

Housing Market Opportunities and Economic Challenges

*Low and Moderate Income Housing Act
and Land Use Commissions
May 10, 2022*

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A Race is On....



Nation is short about 1 million housing units



**Housing affordability levels reaching 10+ year lows
Increasing rental burdens and putting homeownership out of reach**



**Solution accepted by almost all economists:
Build more housing**



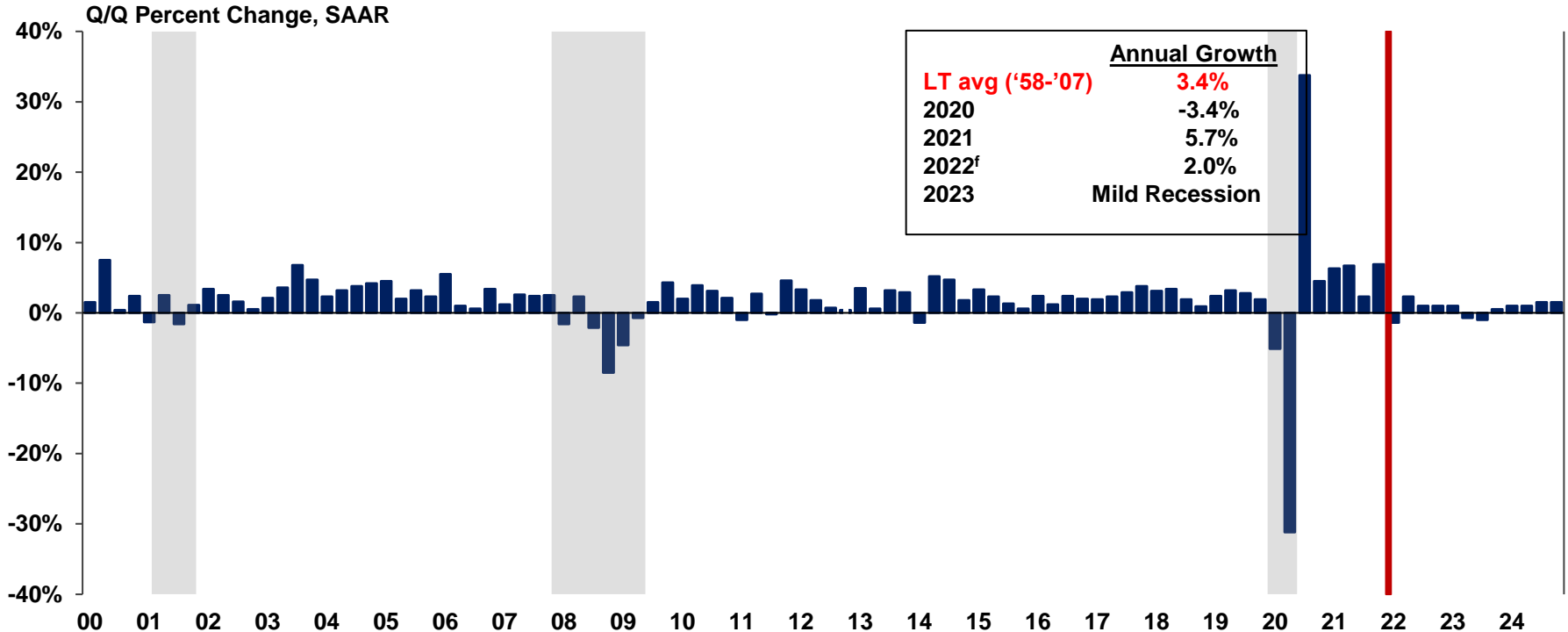
**Identify some of the economic challenges faced by builders
Detail policies that work and those that don't**



**This is a moment to seize as the economy evolves post-covid
Demand has shifted to markets outside the largest metros**

GDP Growth – Recession Risks Rising

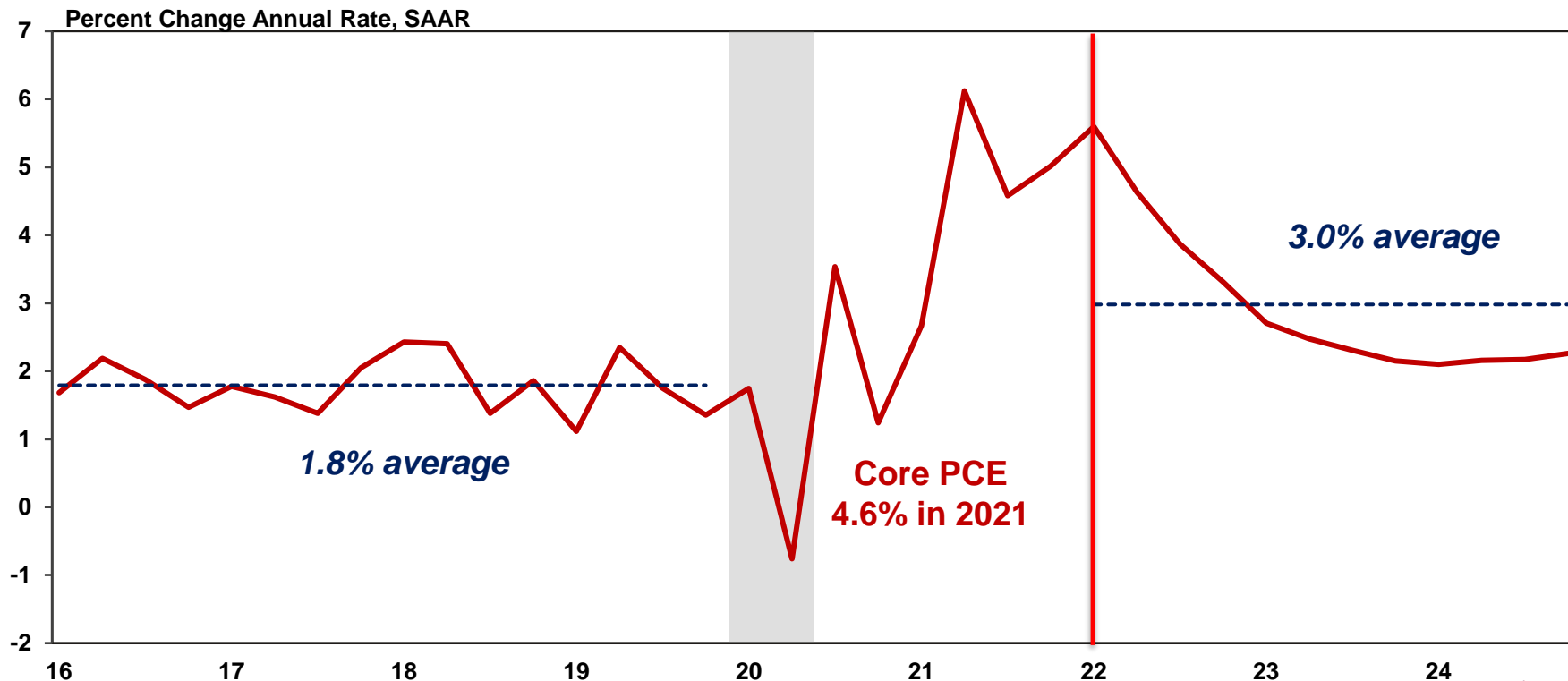
Weak first quarter of 2022 as Fed tightens credit conditions



