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## **Strong Single-Family Growth will Fuel Housing in 2014**

LAS VEGAS, NV - Led by a resurgence in single-family production, housing will continue its climb toward higher ground in 2014, but builders are still confronting several challenges that could hinder the pace of the ongoing recovery, according to economists speaking at the National Association of Home Builders (NAHB) International Builders' Show (IBS) in Las Vegas today. "My single-family forecast for 2014 is pretty aggressive--822,000 starts which is likely 200,000 more than 2013," said NAHB Chief Economist David Crowe. "There are five key points to the turnaround. Consumers are back, pent-up demand is emerging, there is a growing need for new construction, distressed sales are diminishing and builders see it." Consumer confidence has returned to pre-recession levels and household balance sheets are on the mend. Year-over-year household formations are on the rise and are now averaging 620,000 compared to just 500,000 during the housing downturn. At the height of the housing boom, the U.S. was producing 1.4 million additional households each year.

Meanwhile, new-home sales are averaging just 8.7 percent of total home sales, barely half the historical average of 16.1 percent. In the midst of the Great Recession, the cumulative lost number of existing home sales between 2007 and 2011 totaled more than 4 million, Crowe said. Moreover, the percentage of mortgages seriously delinquent has fallen and the decline has been larger in markets that had the highest rates. In a sign that builders are well aware of the trend now under way, the NAHB/Wells Fargo Housing Market Index (HMI), which measures builder sentiment in the single-family housing market, has been above the 50 mark for the past eight months. Any reading above 50 means that more builders view sales conditions as good than poor. However, Crowe cautioned that builders still face several headwinds, including rising building material prices, persistently tight mortgage credit conditions, difficulties in obtaining accurate appraisals and limited availability in labor and developed lots. Moreover, gridlock and uncertainty in Washington threaten to harm consumer confidence and future housing demand.

### **A Healthy Outlook**

NAHB is forecasting 1.15 million total housing starts in 2014, up 24.5 percent from last year's total of 928,000 units. Single-family production is projected to rise 32 percent in 2014 to 822,000 units and surge an additional 41 percent to 1.16 million units next year. NAHB is anticipating 333,000 multifamily starts in 2014, up 9 percent from 306,000 last year. Single-family home sales are projected to hit 584,000 this year, a 35.9 percent increase above last year's 430,000 sales. Meanwhile, residential remodeling activity is expected to register a modest gain this year over 2013. The slow and steady housing recovery will bring nationwide housing starts to 71 percent of normal by the fourth quarter of this year and 93 percent of normal by the end of 2015, Crowe said. Viewing the recovery on a state level, by the end of 2015, the top 20 percent of states will be back to normal production levels, compared to the bottom 20 percent, which will still be below 84 percent.



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## Mortgage Rates Up, but Housing Still Affordable

As the economy strengthens and the Federal Reserve tapers its buy-back of mortgage-backed securities, this should put upward pressure on mortgage rates, but not enough to harm housing affordability, according to Frank Nothaft, vice president and chief economist at Freddie Mac. "Regarding mortgage rates, we've gone from dirt cheap to cheap, and I think we will see a gradual rise of about a half a percentage point to 5 percent in 2014," said Nothaft. But even then, he said, "most markets will remain quite affordable." Nationally, Nothaft expects that home sales and prices will each rise about 5 percent in 2014 and that housing starts will post a 20 percent gain. This year, he expects a big transition, as home purchase originations overtake the refinancing market. "As we move into the 2014 home buying season, it will be a market dominated by home buying originations rather than refinance originations," said Nothaft. "This will be the first time since 2000 that purchase originations will dominate the market."

## Demand for Multifamily Housing Will Continue to Rise in 2014 and Beyond

LAS VEGAS, NV - Strong demand for apartments will increase over the next several years, said panelists during a press conference at the National Association of Home Builders (NAHB) International Builders' Show (IBS) in Las Vegas. And while multifamily construction continues to be strong, NAHB does expect the speed to decrease as sustainable levels are reached in 2015 or 2016. "The multifamily market has rebounded significantly from its trough in 2009 at 82,000 multifamily housing starts to 340,000 in 2013," said NAHB Chief Economist David Crowe. "NAHB is forecasting 363,000 multifamily housing starts in 2015, which is above the previous longer term average of 340,000 as more young adults prefer renting

The strong performance in multifamily comes from three sources, explained Crowe. "First, during the collapse, production of multifamily housing had significantly decreased, so part of the resurgence in 2011 was just catching up with a more normal flow. Second, the strong demand for apartments is being fed by a rising demographic of echo boomers that will continue to grow in size as we absorb people born after 1980. Third, young adults who might have otherwise chosen homeownership, and some older adults as well, are hampered by a variety of issues, such as unusually tight underwriting standards for mortgages, lower credit scores because of the slow employment market and lower entry salaries. As a result, the share of households that rent rather than own has increased steadily since 2004 and will likely continue until jobs are more secure, mortgages more accessible and careers more stable." Many markets have regained their footing and are producing at least as many multifamily units as they did during the relatively stable period between 1996 and 2006. "The multifamily market has come a long way since the collapse," said panelist Guy K. Hays, president of Legacy Partners Residential Inc. in Foster City, Calif. "Overall, supply and demand are in balance, and in most markets there is a need for the continued production of new units." While both panelists are optimistic about the future of the multifamily housing market, there are still challenges that face the industry such as the availability of labor and rising cost of some building materials. But demand for apartments is strong enough for developers to proceed in most markets, the panelists noted.

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