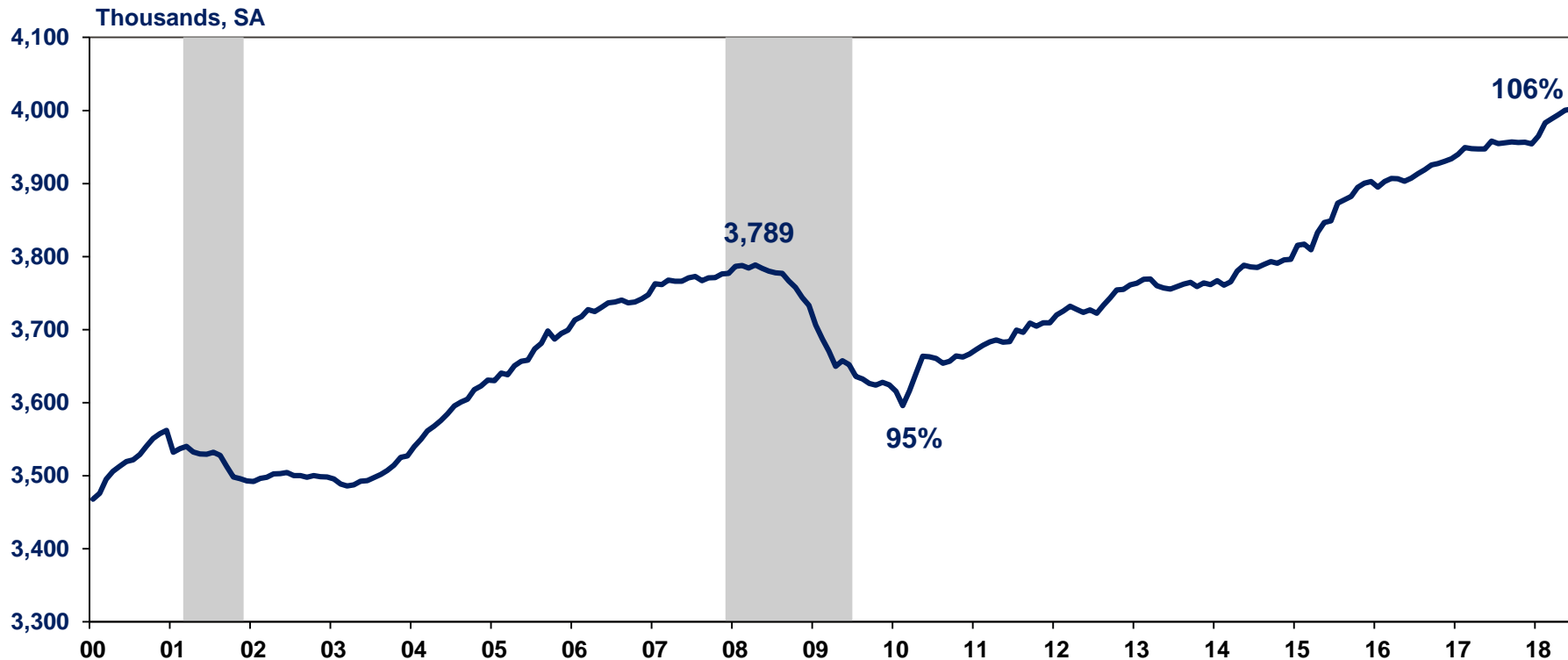
# Population Growth

Washington MSA population grew faster than statewide rates



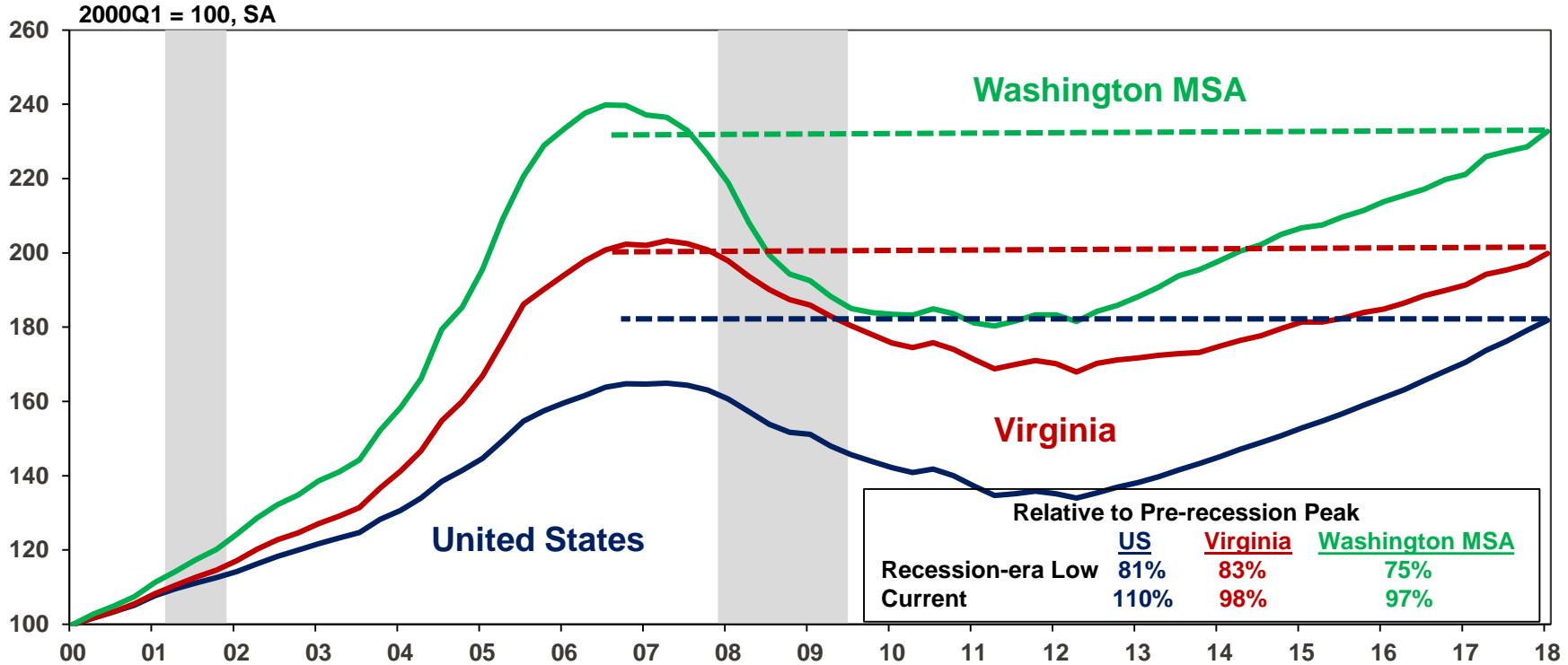
# Payroll Employment

Virginia above pre-recession peak



# Existing House Price Index

Washington MSA below pre-recession peak