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

Core Inflation

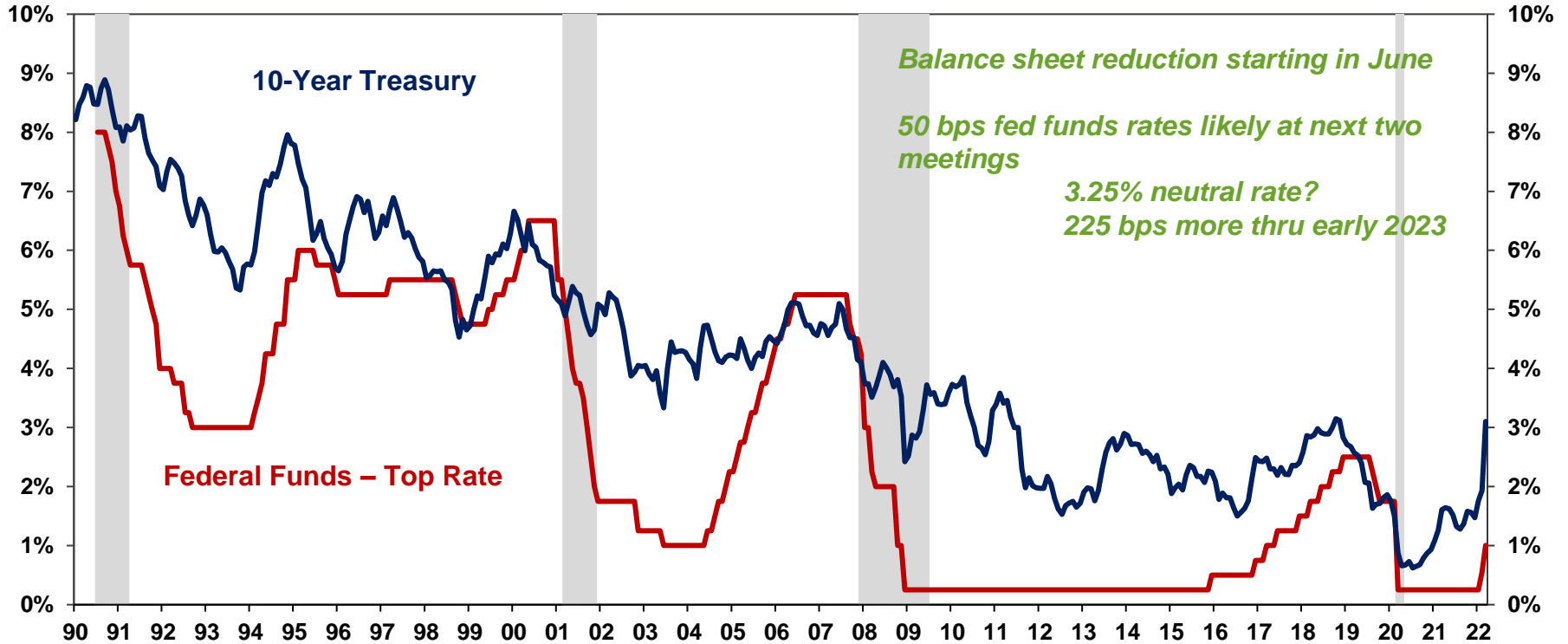
Inflation remained at a 40-year high in March



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

Monetary Policy Tightening in Response to Inflation

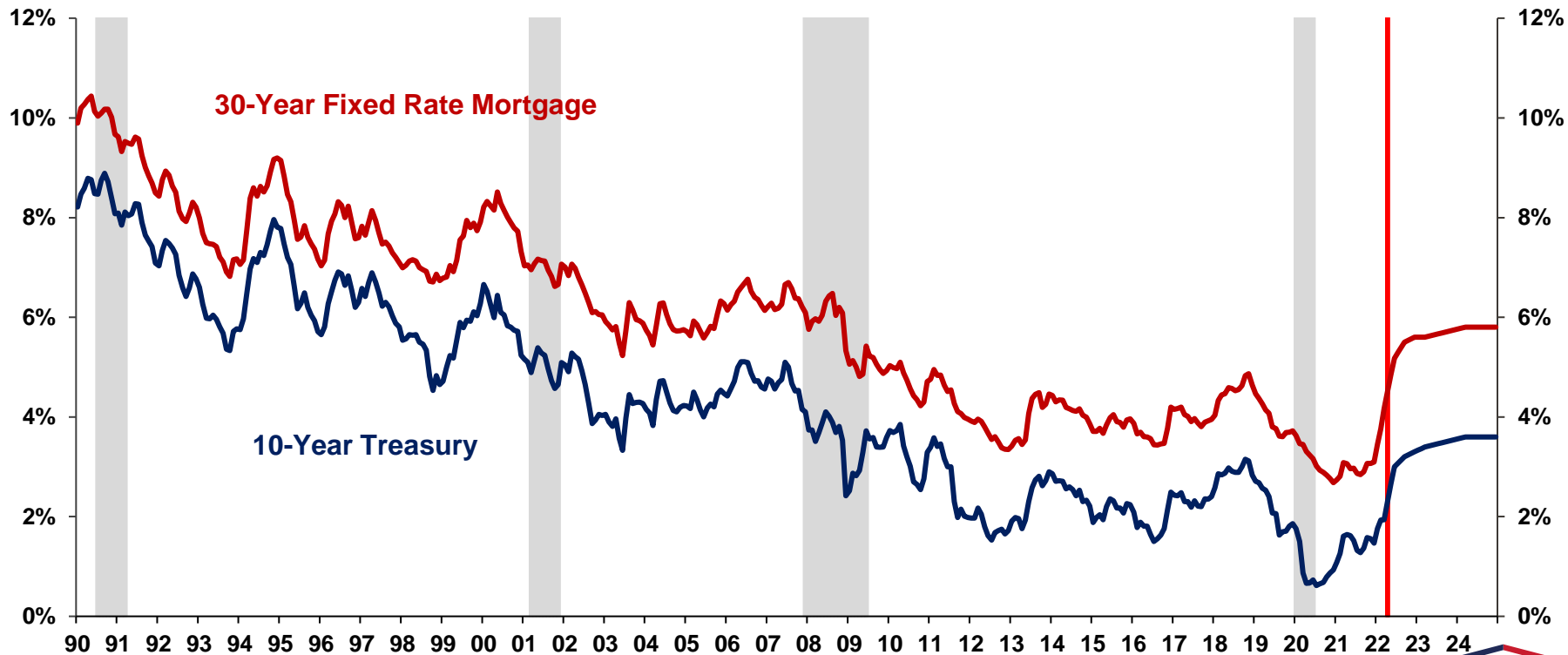
Rising federal funds rate in 2022



Source: U.S. Board of Governors of the Federal Reserve System (FRB).

