

Matt Stout

Loan Originator, Consumers Financial Mortgage
NMLS# 248427
2834 S Highland Dr Salt Lake City, UT 84106

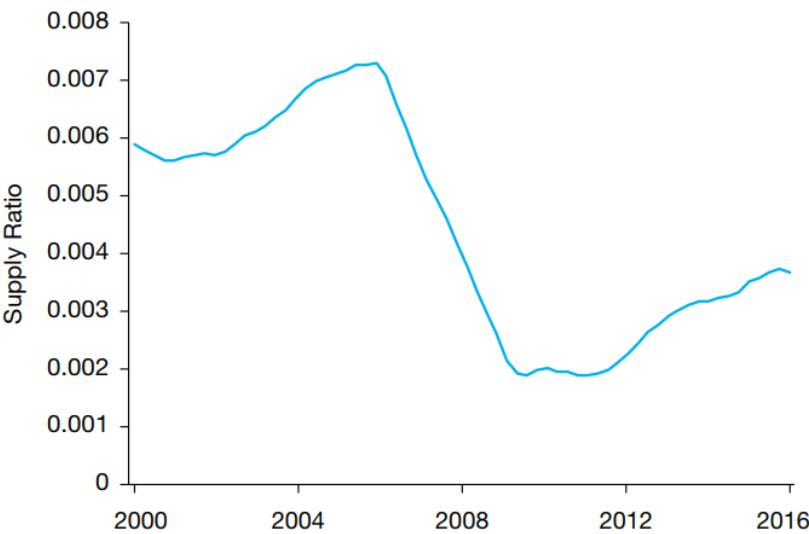
Mobile: 801-599-5363
greenteam@icansavemoney.com
View My Website

Freddie Mac: Why We are Building So Few Houses?

Freddie Mac's *Outlook* this month looks at what it calls "the spoiler," the **lean inventory** of newly constructed homes for sale. While the situation isn't quite as dire as with existing homes, where there is a 4.3-month supply, the new home inventory is just over a 5 month supply and, Freddie Mac's economists point out, it is much tighter in hot local markets.

So far residential construction is **not doing much** to fill the gap. Building permits dropped by around 70 percent during the Great Recession and have not yet recovered. In fact, when measured in relation to the population, they are only at about half the level of 2006.

U.S. supply ratio: permits/population



Note: Supply Ratio is calculated as the 4-quarter moving sum of total residential permits (# of units) to Total Population
Source: U.S. Census Bureau

Freddie Mac says that with prices rising and housing demand high, one would expect builders to pick up the pace, but clearly, they are not. The main

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.02%	+0.03	0.00
15 Yr. Fixed	6.53%	+0.03	0.00
30 Yr. FHA	6.55%	+0.03	0.00
30 Yr. Jumbo	7.31%	+0.01	0.00
5/1 ARM	7.24%	+0.04	0.00

Freddie Mac			
30 Yr. Fixed	7.02%	-0.42	0.00
15 Yr. Fixed	6.28%	-0.48	0.00

Mortgage Bankers Assoc.			
30 Yr. Fixed	7.08%	-0.10	0.63
15 Yr. Fixed	6.61%	+0.01	0.65
30 Yr. FHA	6.89%	-0.03	0.94
30 Yr. Jumbo	7.22%	-0.09	0.58
5/1 ARM	6.56%	-0.04	0.66

Rates as of: 5/16

Recent Housing Data

		Value	Change
Mortgage Apps	May 15	198.1	+0.51%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

reasons appear to be a lack of skilled labor and the increased cost of development.

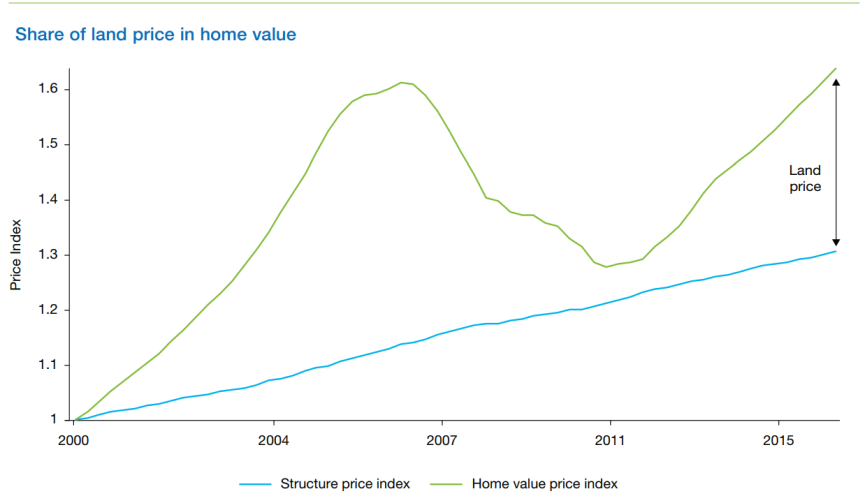
		Value	Change
Builder Confidence	Mar	51	+6.25%

As of May, the number of open construction sector jobs, as reported by the Labor Department's Job Openings and Labor Turnover (JOLT) report stood at 154,000, an elevated rate of 2.2 percent, even though, as the National Association of Home Builder economist Robert Dietz reported employment in the sector had increased by 713,000 persons since the recession low.

The *Outlook* article cites four factors that contribute to the current labor shortage in housing:

1. After housing collapsed and 1.5 million jobs disappeared, many of the workers who were laid off left the industry, perhaps permanently. This left the housing sector with a **skills gap** that will take some time to refill.
2. The construction industry has traditionally offered attractive jobs to young people but builders today report that they are able to **attract fewer of these workers** than in the past.
3. **Opioid use** appears to be impacting production, although to what degree is unclear. Freddie Mac cites one source that claims 15 percent of construction workers are engaged in illicit drug use and subcontractors report that a significant share of job applicants fail their drug test.
4. Foreign-born workers have made up a significant portion of the construction work force in recent years, more than a quarter nationally and as high as 35 to 40 percent in some states. Increased enforcement of immigration laws, a less-welcoming environment for immigrants, and recent policy changes may have made non-native workers **hesitant to seek this employment**.

Another factor affecting construction are high development costs. The price of acquiring buildable land and preparing it for construction has risen more rapidly than the price builders can charge for the completed home. The land cost share of construction expenses has risen, and since the cost of land is a fixed cost, this tends to make building entry-level houses less profitable, tilting development toward higher-end projects.



Land use regulations have increased over the last three decades and in areas with strict regulations, it takes longer to obtain a permits. Freddie Mac's economists compare New Orleans, with fairly lenient permitting to Honolulu with especially strict rules. Obtaining a permit in the former takes an average of 3.5 months, in the latter, 17 months. A 2016 White House report on land use regulation says the lengthy approval processes "have reduced the ability to respond to growing housing demand in many markets."



There were 222,000 jobs added in June after a weak report in May. Year-to-date job creation have averaged 146,000 per year, only 2,000 jobs per month higher than in 2016.

