House of cards

The sensitive residential housing market will stabilize at a 'frustratingly slow pace' as home prices return to pre-boom levels.

If most of your landscape work was in residential design/build in Tempe, AZ, then "you're probably out of business because it dried up."

This from Brian Golembiewski, president of Tempe's $2.95 million Paramount Landscape. And it's just one example of an area where the housing market "tanked," as Golembiewski puts it. Building is stagnant, home prices are devalued and there is a large inventory of homes available. "We're near the bottom — it's as bad as it can get," he says.

The same is happening in Allentown, PA, where Joanne Kostecky Garden Design's business manager Kirk Brown says: "The housing market is glutted with a residential inventory far in excess of anything remotely normal. Prices have taken a dive to 25% to 40% of pre-recession highs. Most real estate agents are bracing for what they see as a second round of foreclosures that will only add more depressed inventory available at fire sale prices."

In Kingwood, TX, the outlook is a little brighter, but only in select price ranges. "The market is increasing in homes ranging from $150,000 to $200,000 and homes in the $1- to $2-million range," explains Matt Griffin, president of Prime Lawn/Prime Design. U.S. Census figures concur with this — showing homes

TAKE-AWAYS

2010 Housing Setbacks

1. The new home market "tanked."
2. Increased foreclosures.

2011 Housing Goals

1. Recognize opportunities in maintaining foreclosed homes.
2. Pursue clients who are purchasing existing homes and want to renovate.
3. Stay on top of housing market trends.

A CLOSER LOOK AT HOUSING STARTS

On a year-to-date basis, single-family construction is up 14.8% from one year ago, according to the U.S. Census Bureau.

On a month-to-month basis, however, single-family starts have been down for three months straight. That, coupled with builders slowing completions of homes under construction, points to signs of a continued slide in the near future.

As advances in the economy emerge over the next few months and help improve consumer confidence and demand for housing, economists predict residential construction activity will pick up, and so too will construction spending. Access to credit to provide home buyers with mortgages and home builders with loans will be key to determining how fast single-family construction rebounds.

sold in the $150,000 to $300,000 range (where most first-time home buyers make their purchases) picked up share. "But in homes priced between $400,000 and $500,000, there's not a lot of development at all."

When it comes to buyers, 76% of consumers believe current home buying conditions are good — 65% citing low prices and 46% citing low interest rates as reasons why, according to the University of Michigan Consumer Sentiment Index. Though most consumers recognize the market offers some of the best housing affordability opportunities in a generation, that view is not reflected in actual home buying activity.

In most parts of the country, house prices have returned to what the National Association of Realtors loosely describes as "pre-boom levels." For a new home, U.S. Census data says the median sales price is $204,000, down from $214,200 one year ago.

The National Association of Home Builders expects any additional price declines to be mild and temporary — the underlying trend is upward. "All of the bubbles have been removed" from price, Yun says, but the recovery will proceed at a "frustratingly slow pace."

As contractors wait for housing market stabliziation, there is a bright spot in the area of home improvements, where spending was up 10.6% this year, according to the National Association of Home Builders. LM

TAX CREDIT AFTERMATH

A look at how residential home sales are faring after government assistance expired.

Following the sharp drop in the months immediately after the home buyer tax credit expired April 30, pending home sales rose modestly (5.2% increase in July) , according to the National Association of Realtors.

While the figure is still 19.1% below July 2009's Pending Home Sales Index figures, this is still a positive sign, according to Lawrence Yun, NAR's chief economist. "Home sales will remain soft in the months ahead, but improved affordability conditions should help with the recovery," he says.

When it comes to new homes, however, the three months following the April 30 deadline of the home buyer tax credit were the three worst for this category in history, per U.S. Census Bureau figures. All four census regions recorded declines, with the largest in the West (-25.4%) and Northeast (-13.9%) and smaller declines in the Midwest (-8.3%) and South (-8.7%).

"Now that the stimulus is over, we have to let the market forces do their own work," Yun insists. "We can't rely on federal stimulus forever."

UP, UP, UPGRADES

10.6 % increase in spending on home improvements this year.

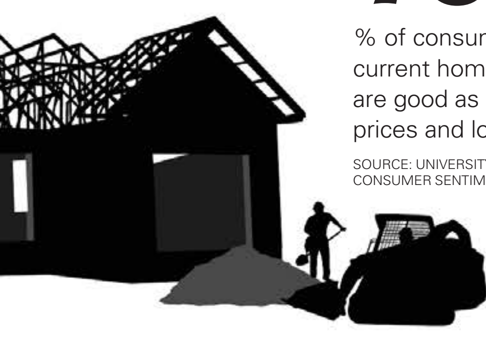
SOURCE: NATIONAL ASSOCIATION OF HOME BUILDERS

CRITICAL CONDITIONS

76

% of consumers who believe current home buying conditions are good as a result of low prices and low interest rates.

SOURCE: UNIVERSITY OF MICHIGAN CONSUMER SENTIMENT INDEX



A CLOSER LOOK AT MULTIFAMILY PROPERTIES

Weak demand for condos, high rental vacancy rates and miniscule rent increases have combined with a harsh financing environment to slow multifamily construction to a snail's pace. Spending, year-to-date, has plummeted 57% from $19.2 billion a year ago to $8.2 billion in July, according to the U.S. Census Bureau.

But there is evidence that prospects for multifamily projects are slowly improving. The three-month moving average for multifamily housing starts has been generally rising throughout the course of this year, which should begin to turn multifamily construction spending upward.