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# THIS MONTH

IN CONSTRUCTION SUPPLY

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# THIS MONTH

IN CONSTRUCTION SUPPLY

APR 2011

## THE HALF-FAST RECOVERY



By **Greg Brooks**. We just can't seem to catch a break in this recession: earthquakes, tsunamis, volcanoes, record blizzards and heat waves, national bailouts, revolutions all over the Middle East, nuclear reactor meltdowns, and, of course, the biggest oil spill in U.S. history.

Glenn Beck suggested these might be signs the world is about to end. If so, now's the time; it'd save us having to pay back that \$14 trillion we owe.

Trouble is, predictions of the apocalypse have a mediocre track record at

best. Odds are we're going to have to deal with the national debt, and so far that's going about as well as everything else – a seesaw debate best characterized by the punchline to the old [Lone Ranger joke](#): “What do you mean ‘we,’ kemo sabe?”

Besides, the apocalypse isn't hard to find if you want to find it. Right now the housing industry looks like another old joke: “Everyone has a purpose in life. Yours may be to serve as a warning to others.”

The latest year-over-year housing stats are just plain ugly. New home sales are down a whopping 30%. Annualized permits are off 20% while February starts came in at 479,000, down 21% from 2010. As recently as last June, NAHB was forecasting 991,000 starts in 2011. Admittedly it's early, but as of February, we're not even tracking half that number.

As always, though, the news isn't quite as bad as the press makes it out to be. While YoY single-family starts were down 30%, multifamily was up 33%. The YoY rental vacancy rate has fallen from 8% to 6.2%. “Construction of apartments has climbed from a 50-year low on expectations that rents will

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increase and more people will seek to lease,” says [Bloomberg](#). Multifamily averaged 28% of total housing starts throughout the 1980s, then fell to 16% during the 90s. Given the economic situation, it seems like a safe bet that multifamily will be strong for some time to come.

More important, the job market is gaining traction. The official unemployment rate fell from 9.8% in November to 8.8% in March, the fastest four-month decline since 1972. Initial unemployment claims are holding “below the 400,000 mark...considered by economists a strong sign that the economy is gaining more jobs than it’s shedding,” says the [Wall Street Journal](#).

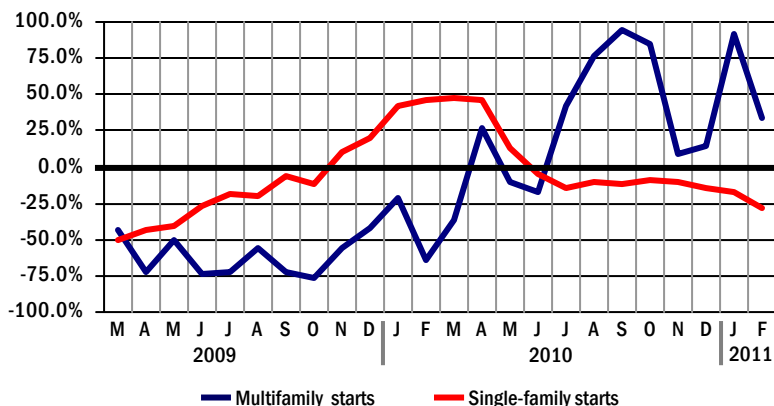
The private sector added 240,000 jobs in February plus 230,000 in March, and in the [Business Roundtable’s latest quarterly survey of CEOs](#), 52% said they plan to hire in the next six months versus 11% who plan to lay off. Those are the highest readings since the survey was launched in 2002.

Last but not least, the [National Association of Colleges and Employers](#) reports that “employers expect to hire 21% more new college grads this year than they did last year.” That’s 21% fewer grads who are likely to move into Mom and Dad’s basement this spring.

All that should translate into a boost for home building later this year. Wells Fargo Securities is currently projecting that we’ll finish 2011 with 620,000 housing starts; the latest from NAHB is 673,000.

But it hasn’t materialized yet, and the core problem – foreclosures and the excess supply they create – is getting worse, not better. So far there appears

YoY % change in annualized housing starts, Mar 2009 - Feb 2011. Census Bureau



to be no clear resolution to the foreclosure fraud scandal; the only effect has been to slow the process down. In mid-2010, Standard & Poor’s projected that it’d take [three years](#) to clear out all the shadow inventory; now S&P says [four years](#).

Which raises an interesting question: Is the sluggish housing recovery really due to the supply glut, or is it the psychological effect of a steady stream of alarming media reports about it?

Case in point: The latest flurry of angst in the press has been over the decennial census, which presumably reported that [13% of U.S. housing units are vacant](#).

“High residential vacancies are killing many housing markets,” concluded [CNN Money](#), “as foreclosed homes sit on the market and depress sale prices and property values.”

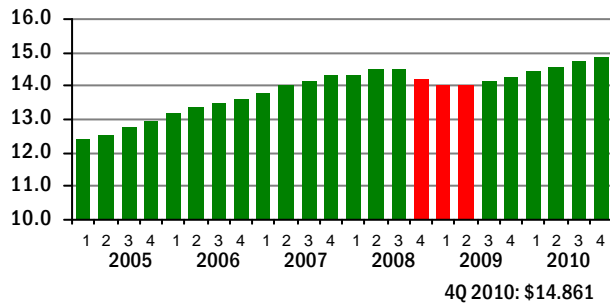
First, they got the number wrong; the 2010 Census actually reported an 11.4% vacancy rate. That’s still a big number: 14.9 million vacancies based on a total of 130.6 million housing units.

