

Housing Starts

Despite a 15.7 percent increase in multi-family starts, total starts fell 7.8 percent in March to 1.96 million (SAAR). Single-family starts fell 12 percent to 1.59 million (SAAR). Permits, an indicator of future activity, were down a more modest 5.5 percent.

U.S. Housing Starts				
Millions - Seasonally Adjusted Annual Rate (SAAR)				
U.S. Totals	Mar	Feb(rev.)	% Change	
Starts	1.960	2.126	-7.8%	
Permits	2.059	2.179	-5.5%	
Single Family				
Starts	1.591	1.807	-12.0%	
Permits	1.542	1.657	-6.9%	
Multi Family				
Starts	0.369	0.319	15.7%	
Permits	0.517	0.522	-1.0%	
Starts and Permits By Region:				
NE	Starts	0.189	0.190	-0.5%
	Permits	0.211	0.204	3.4%
MW	Starts	0.291	0.317	-8.2%
	Permits	0.334	0.376	-11.2%
S	Starts	0.994	1.044	-4.8%
	Permits	1.028	1.028	0.0%
W	Starts	0.486	0.575	-15.5%
	Permits	0.486	0.571	-14.9%

Analysis & Outlook: It appears that we are simply returning to a more sustainable level that is supported by basic demographic forces. Depending on your assumptions regarding immigration, demand for second homes and demolition demand, annual demand for shelter is estimated to be 1.85 to 2.05 million units. Assuming that 150,000 units for manufactured (HUD code) housing, that means demand for conventional housing is about 1.7 to 1.9 million. Very attractive interest rates, innovative financing and a surplus of capital (encouraging speculative buying of real estate) pushed demand beyond sustainable levels for the past few years. We are still at the upper end of that range, but we're certainly getting closer to what most analysts would call "sustainable." In that respect, the fixed rate mortgage, although moving up to 6.49 percent, remains attractive by historical standards. The job picture continues to improve with the unemployment rate dropping below five percent and incomes are still increasing faster than inflation. The April 18 PPI report tells us that inflation is "tame" (with the exception of volatility in the oil markets) and should remain so; however, tighter labor markets are becoming a growing concern with the Fed. Residential fixed investment (the dollar amount invested in housing) is slowing, and prices are pulling back in parts of California and southern Florida. Additional signs are: (1) the inventory of new homes on the market is 548,000, a 6.3 month supply at current sale rates; (2) builders are starting to offer "deals"; (3) price increases are moderating (actually falling in some areas); (4) sellers are seeing fewer "multiple offers"; (5) mortgage delinquencies are increasing; and (6) lending standards are tightening. To summarize, in my opinion, it is still a solid housing market that is simply correcting to more sustainable levels.

SBC

This housing starts report is provided to SBC on a monthly basis by SBC Economic Environment columnist Al Schuler. Visit www.sbcmag.info for more economic news.



Builder Banter

Rebuilding a Hurricane-Proof New Orleans

Hurricane Katrina hit land as a category four storm in Louisiana on August 29, 2005. At that moment the world would never be the same. The devastation Katrina wreaked on New Orleans has given new focus to researchers. Experts are searching for ways to ensure that New Orleans will never again suffer this kind of extensive and overwhelming damage from a storm. The following are five innovative solutions that if used together could provide defense against a category five storm.

- 1. Sea Gates: Giant air-filled walls that would hold back storm surges.
- 2. Engineered Wetlands: Restoring wetlands would provide natural barriers against storms.
- 3. Mega Plumbing: A giant subterranean plumbing system that would carry floodwaters out of the city to keep it dry.
- 4. Community Havens: Limits flooding to a smaller area by dividing the city into sections.
- 5. Amphibious Houses: Foundations would double as life rafts and lift homes to safety if flooding became serious.

For details on these five ideas, visit www.popsci.com. [SOURCE: Michael Behar, *Popular Science Magazine*, www.popsci.com]

Fortified Homes Gaining Recognition from Insurance Industry

Insurance companies are beginning to offer lower insurance premiums for fortified homes. Fortified homes exist in Florida, Louisiana, South Carolina, North Carolina, Missouri and Illinois. In Louisiana, the American National Property and Casualty Company offers a 25 percent discount on the hurricane portion of a homeowner policy premium for fortified homes. Debi Harper, a spokeswoman for the company estimates that the discount would lead to a 12.5 percent savings on the total property cost in many cases in Louisiana.