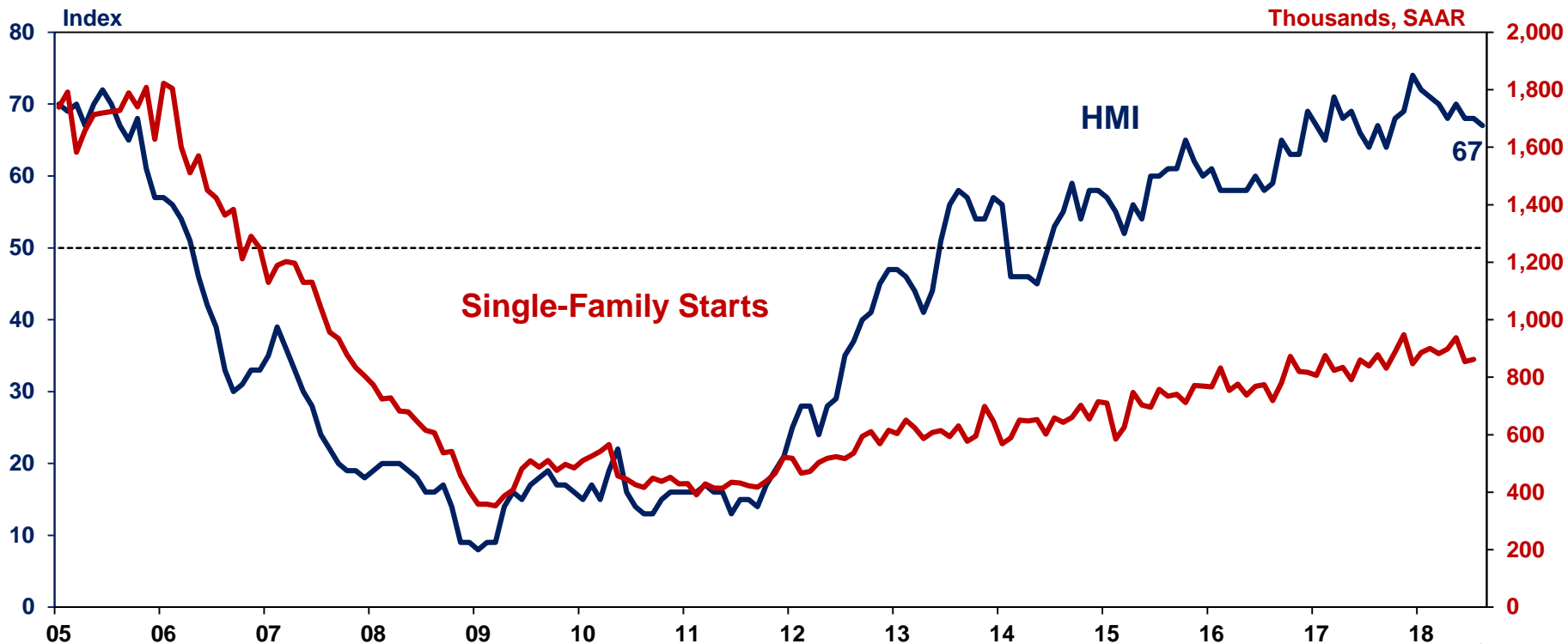


# Forecasts



# NAHB/Wells Fargo Housing Market Index

Nearly two-decade high for builder confidence

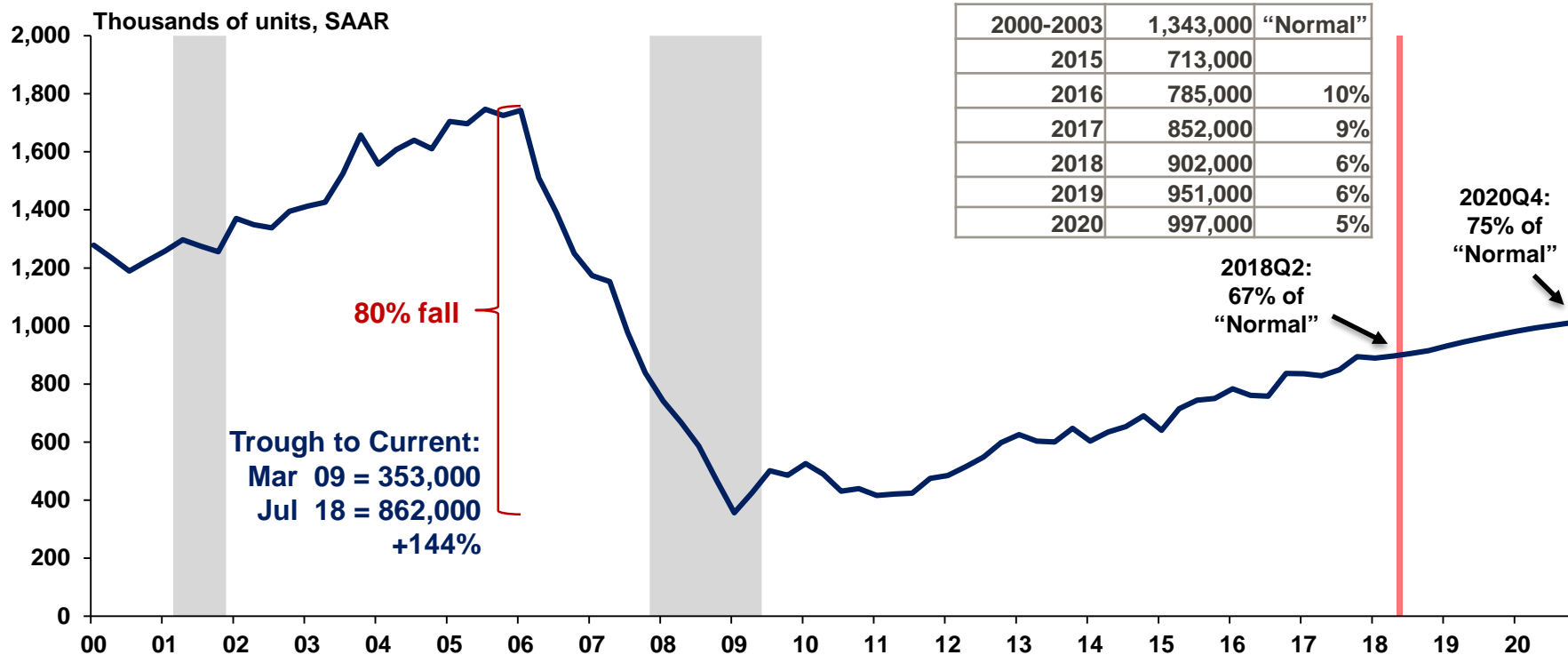


Source: Census Bureau and NAHB/Wells Fargo HMI survey.