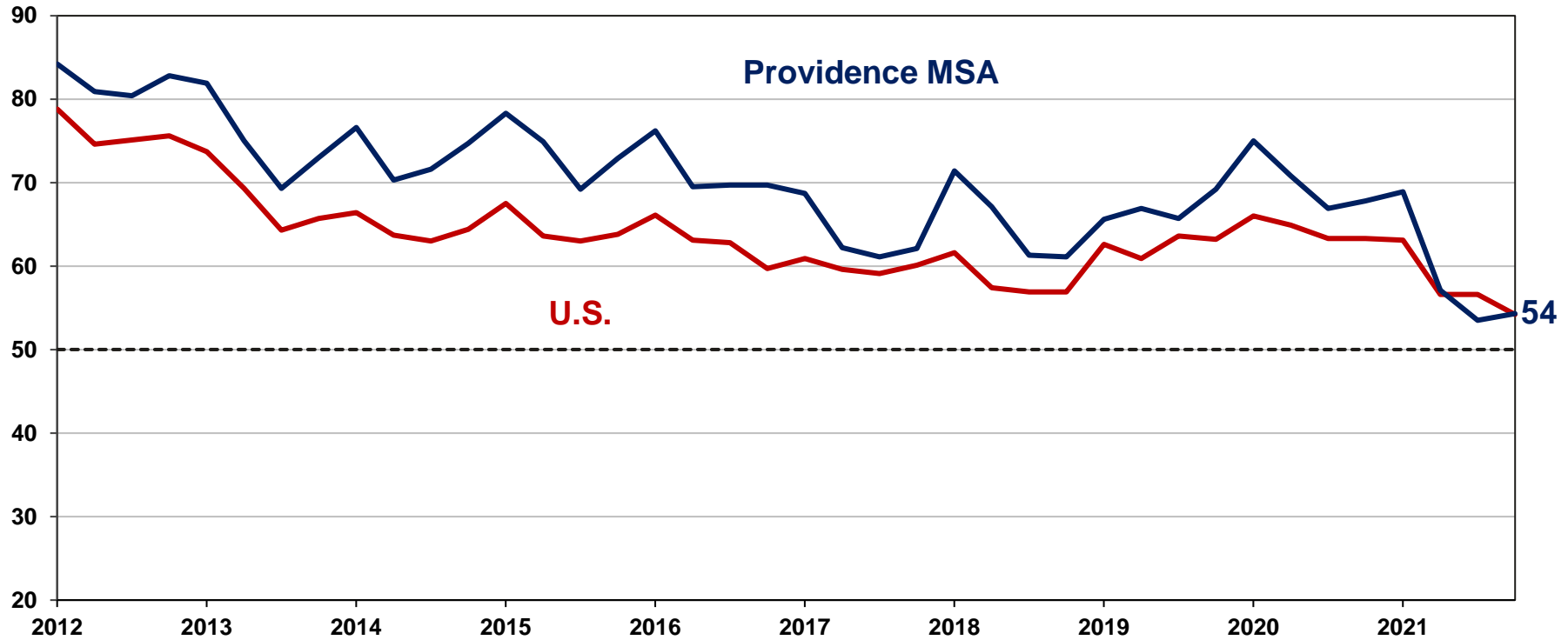
Interest Rates Trending Higher

Federal Reserve is tightening monetary policy



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

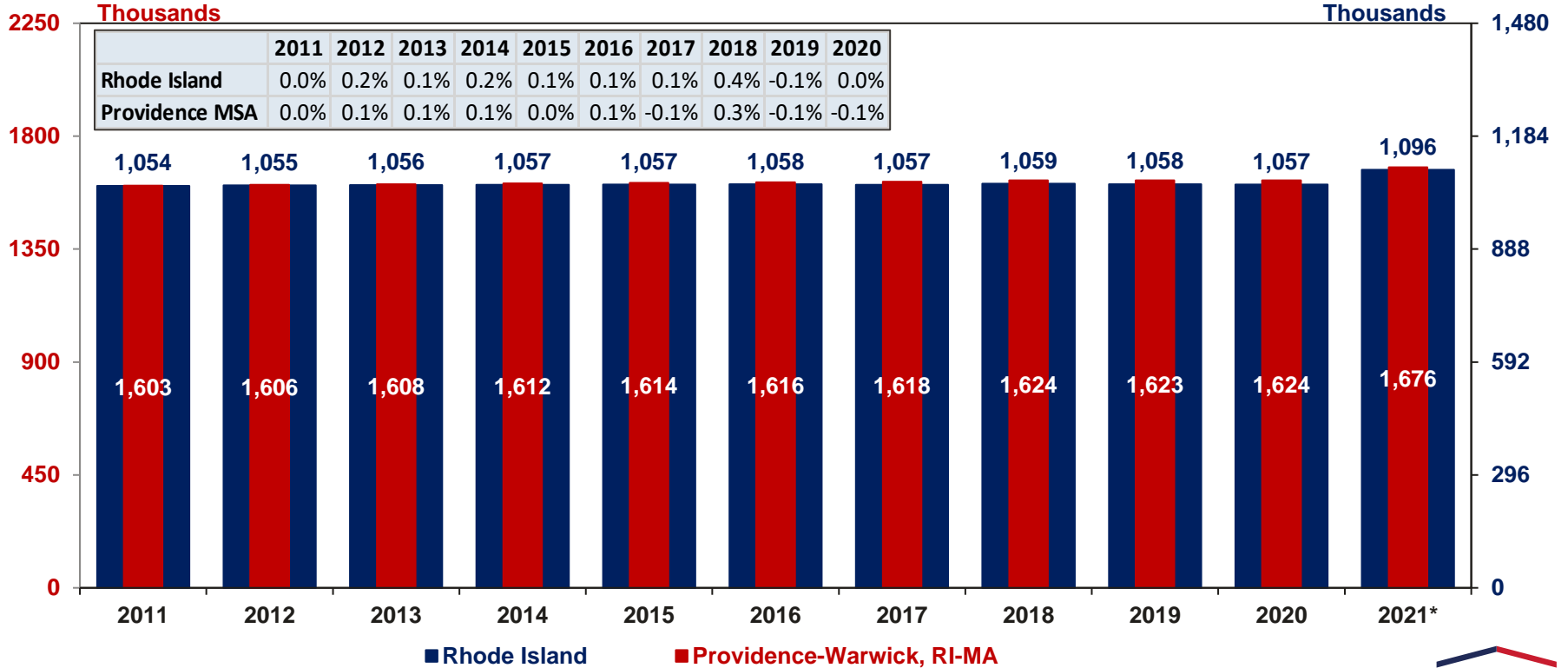
Housing Affordability Declines? NAHB/Wells Fargo HOI Lower



Source: NAHB/Wells Fargo Housing Opportunity Index (HOI).

Population Growth

Providence MSA population declining



Source: U.S. Census Bureau (BOC)

Note: The Vintage 2021 population estimates reflect several methodological changes since the release of the Vintage 2020 estimates, so comparisons of 2021 estimates to previous years were not recommended by Census.

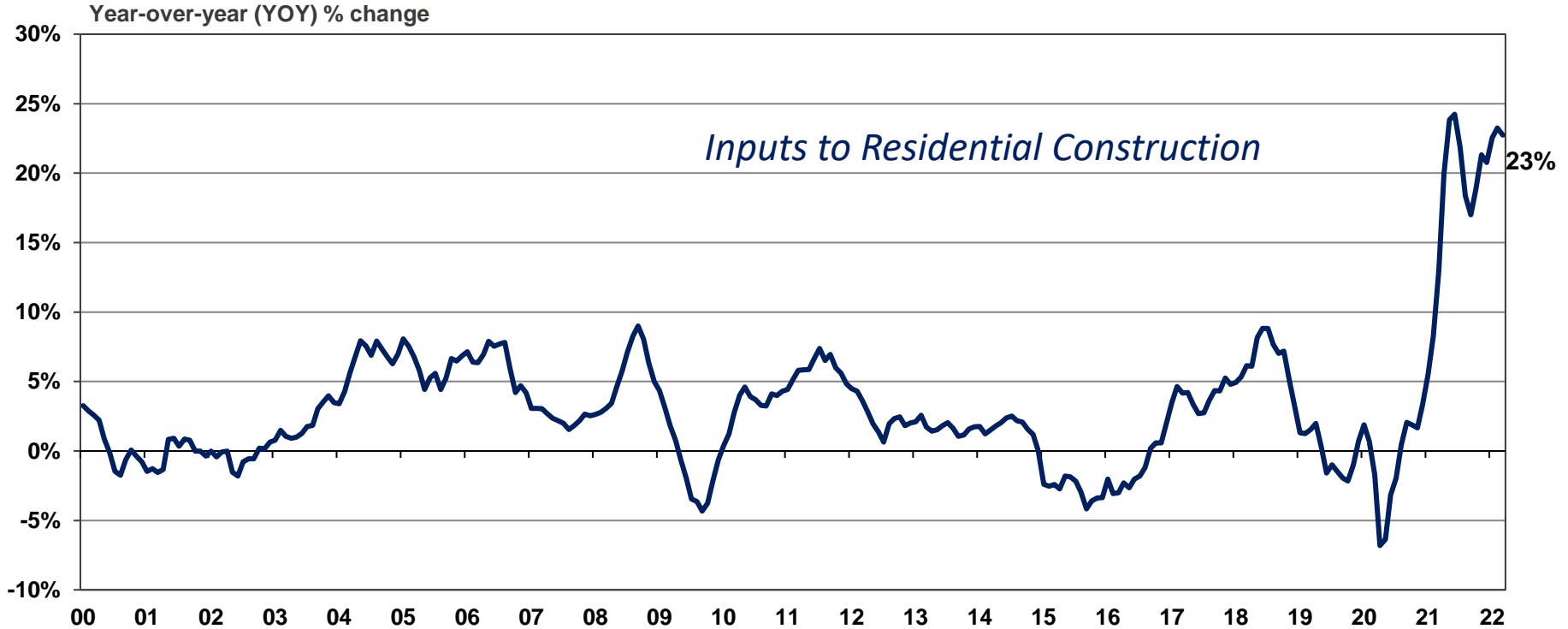




Supply-Side Challenges And Distortions



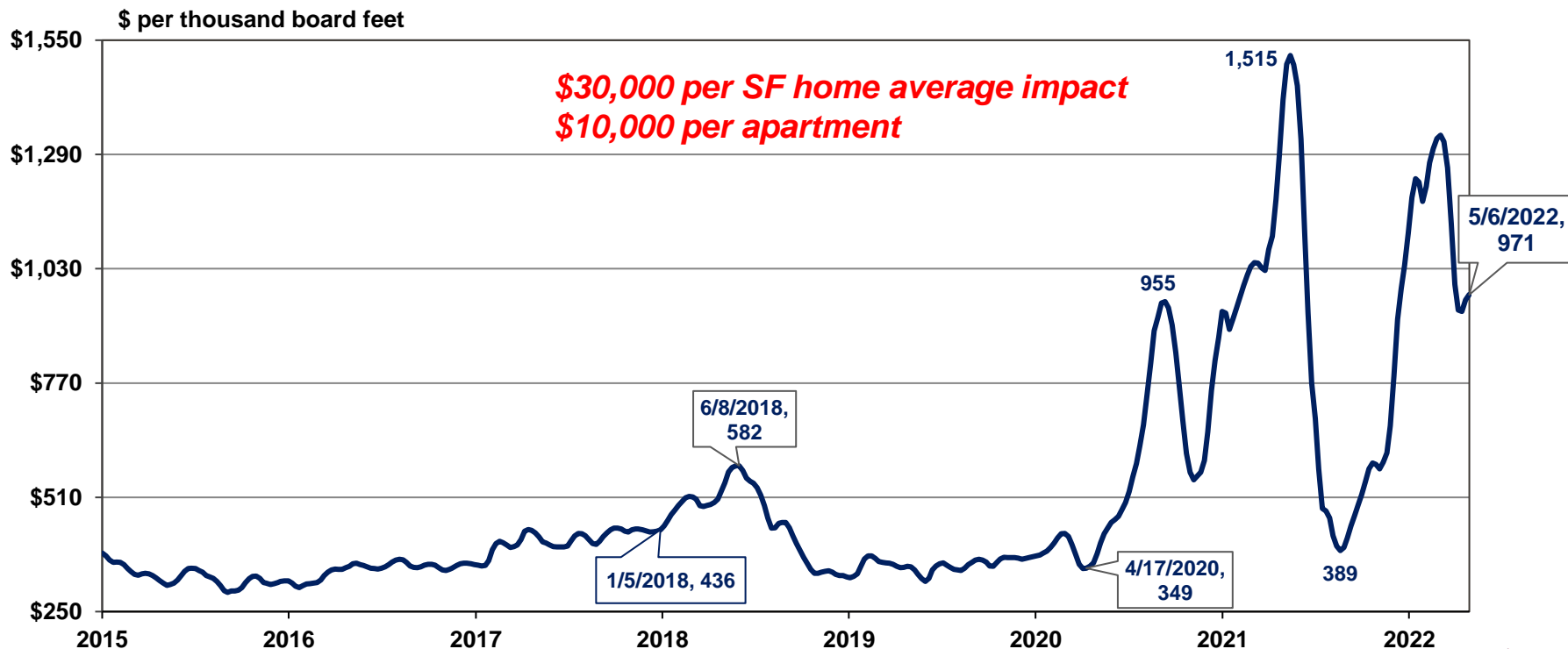
Building Materials - Residential Construction Cost