According to Carlos Martin, a researcher at Partnership for Advancing Technology in Housing (PATH) offices in Washington, DC, the threat of more storms prompt people to invest in better built homes. "I think you are going to see a lot more of that (investment in housing). It takes a crisis for people to realize the physical performance of their house matters to them."

"I think there is a movement in the country to build homes better structurally," said Mike Moran, Vice President of Builder Programs at Simpson Strong-Tie. "The insurance industry (could have) a lot of impact." [Source: John Anderson, *The Morning News*, www.nwaonline.net]

Builder Confidence Declines in April

Rising mortgage rates, continued affordability issues and subsiding demand from investors/speculators are prompting single-family home builders to adjust their perspectives on the new-home market, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI) for April, released on April 17. The HMI declined four points from a downwardly revised reading in the previous month to hit 50 for the latest report.

Housing Market Index 2005-06 (HMI)

The HMI is a weighted, seasonally adjusted statistic derived from ratings for present single family sales, single family sales in the next 6 months and buyers traffic. The first two components are measured on a scale of "good" "fair," and "poor," and the last one is measured on a scale of "high," "average" and "low." A rating of 50 indicates that the number of positive or good responses received from the builders is about the same as the number of negative or poor responses. Ratings higher than 50 indicate more positive or good responses.

June	July	Aug	Sept	Oct	Nov	Dec	Jan06	Feb	Mar	Apr	May
72	70	67	65	68	61	57	57	56	54	51(r)	45

Source: National Association of Home Builders

"Home builders definitely view this as something of a transition period, where demand from speculators is easing off and the market is heading to a more sustainable level of activity following the record-breaking performance of 2005," said NAHB President David Pressly, a home builder from Statesville, NC. "This process should help restore a healthier balance between supply and demand going forward."

"With mortgage rates back up to the 6.5 percent range and serious affordability issues in the highest-priced markets, today's HMI numbers are neither surprising nor alarming," noted NAHB Chief Economist David Seiders. "Indeed, a reported reduction in home buying by investors/speculators in the market for new single-family homes is a positive development. Furthermore, we expect solid growth in employment and household income to essentially offset the minor increases in the interest-rate structure that we're projecting for the balance of this year."

Derived from a monthly survey that NAHB has been conducting for nearly 20 years, the NAHB/Wells Fargo HMI gauges builder perceptions of current single-family home sales and sales expectations for the next six months as "good," "fair" or "poor." The survey also asks builders to rate traffic of prospective buyers as either "high to very high," "average" or "low to very low." Scores for each component are then used to calculate a seasonally adjusted index where any number over 50 indicates that more builders view sales conditions as good than poor. [Source: www.nahb.org]

Earth-Friendly Materials Go Mainstream

Consumers are continuously becoming more environmentally conscious. Increased interest in green homebuilding retailers is predicted to give these stores a national presence.

According to Greg Snowden, the chief executive of Green Fusion Design Center in San Anselmo, CA, "The time is ripe, the market is ready, and the products are mature." You will find plant-based paints, organic bedding, cork flooring and more environmentally friendly materials at Green Fusion. Green retailers are springing up all over the country, not just in California. There is Environmental Home Center in Seattle, WA, Environmental Building Supplies in Portland, OR, Environmental Construction Outfitters in the Bronx, Green in Scottsdale, AZ, and Greenmaker in Chicago.

National retail chains are also joining the ranks of stores offering consumers "green" building products. EcoOptions is part of a marketing effort from Home Depot to promote environmentally friendly products, including natural fertilizer and mold resistant drywall. Home Depot is testing these in all of its Canadian stores. [Source: Ernest Beck, *The New York Times*, www.nytimes.com]

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Construction Web Sites Benchmarked in Study

The Internet Standards Assessment Report (ISAR) recently released by the Web Marketing Association says construction industry web sites are generally inline with the overall ISAR Index. This shows a substantial improvement from their significant underperformance in 2003. The ISAR study provides industry benchmarks for site development and is based on data collected from 9,748 site evaluations in more than 80 industries over the past decade. The Web Marketing Association also conducts an annual WebAward Competition for web site development. To view past WebAwards Best Construction web site winners, or to nominate a site, visit www.webawards2006.org to download a copy of the full ISAR report. [Source: 03/23/06, www.toolbase.org]

Email ideas for this department to builderbanter@sbcmag.info.

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6300 Enterprise Lane • Suite 200 • Madison, WI 53719
608/310-6706 phone • 608/271-7006 fax
www.sbcmag.info • admgr@sbcmag.info