# Single-Family Starts

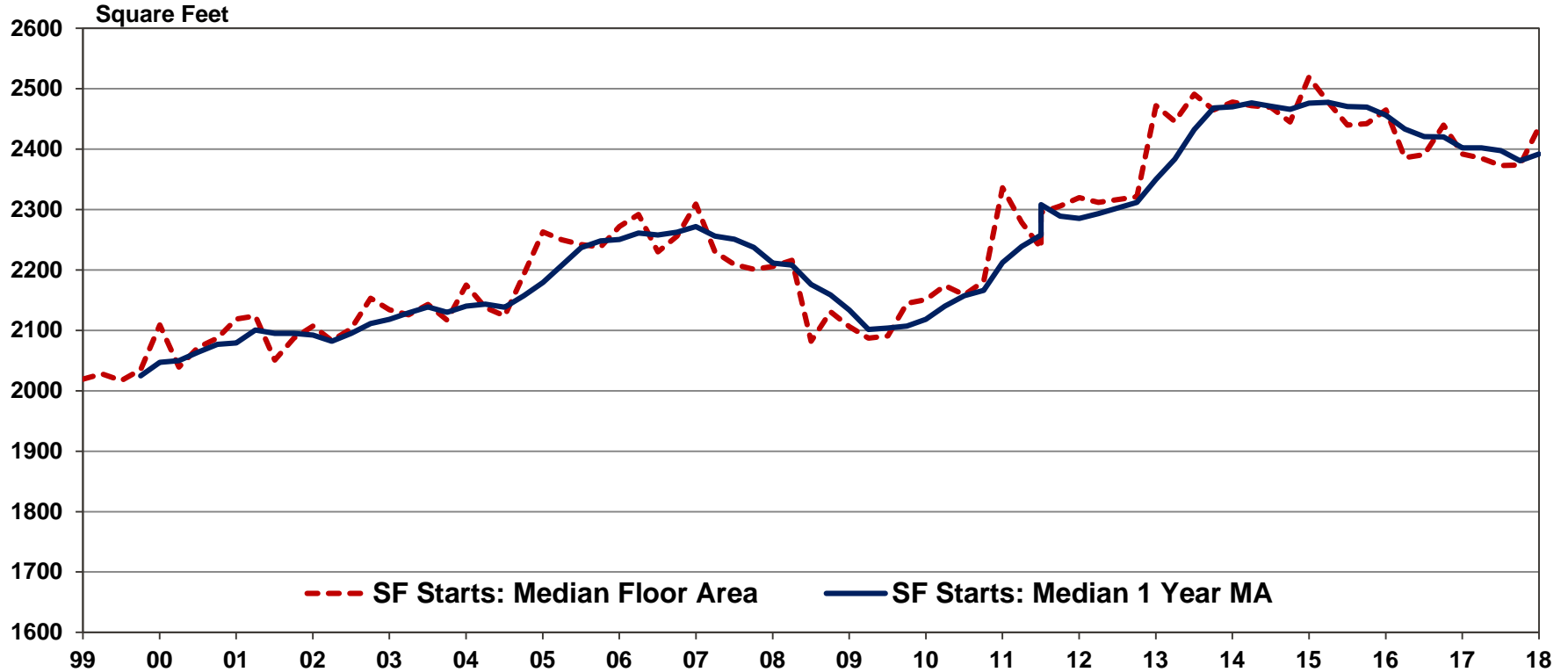
*Modest growth ahead*



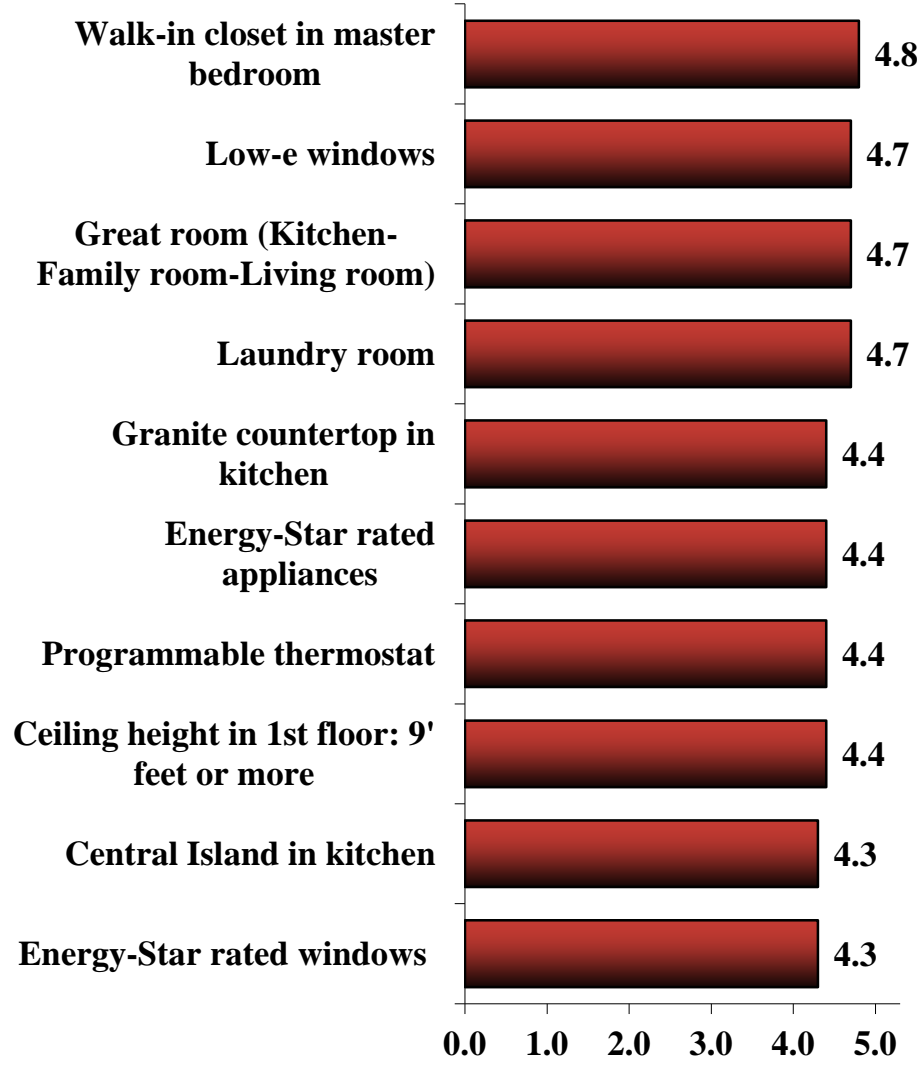
Source: Census Bureau and NAHB forecast.