Source: U.S. Bureau of Labor Statistics (BLS): Producer Price Index (PPI)

Lumber Prices Edged Up

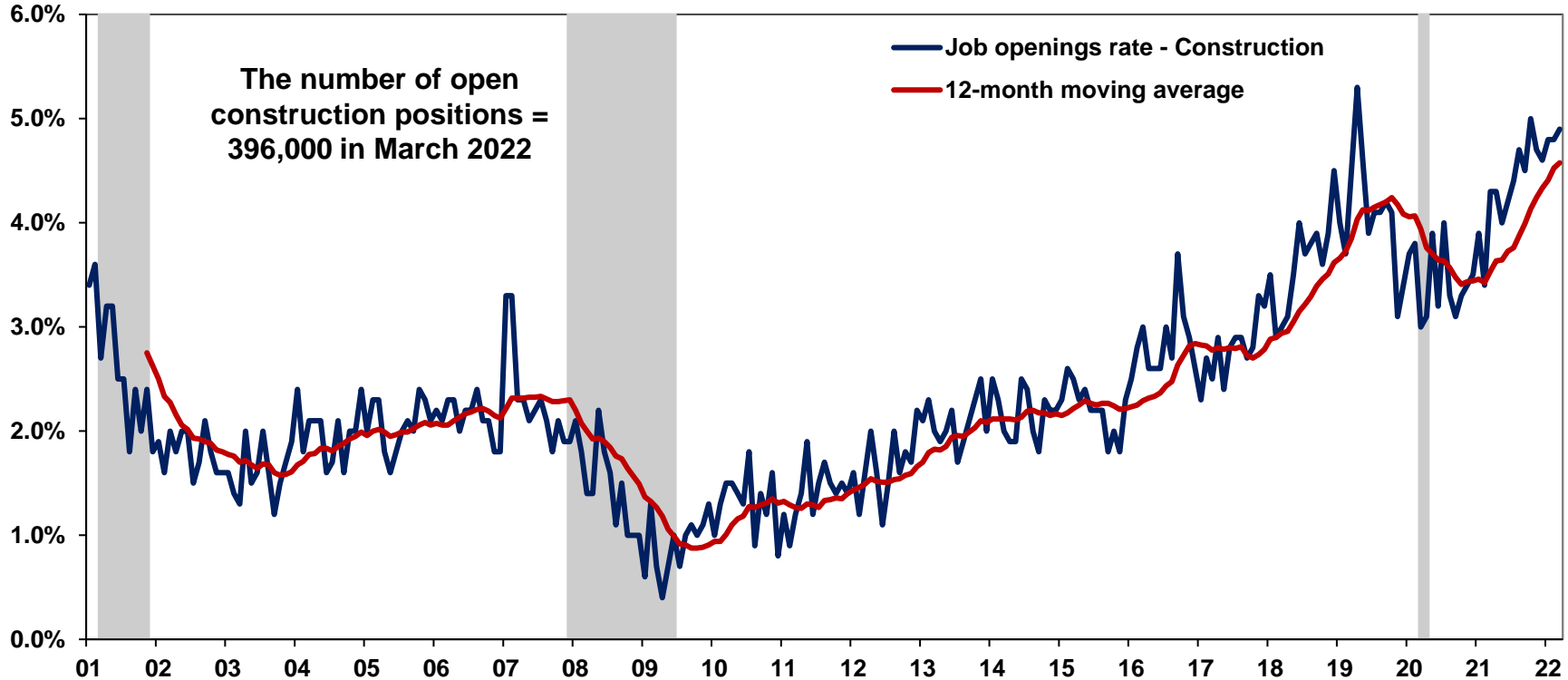
Current May price is \$971; up 4% in the past two weeks



Source: NAHB Analysis; Random Lengths Composite Index

Labor – Construction Job Openings Surging

Skilled labor shortage persists; 198,400 net gain for residential construction since Jan 2020



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

Construction Labor Market Projections/Needs



7.6 million workers in construction
3.1 million in residential construction



740,000 occupational openings per year
Based on industry growth and permanent worker exits



Keep in mind: 22% of workforce is self-employed
Immigrant share now 24%



Median age of construction worker is 41



Workers aged 25 to 54 make up 69% of sector in 2019
Down from 72.2% in 2015

Regulatory Costs \$93,870 Per New Home (11% Gain 2016 to 2021)

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

23.8% of price



Source: NAHB/Wells Fargo Housing Market Index (HMI)



Harmful Regulatory Policies – You Get What You Plan For



Exclusionary zoning



New England has, by far, the largest lots in the nation
0.9 acre average vs. less than 0.2 national average



Inclusionary zoning



Mandating building housing that fails economic tests
Requires subsidies OR acts as a tax on housing supply



Other regulatory challenges:

Housing as revenue source, parking requirements, green space rules, etc

Helpful Policies to Build Housing



Enable construction of medium or light-touch density
Townhouses, duplexes, etc.



Reduce development fees and taxes
Shift impact fees to bond financing



Accelerate the permitting and approval process
Workforce development



Goal: More starter homes
Build more entry-level homes at price of \$250K and \$400K



Homes priced under \$300,000 were 34% of sales a year ago
Just 14% of sales nationally today

