



Economics Group

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Housing Starts End The Year On A Weak Note

Housing starts fell 4.3 percent in December to a 529,000-unit pace, with single family starts tumbling 9.0 percent. Building permits jumped 16.7 percent, however, reflecting a big jump in apartment construction.

Another Dismal Year For Homebuilders

New home construction ended the year on a weak note, with starts of single-family homes tumbling 9.0 percent in December to a 417,000-unit pace. December's drop puts single-family starts at the lowest level since May 2009. Construction of new single-family homes has been essentially dead in the water since the home-buyer tax credit program ended earlier this year. For the year as a whole, builders started construction on 470,900 homes in 2010, which was up 5.8 percent from the prior year. That marks the first annual increase for single-family starts since 2005. Even with that gain, however, 2010 still turned out to be the second weakest year for single-family starts in the modern era.

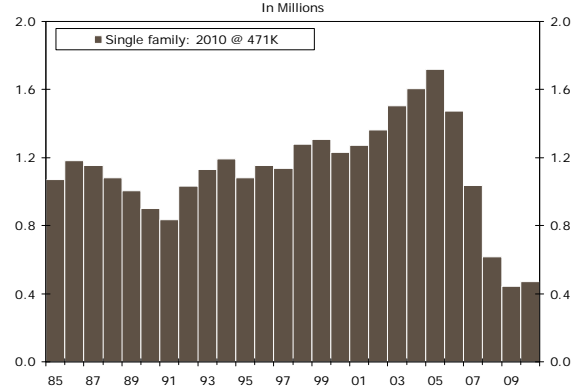
Demand of new single-family homes remains exceptionally weak. The NAHB/Wells Fargo Housing Market Index has remained unchanged at 16 for the past three months and has remained near its cycle lows for the past six months. Builders report little to no improvement in prospective buyer traffic and expectations for future conditions remain depressed. The low readings in the housing market index are borne out by the recent mortgage application data, which show mortgage purchase applications declining in five of the past six weeks. Demand for new homes is being held back by increased competition from foreclosures and short sales as well as tighter credit underwriting standards and the continued difficulty of trade-up buyers to sell their current home.

Demand For Apartments Is Reviving

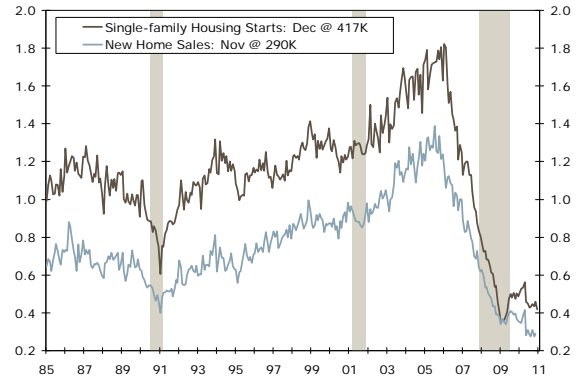
Starts of new multi-family homes rose 17.9 percent in December and increased 7.2 percent for all of 2010. Permits for future starts leapt 53.5 percent in December, which brought multi-family permits to their highest level since January 2009. The recent rise in multi-family permits and starts comes off unusually depressed levels. Demand for apartments has improved considerably over the past 18 months, with declining rates of homeownership helping offset the slower rate of growth in household formations. Vacancy rates have fallen modestly over the past year while rents have increased and rent concessions have fallen. Sales at apartment communities have risen substantially and so have prices. Financing for new apartment construction has eased considerably over the past year and new construction is finally beginning to gain some traction.

Home construction likely bottomed some time ago but the recovery will remain unusually sluggish. Our forecast calls for a 15 percent increase in starts this year, with apartment construction leading the way. Demand for new single-family homes will take much longer to revive. Progress must first be made in reducing the mountain of foreclosures. Until that happens builders simply will not have enough clarity in regard to demand or pricing in order to increase single-family construction.

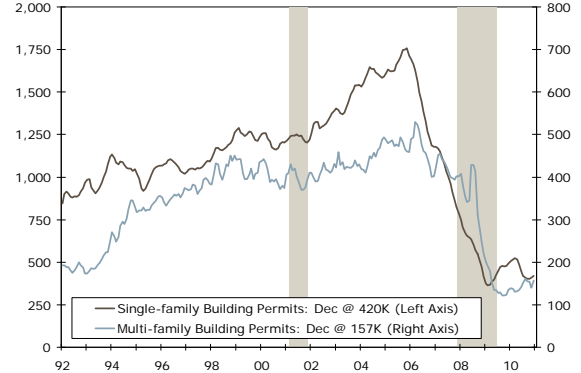
Single-Family Housing Starts



Single-family Housing Starts vs. New Home Sales



Single & Multi-family Building Permits



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