# Typical New Home Size

*Decline after market shift*

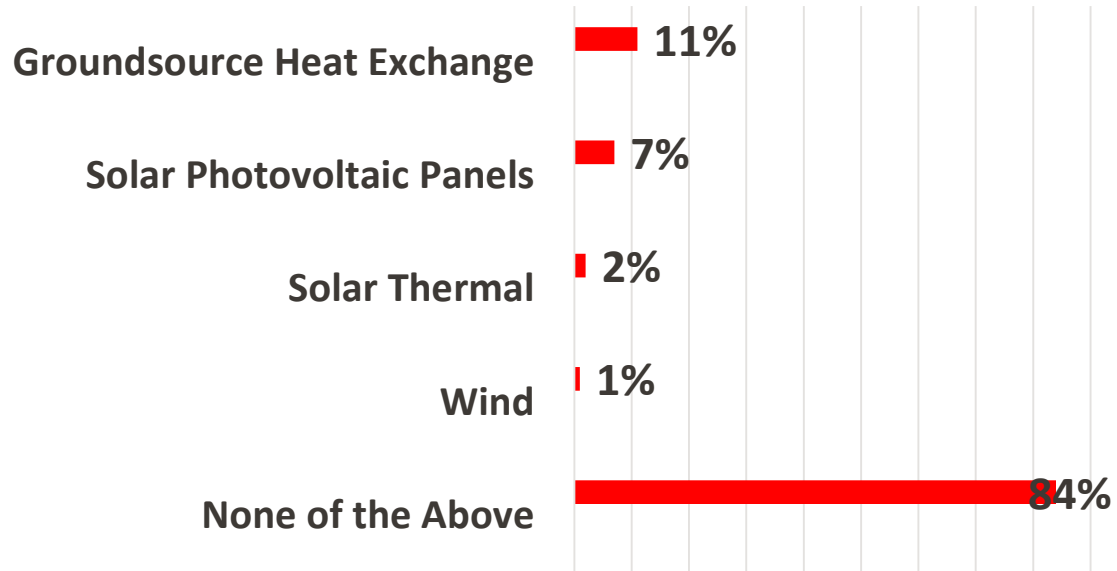


Source: Census Bureau.