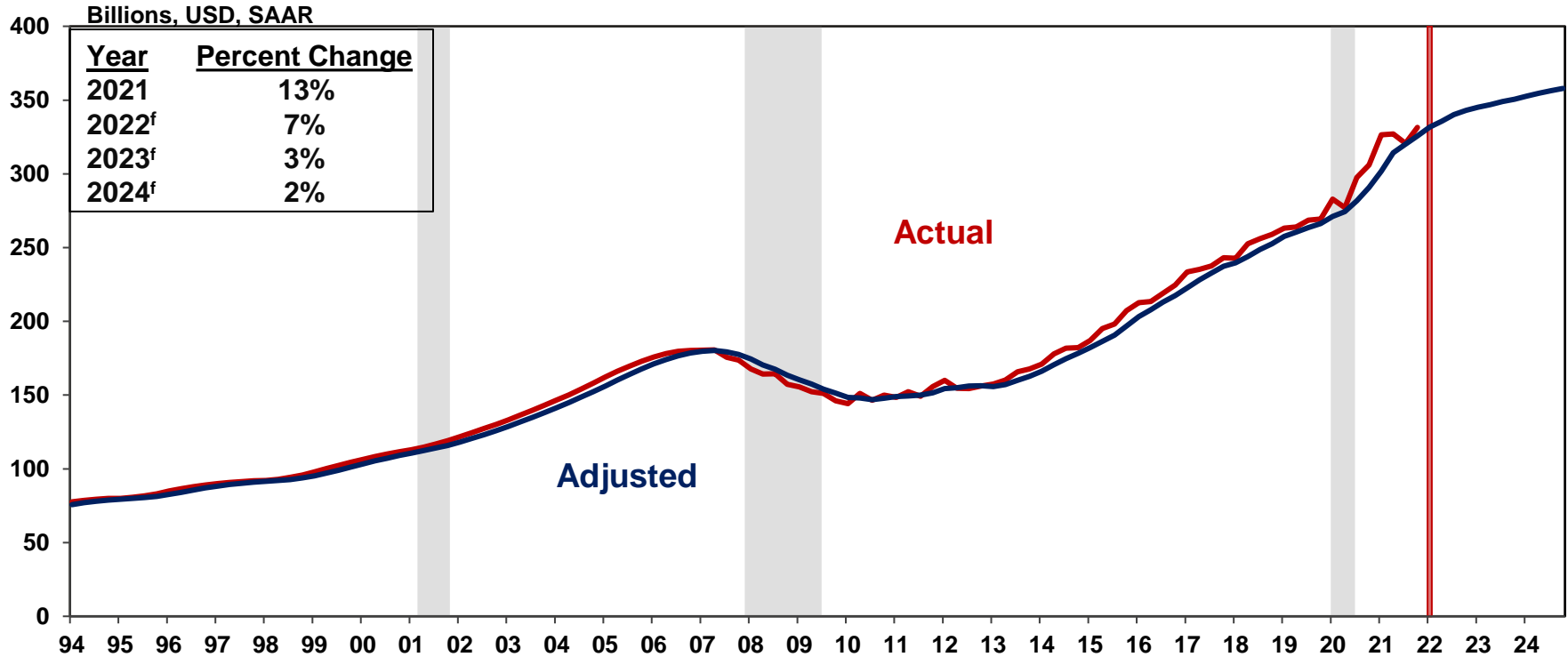


Construction Outlook



Residential Remodeling

Remodeling growth boosted by home equity gains

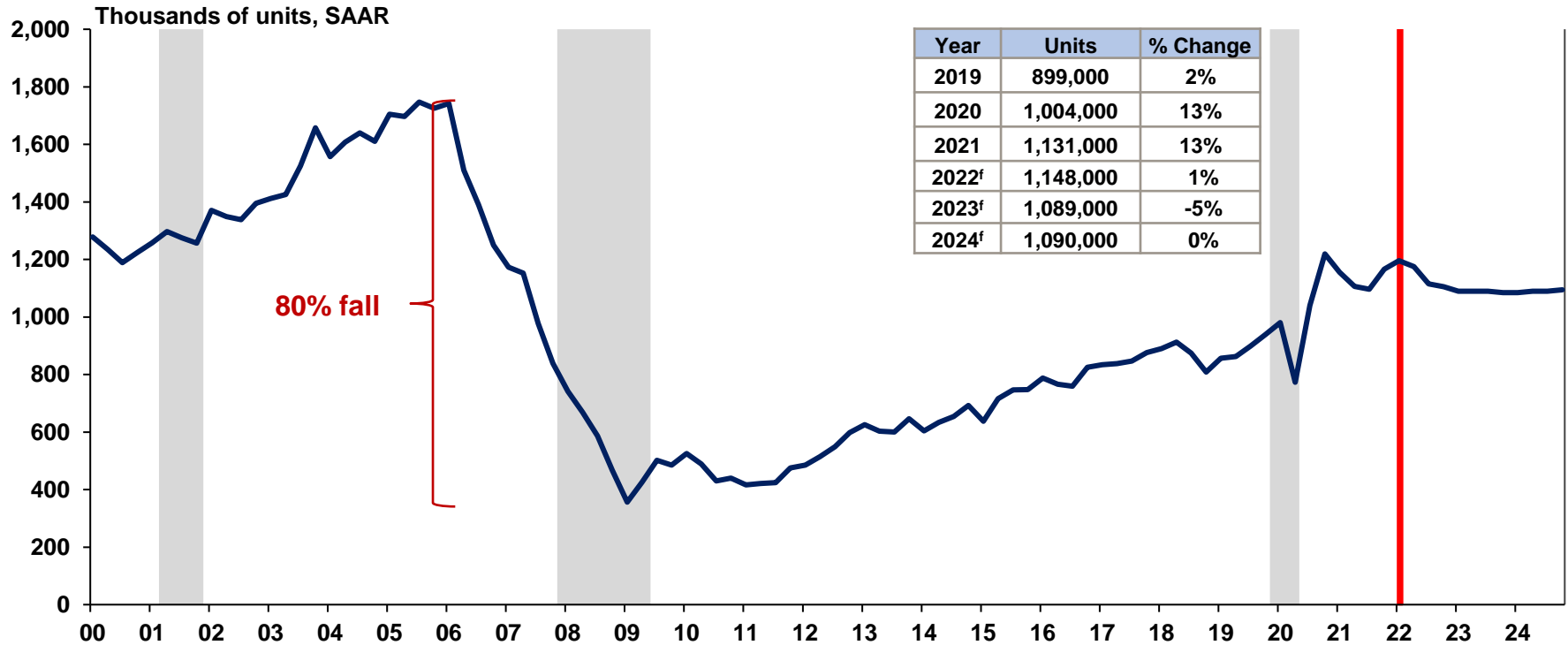


Source: U.S. Bureau of Economic Analysis (BEA): National Income and Product Accounts (NIPA) and NAHB forecast.

Note: In the analysis, 1-year moving average is used for adjusted data to smooth the trend.

Single-Family Starts

Growth slows in 2022 and 2023, returning to long-run trend but 26% higher than 2019



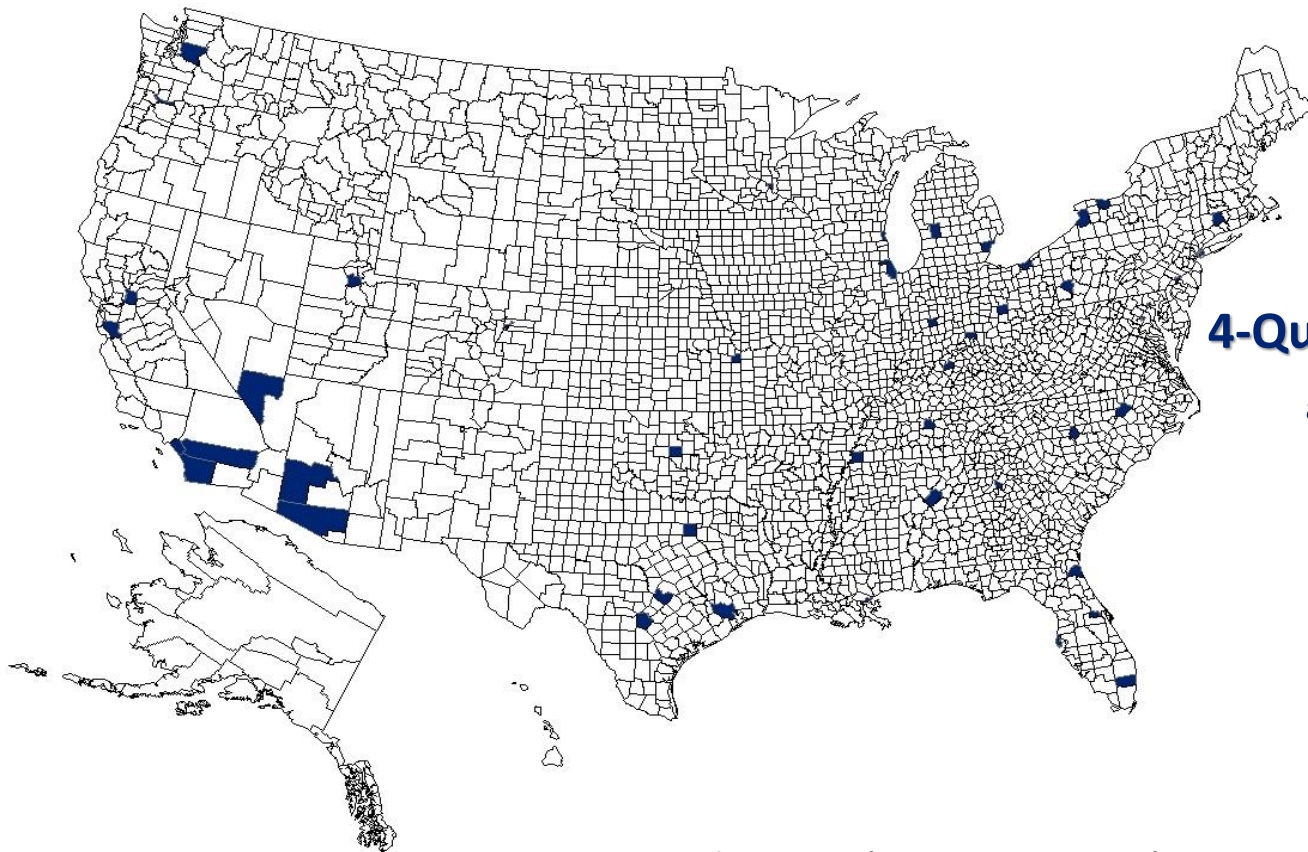
Source: U.S. Census Bureau (BOC) and NAHB forecast

