Builder Banter

Internet Is Key Resource for New Home Buyers

A recent survey by NAHB's Institute of Residential Marketing (IRM) and Move.com suggests that growing numbers of new home buyers are using the Internet to find their new residence. 27 percent of survey respondents search builder websites and 26 percent use Internet listing services. New home buyers are spending close to half of their time online and if buyers were only allowed to recommend one source, 20 percent would recommend Internet listing services.

According to the survey, more traditional forms of marketing such as signage, newspapers, home magazines and realtor promotions are heavily relied on by new home buyers and produce the highest quantity of leads. In comparison it showed that online resources produced the highest quality of leads.

[Source: *Nation's Building News,* www.nbnnews.com]

Home Improvements on the Rise

According to a recent study by the Home Improvement Research Institute (HIRI), 66 percent of new home buyers take on at least one home improvement project and close to half of existing home owners will begin a project to prepare it for sale.

The survey also revealed that people who have recently moved into their homes are likely to spend more money on home improvement, and there is a correlation between increase in number of years at a residence with a decrease in amount of money spent on home improvement. Landscaping comes in as the most common project while other top areas of home improvement include deck or patios, kitchens and baths.

The survey concluded that while most work is done by the homeowners themselves, new home buyers are more likely to hire professionals to ensure a job well done.

[Source: *Nation's Building News,* www.nbnnews.com]

Builder Confidence Slips Again In July

Increased concerns about interest rates and housing affordability caused builder confidence in the market for new single-family homes to slip three more notches to 39, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI) for July, reported July 18.

"The HMI is down from its most recent cyclical high of 72 in June of last year, and reflects growing builder uncertainly on the heels of reduced sales and increased cancellations related to eroding affordability as well as an ongoing withdrawal of investors/speculators from the marketplace," said NAHB Chief Economist David Seiders. "But just as concerning to many builders is the potential for more monetary tightening by the Federal Reserve that could drive interest rates, and thereby homeownership costs, even higher. Ironically, the Fed's inflation-fighting moves have helped firm up the rental market and raise the 'owners' equivalent rent' components of the core inflation measures that the Fed is seeking to contain," Seiders added. SBC

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

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.

Aug	Sept	Oct	Nov	Dec	Jan06	Feb	Mar	Apr	May	June	July
67	65	68	61	57	57	56	54	51	46(r)	42	39

Source: National Association of Home Builders

Housing Starts

June housing starts fell 5.3 percent to 1.85 million (SAAR). Single family starts were down 6.5 percent to 1.486 million (SAAR). Permits, a good indicator of what may happen in the next two to three months, also fell 4.3 percent.

U.S. Housing Starts

Millions - Seasonally Adjusted Annual Rate (SAAR)

U.S. Totals	June	May(rev.)	% Change
Starts	1.850	1.953	-5.3%
Permits	1.862	1.946	-4.3%
Single Family			
Starts	1.486	1.590	-6.5%
Permits	1.395	1.488	-6.3%
Multi Family			
Starts	0.364	0.363	0.3%
Permits	0.467	0.458	2.0%
Starts and Permits By Region:			
NE Starts	0.170	0.192	-11.5%
NE Permits	0.173	0.163	6.1%
MW Starts	0.309	0.300	3.0%
MW Permits	0.307	0.312	-1.6%
S Starts	0.911	0.949	-4.0%
S Permits	0.918	0.969	-5.3%
W Starts	0.460	0.512	-10.2%
W Permits	0.464	0.502	-7.6%

Analysis & Outlook: The housing market is slowing down as indicated by many signals: the 30-year fixed rate mortgage averaged 6.74 percent for the week ending July 17; the PPI is running at a 4.8 percent rate YOY (year over year); and the CPI is at a 4.3 percent YOY rate with the core CPI at 2.7 percent YOY. Interestingly, the core CPI for the past three months has averaged 3.6 percent so it is picking up steam. Home prices are too high in 71 cities (www.globalinsight.com), and inventories are piling up for both new and existing homes—now at six months. So, there is some concern of overbuilding which could push prices down even more. This is good for buyers, but not for all those homeowners who are still trying to cash in some of their homeowner equity. This is one reason why the Fed is now saying they feel the economy is slowing down ("economic moderation is underway and inflation remains contained"). Even so, the increasing pace of core CPI inflation means the Fed tightening may not be over yet. We are also hearing more about yield curve inversions—when short-term rates are higher than long-term rates. This now exists for some securities and is being caused by the Fed raising short-term rates while inflation concerns, which have a bigger impact on long-term rates, remain muted due to globalization trends (increased worldwide competition). The reason for the concern is that with an inversion, there is less incentive for lenders to lend, so credit starts to tighten. In the past, recessions were often the result (but not always). So far, the inversion is slight, but if it continues to increase, we could see more slowing of the economy. In summary, this is still a solid housing market that is simply correcting to more sustainable levels. Some single family demand will be replaced by stronger multi-family (rental) demand. Multi-family starts were flat this month, but permits were up two percent. This "correction" and rebalancing is good for the market because if it were delayed for another year, the pullback would only be more severe. There is one lingering concern with most analysts—future direction for energy prices. With oil over $70/barrel, energy costs including utility charges will continue to crimp consumer spending for non-energy items, including housing. 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.

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