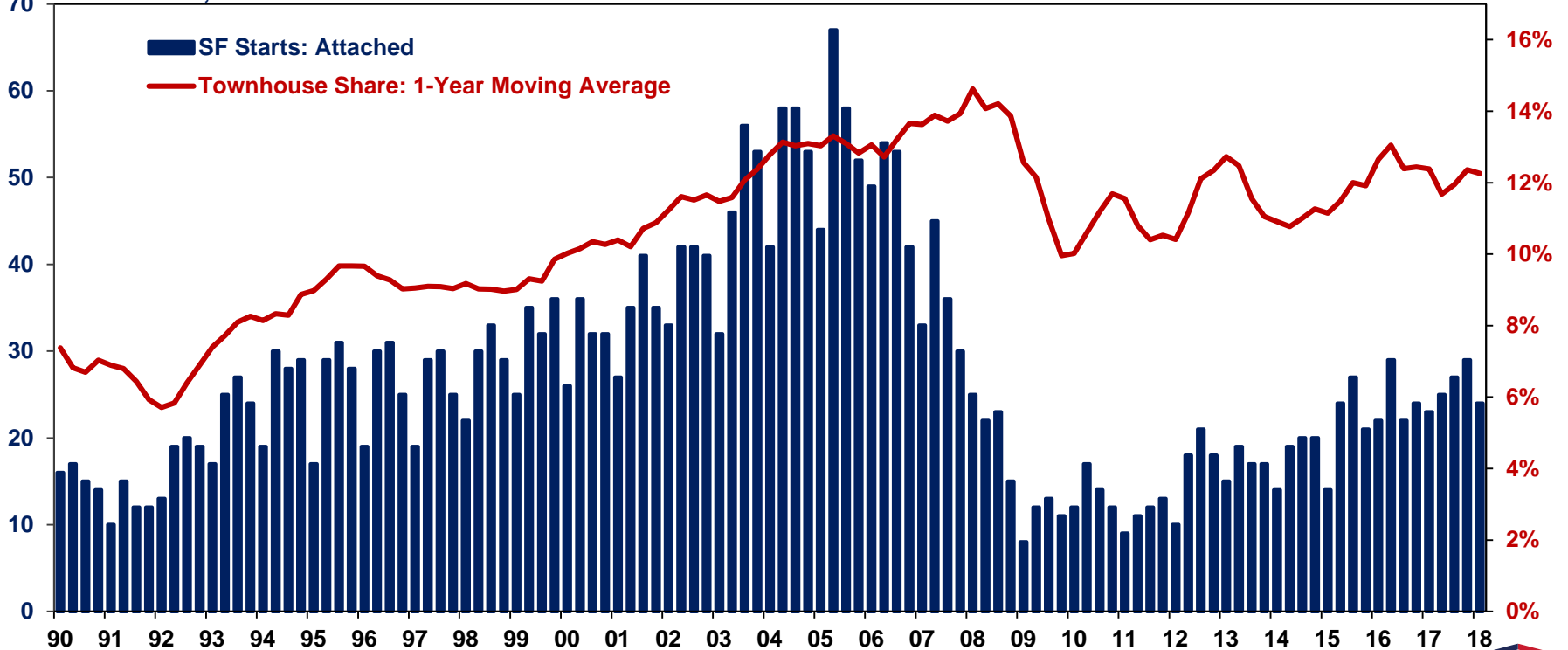


## Did you use renewable energy resources in any of the 2017 homes you built?



# Townhouse Market Expanding

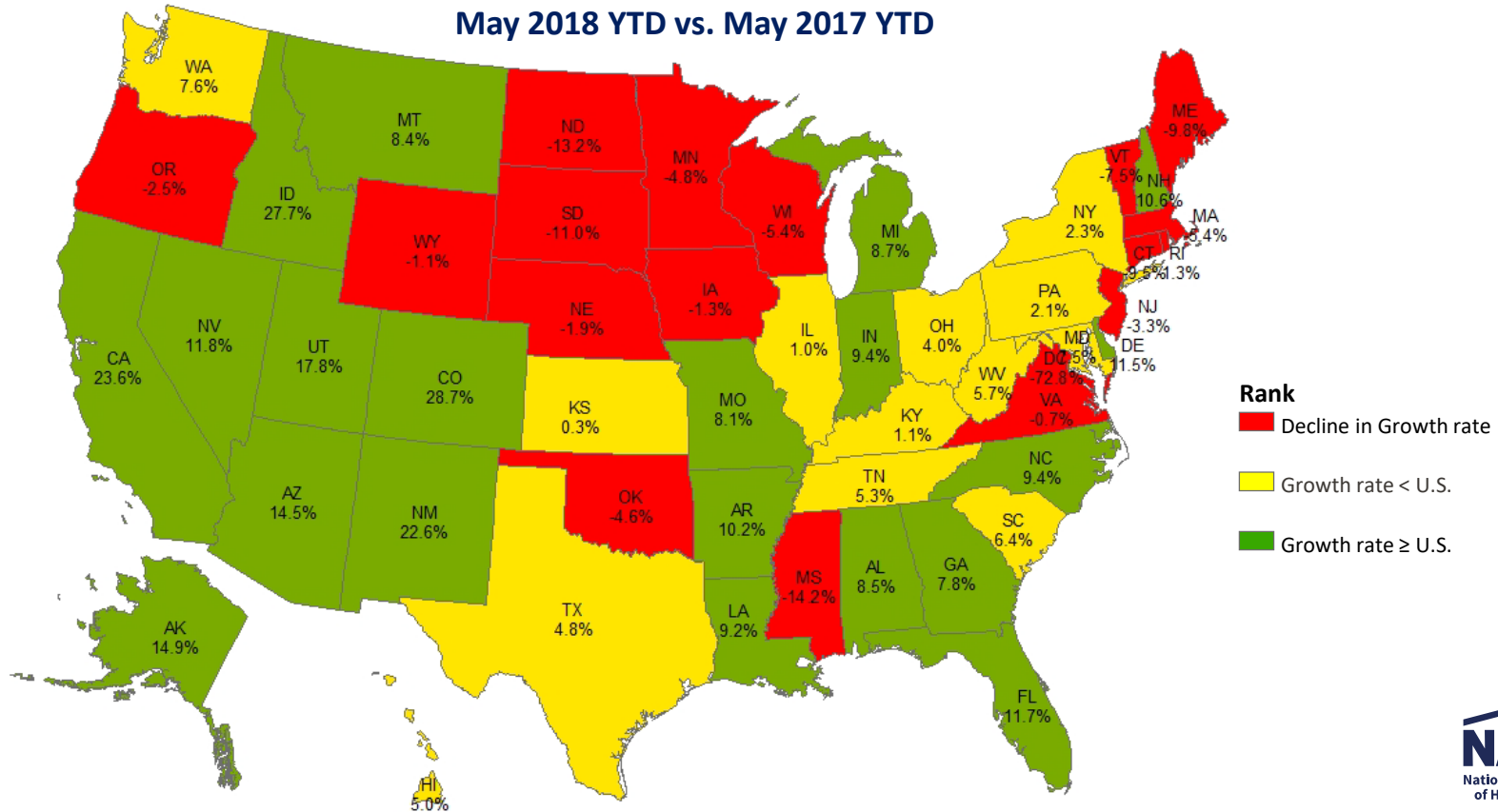
Thousands, NSA



Source: U.S. Census Bureau (BOC).