Top 10 Largest Single-Family Markets by Permits

Top 10 Largest SF Markets	December 2021 (# of units YTD, NSA)	YTD % Change (compared to 2020)
Houston-The Woodlands-Sugar Land, TX	52,399	9%
Dallas-Fort Worth-Arlington, TX	49,931	14%
Phoenix-Mesa-Scottsdale, AZ	35,188	11%
Atlanta-Sandy Springs-Roswell, GA	31,766	13%
Austin-Round Rock, TX	24,438	13%
Tampa-St. Petersburg-Clearwater, FL	19,300	20%
Charlotte-Concord-Gastonia, NC-SC	18,997	7%
Orlando-Kissimmee-Sanford, FL	17,705	14%
Jacksonville, FL	16,521	27%
Nashville-Davidson-Murfreesboro-Franklin, TN	16,351	15%

NAHB Home Building Geography Index

16.6% of single-family construction takes place in Large Metro – Core County

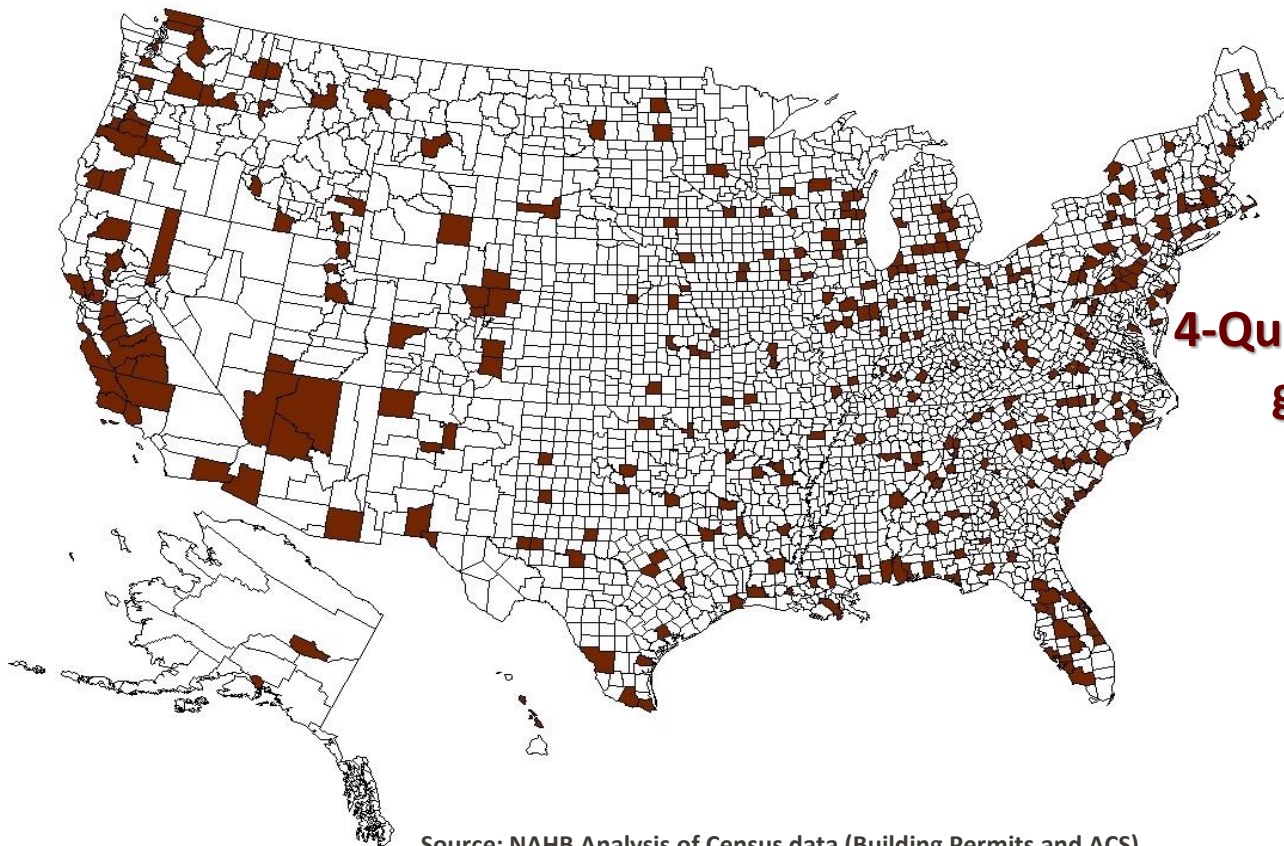


Q1 2022
4-Quarter MA of YoY
growth rate:
8.8%

Source: NAHB Analysis of Census data (Building Permits and ACS)

NAHB Home Building Geography Index

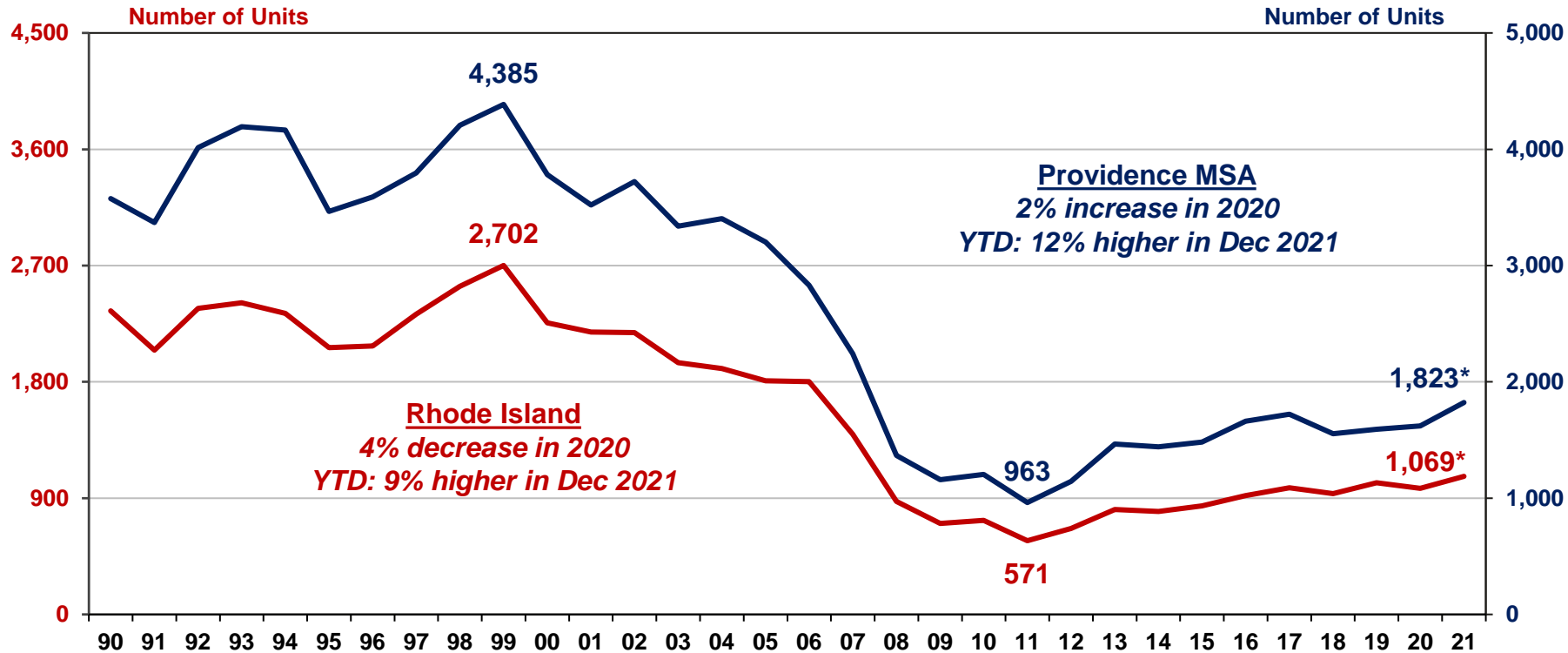
29.2% of single-family construction takes place in **Smaller Metro – Core County**



Q1 2022
4-Quarter MA of YoY
growth rate:
10.7%

Source: NAHB Analysis of Census data (Building Permits and ACS)

Single-Family Building Permits – RI and Providence MSA



Source: Census Bureau.