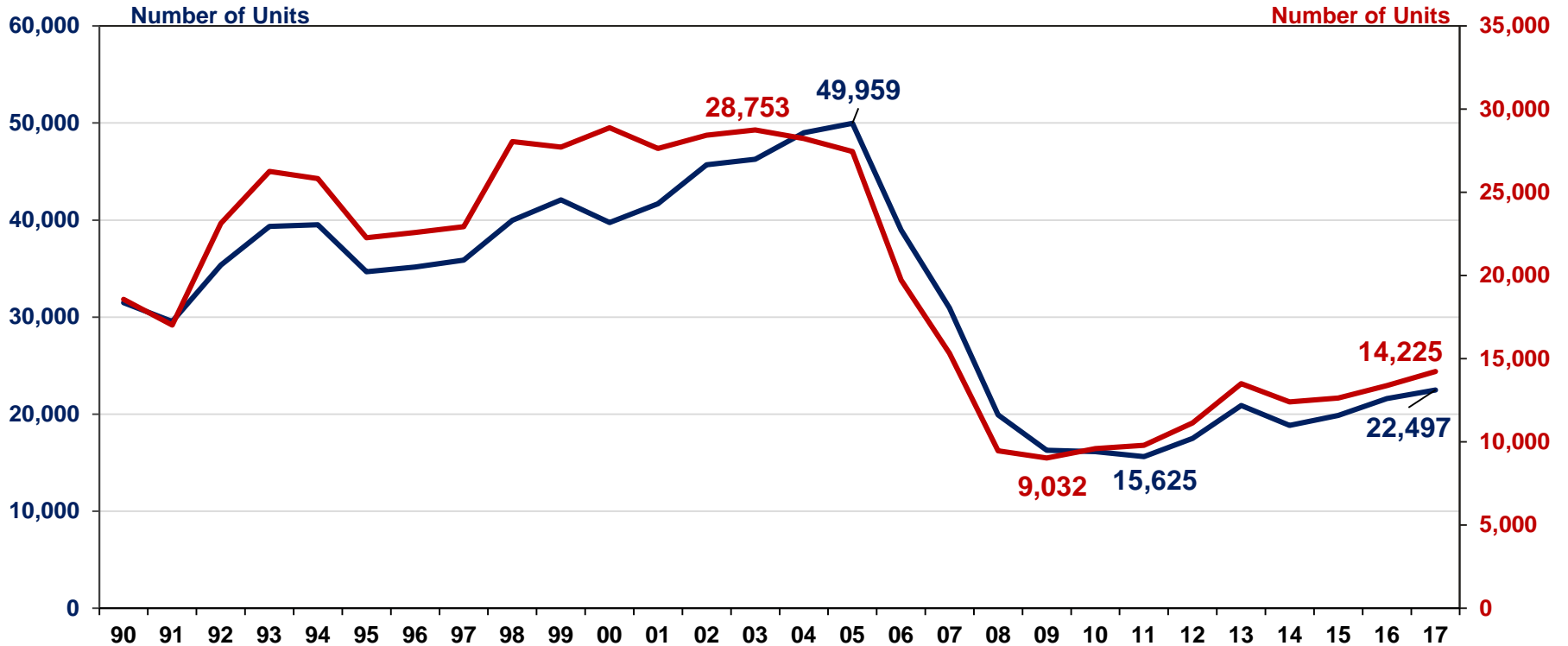
# Growth in Single-Family Permits

May 2018 YTD vs. May 2017 YTD



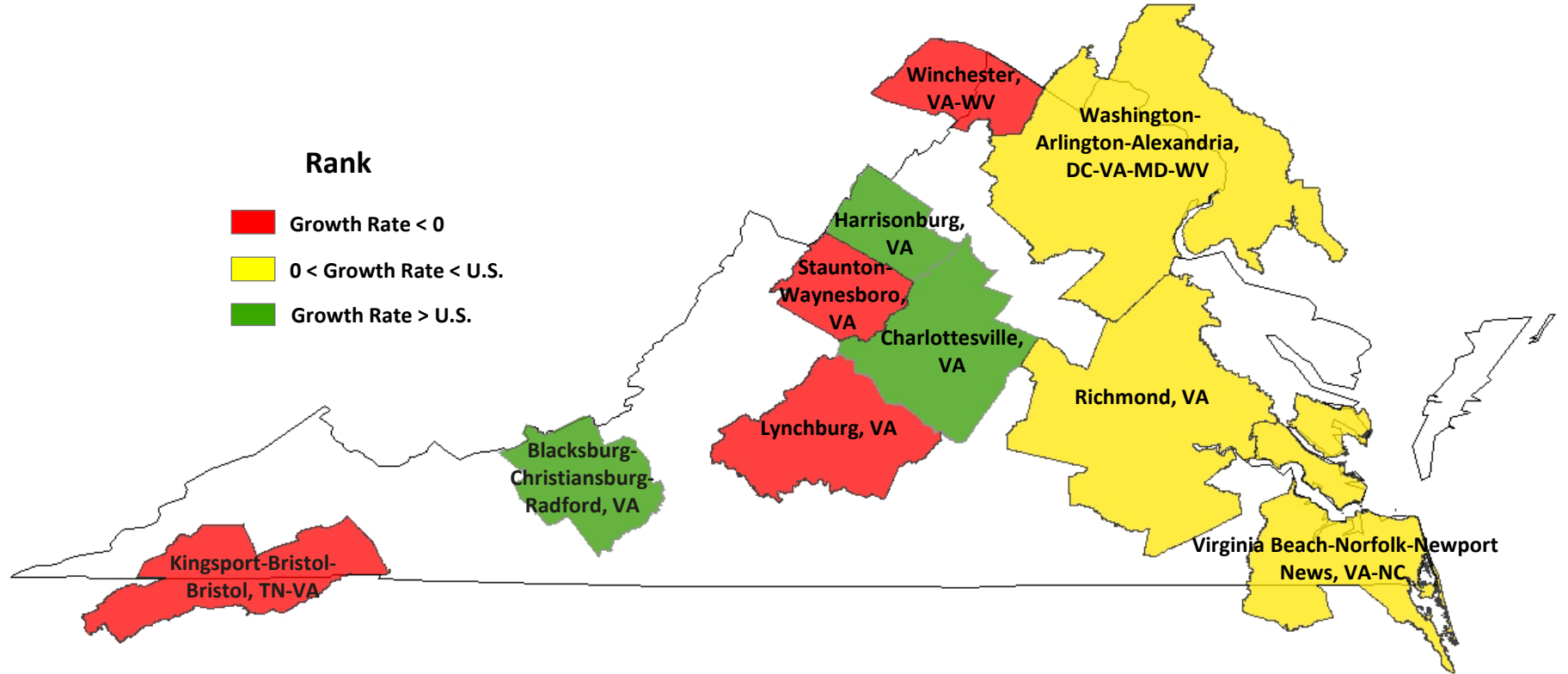
Source: U.S. Census Bureau (BOC).

# Single-Family Building Permits – Virginia and Washington MSA



Source: U.S. Census Bureau (BOC).

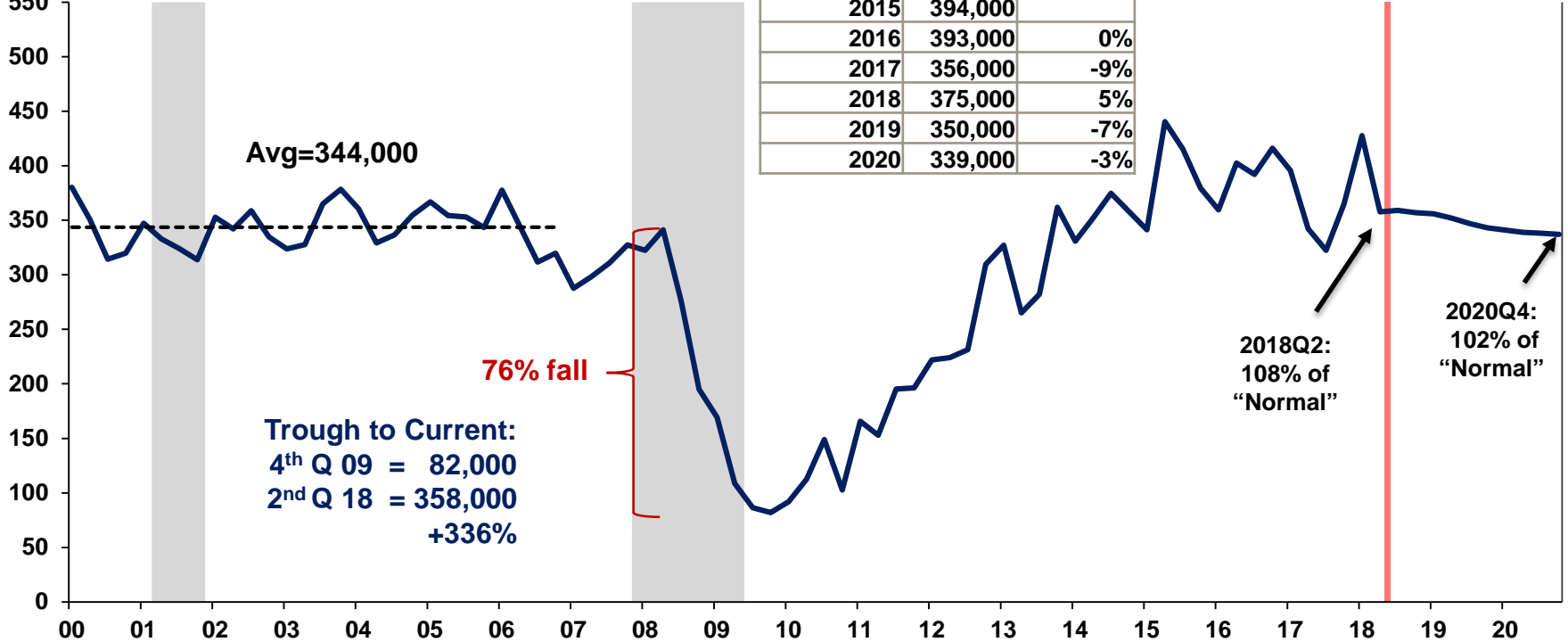
# Single Family Permits 12-Months Growth Rate