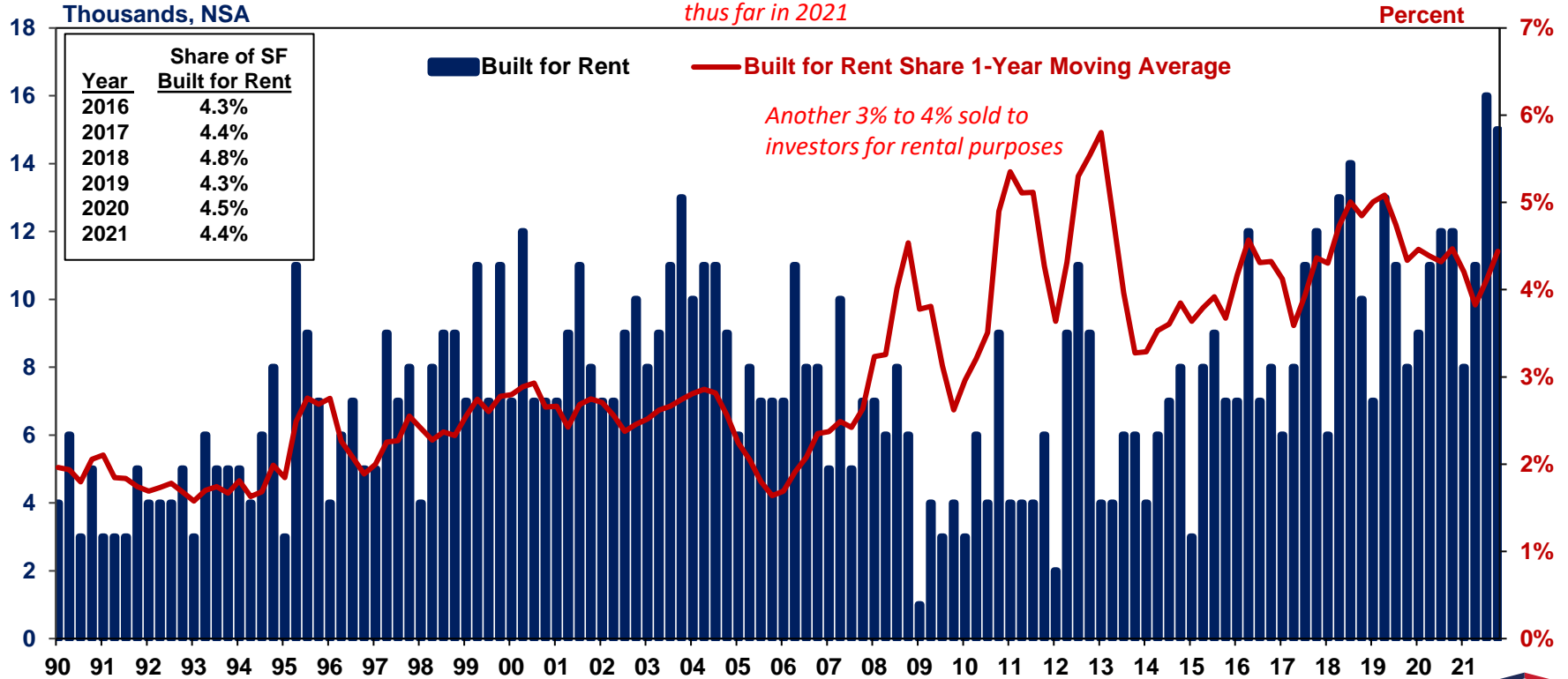
Note: * 2021 permits are estimated based on the December 2021 YTD growth rate, as 2021 annual data are not available yet.



Single-Family Built-for-Rent Construction

A window of opportunity

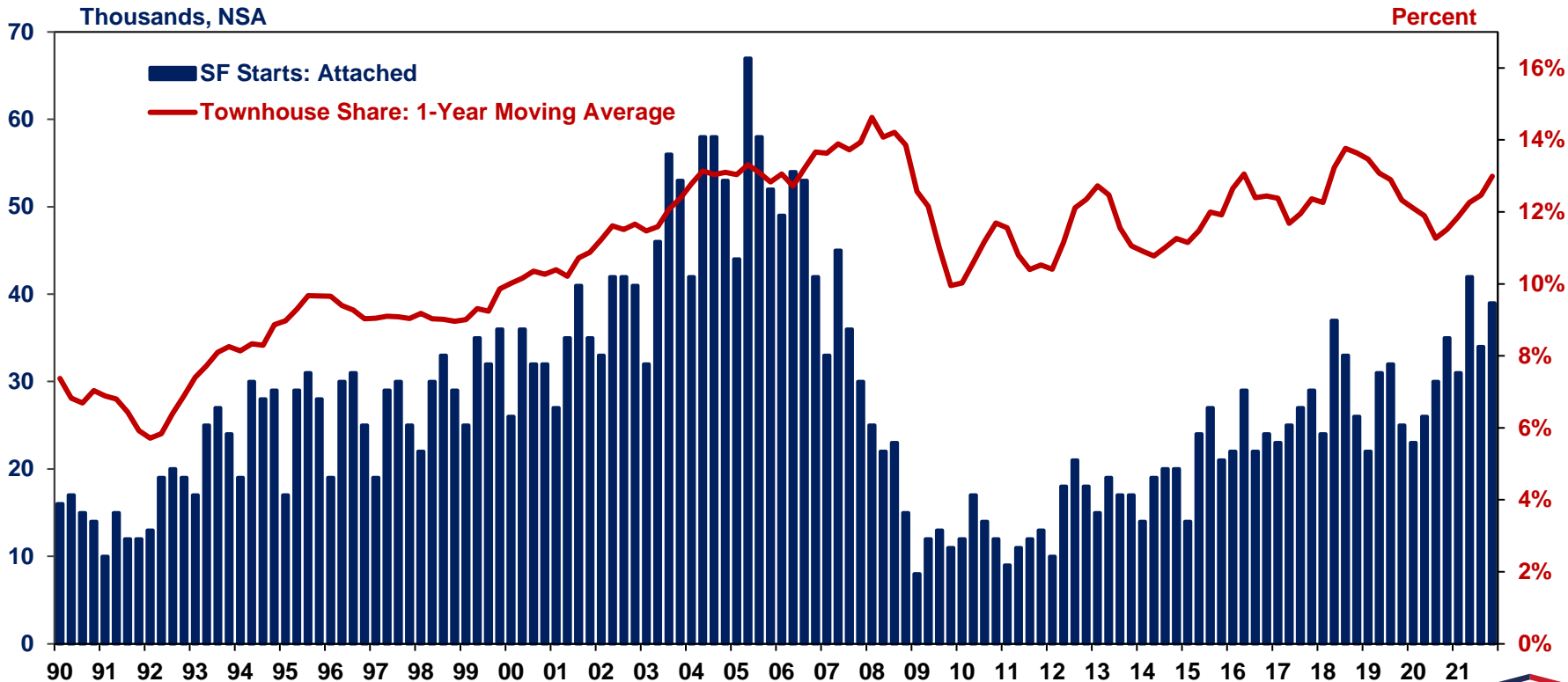
25% of builders have seen an uptick of investor buyers thus far in 2021



Source: U.S. Census Bureau (BOC)

Townhouse Construction Surged in 2021

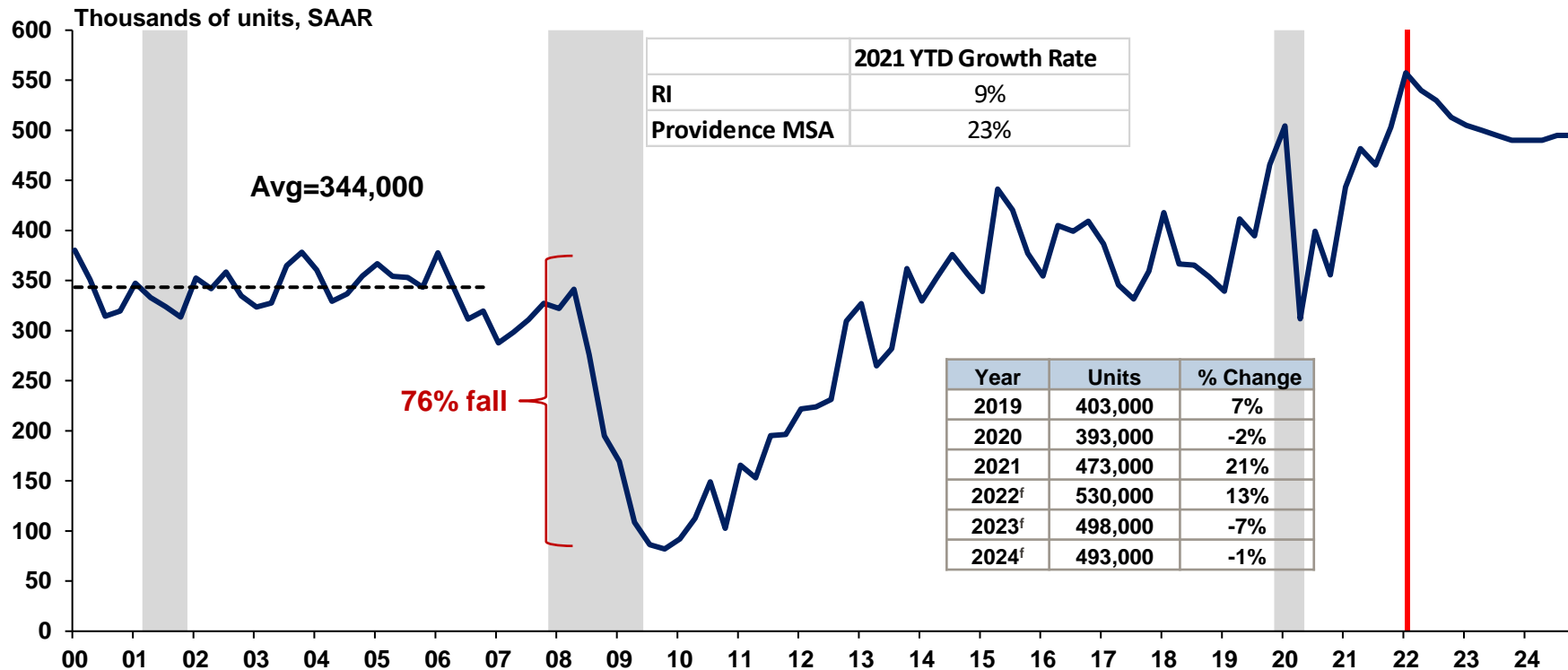
Market share of new townhouse rebounded after recent declines



Source: U.S. Census Bureau (BOC)

Multifamily Construction Growing

Multifamily growth rising on low vacancies and rising rents



Source: U.S. Census Bureau (BOC) and NAHB forecast

Moment of Opportunity for Housing Policy Leadership



Changing geography of housing demand has provided buyers, renters and businesses more options



Markets can provide housing supply when allowed to operate



Subsidies play a role at the very-low end (LIHTC as an example)
Workforce and middle-class supply needed as well



Not just the South that is growing
Pockets of Midwest, central New Jersey, Mountain states



A home is where a job goes at night
Housing = Jobs

Thank you

Questions?

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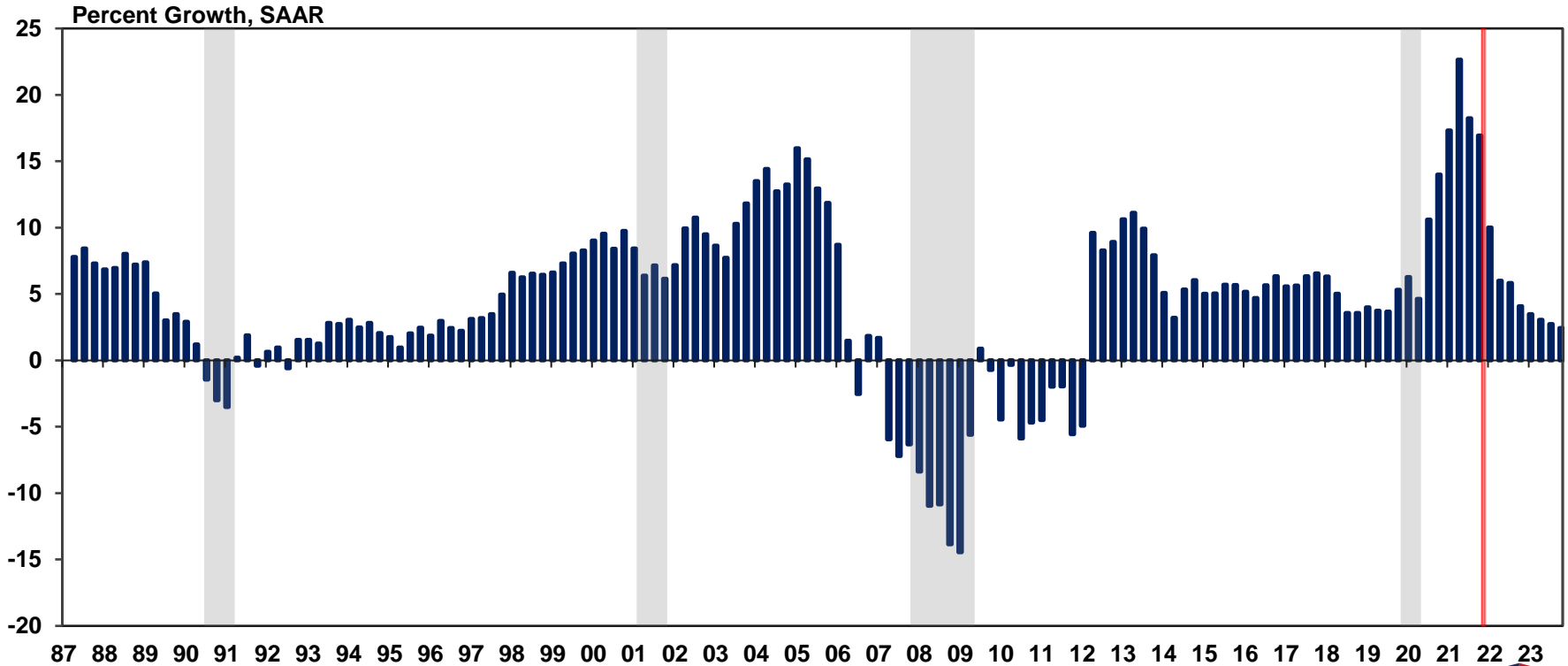
Economic Leadership Sponsor



Home Mortgage

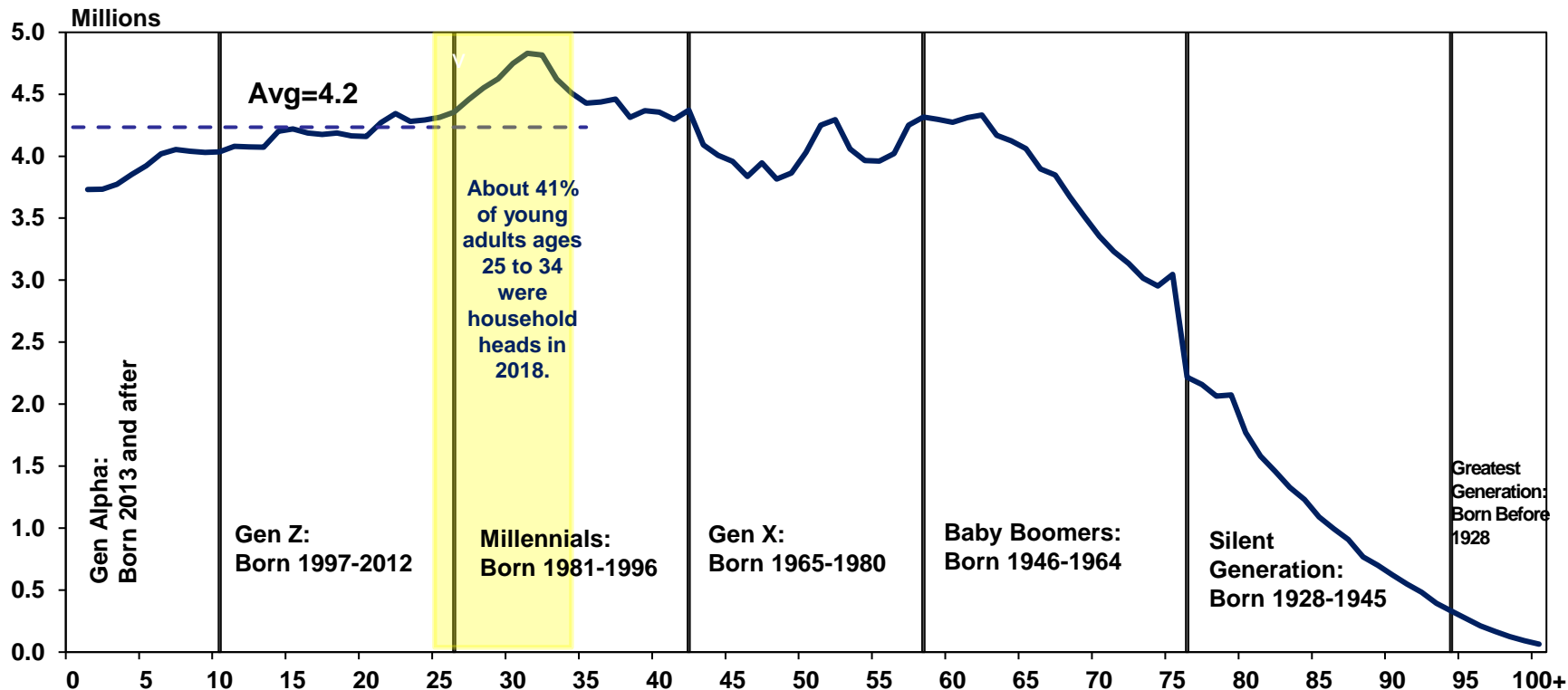
eyeonhousing.org
housingeconomics.com

Slowing Prices as Homeownership Moves out of Reach



Rising Population Entering Housing Demand Years: 2022

Gen X the majority of new construction home buyers



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