# Multifamily Housing Starts

## Leveling off

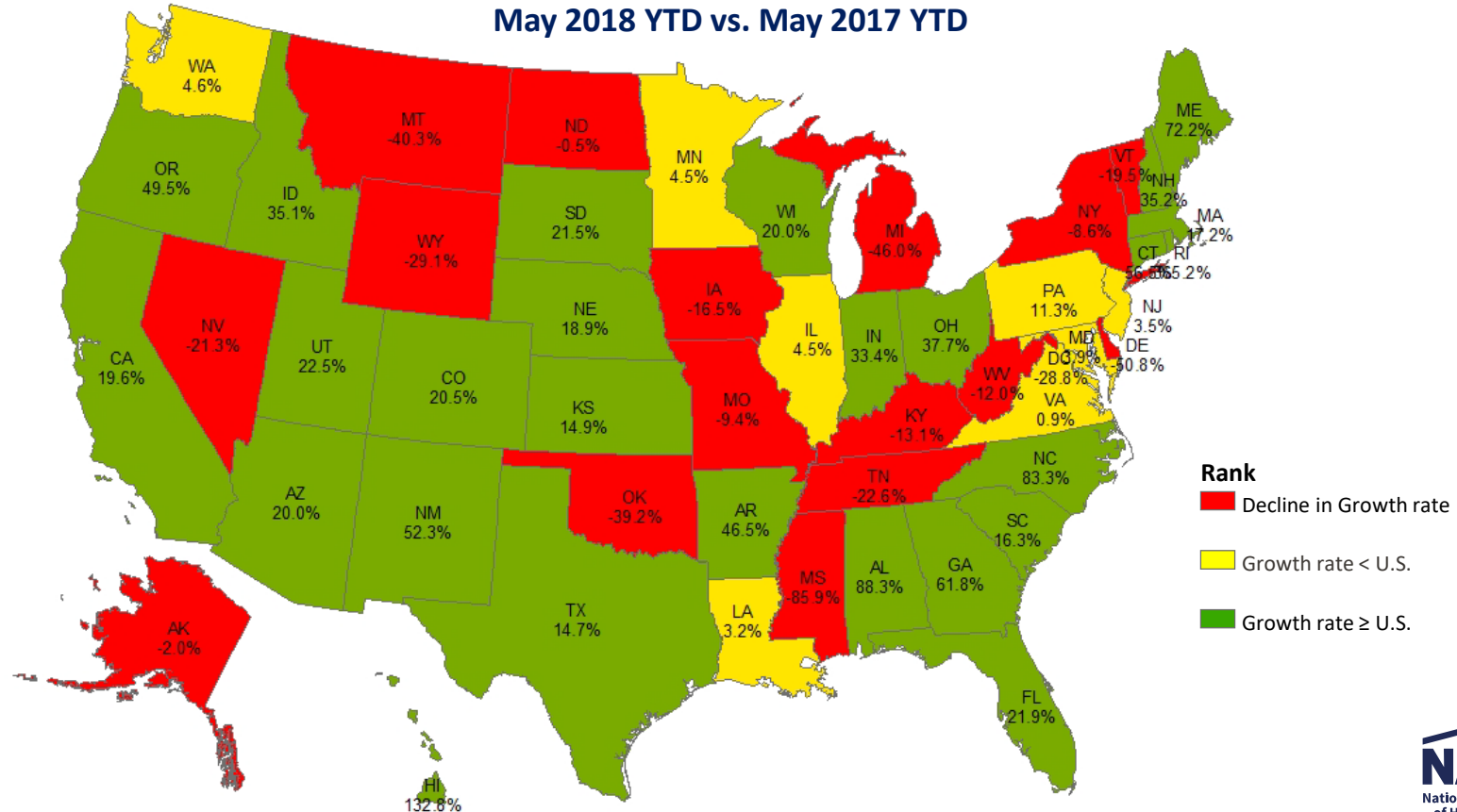
Thousands of units, SAAR



Source: Census Bureau and NAHB forecast

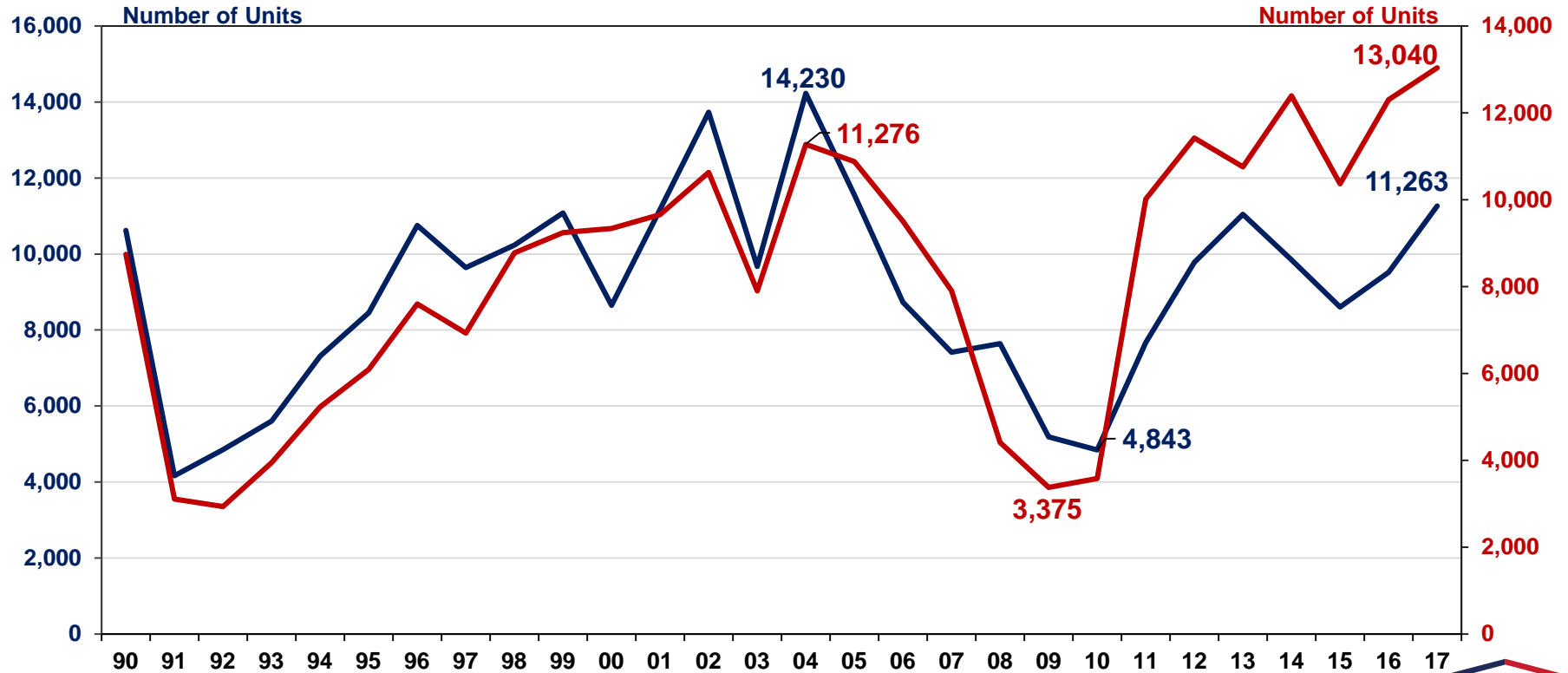
# Growth in Multifamily Permits

May 2018 YTD vs. May 2017 YTD



Source: U.S. Census Bureau (BOC).

# Multifamily Building Permits – Virginia and Washington MSA

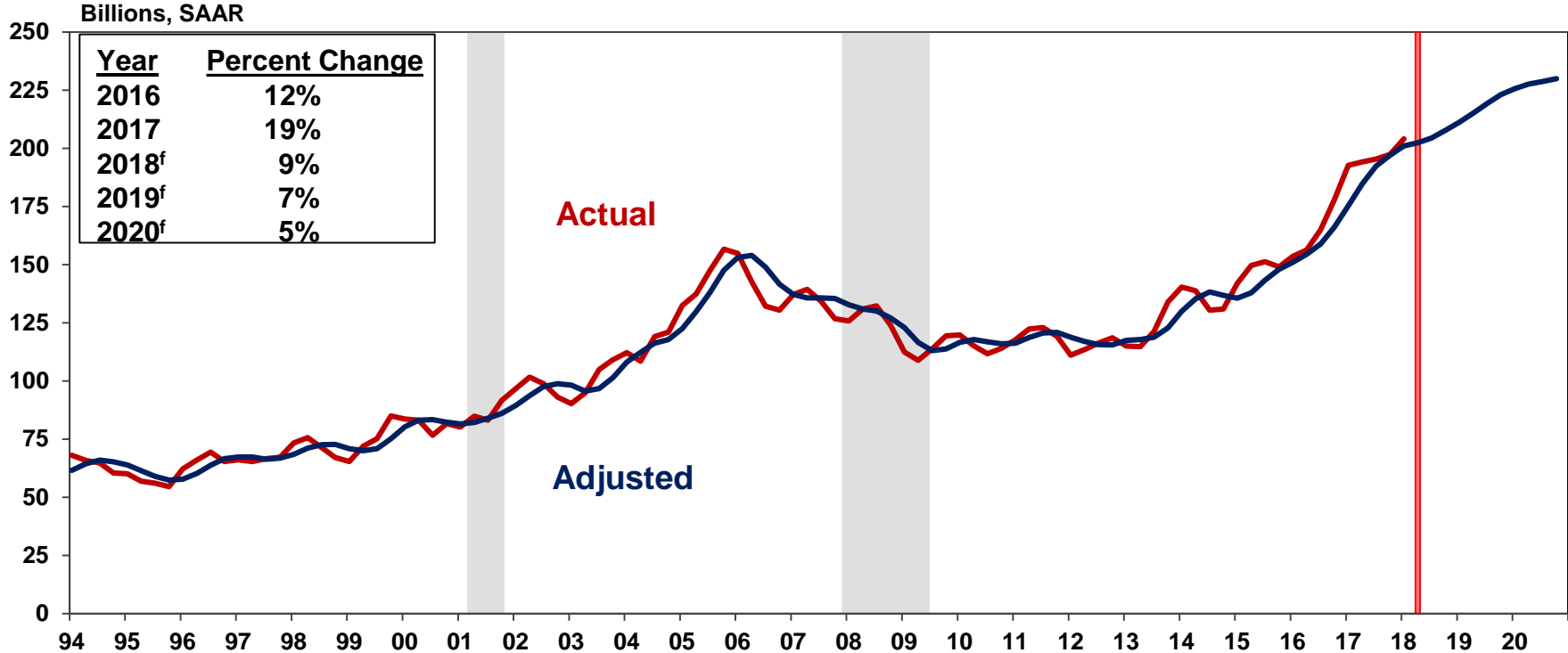


Source: U.S. Census Bureau (BOC).



# Residential Remodeling

*Growth ahead*

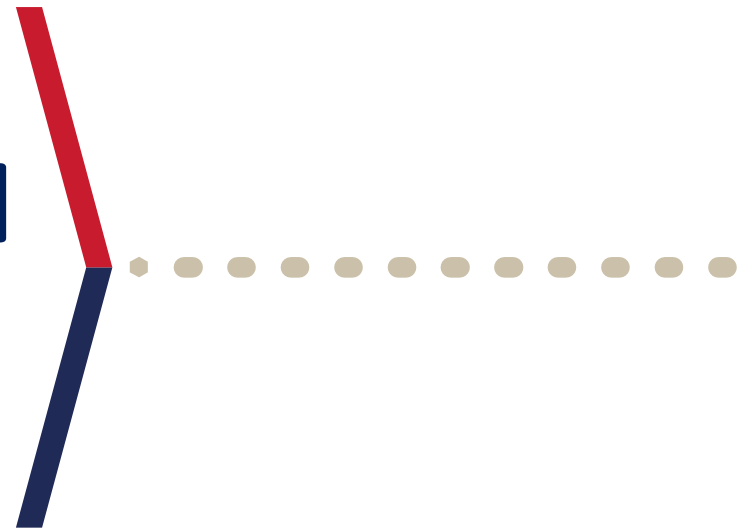


Source: U.S. Census Bureau (BOC) and National Association of Home Builders (NAHB) Forecasted.

# Thank you

*Questions?*

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*housingeconomics.com*