Except that’s not a relevant number. Nearly four out of five vacancies are

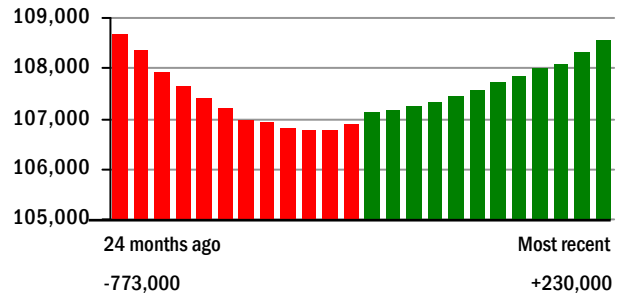
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## VITAL STATISTICS: ECONOMY

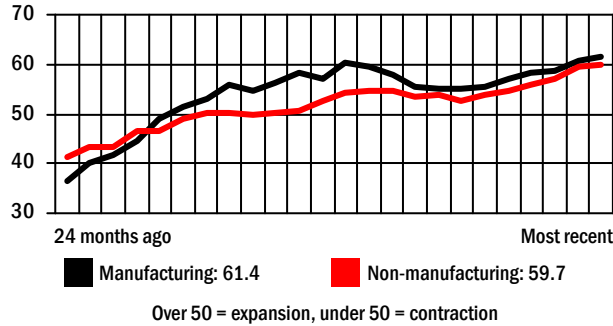
**GROSS DOMESTIC PRODUCT (\$ TRILLIONS)**



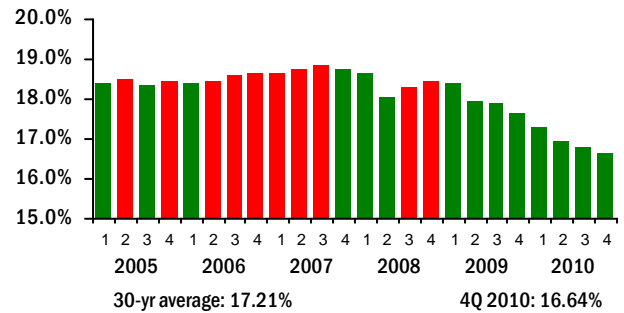
**PRIVATE SECTOR EMPLOYMENT (000)**



**ISM PURCHASING INDEX**



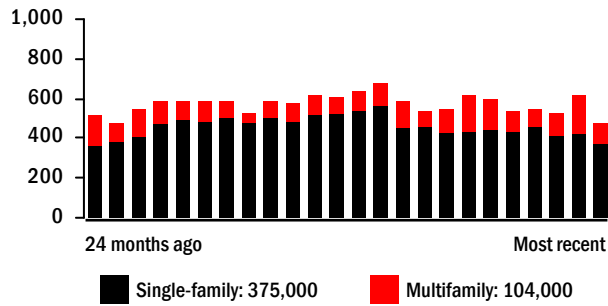
**HOUSEHOLD DEBT % OF DISPOSABLE INCOME**



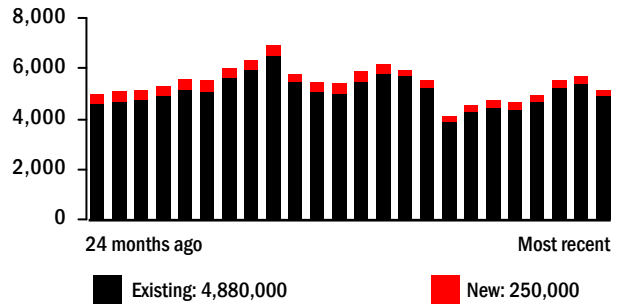
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Institute for Supply Management, Federal Reserve

## VITAL STATISTICS: HOUSING

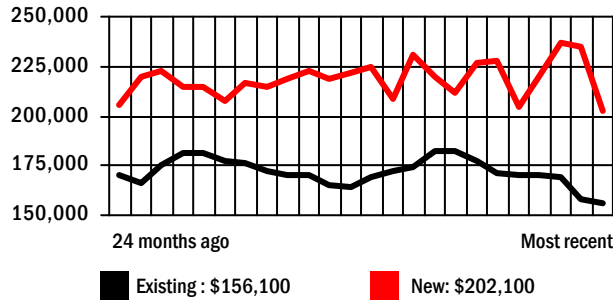
**ANNUALIZED HOUSING STARTS (000)**



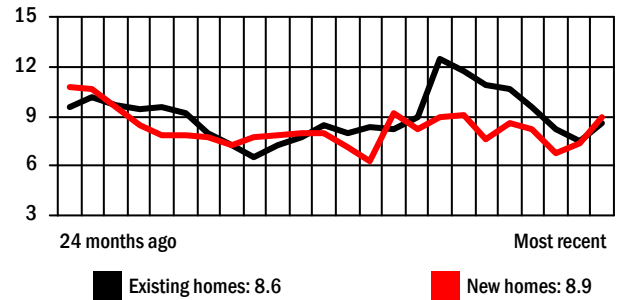
**ANNUALIZED HOME SALES (000)**



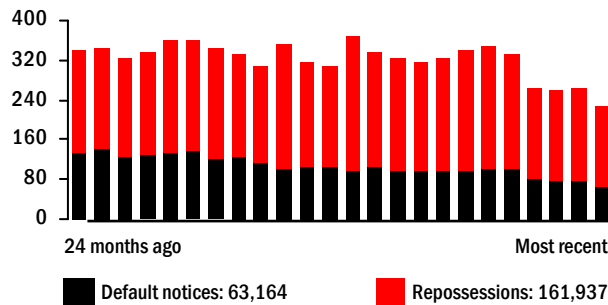
**MEDIAN HOME PRICES**



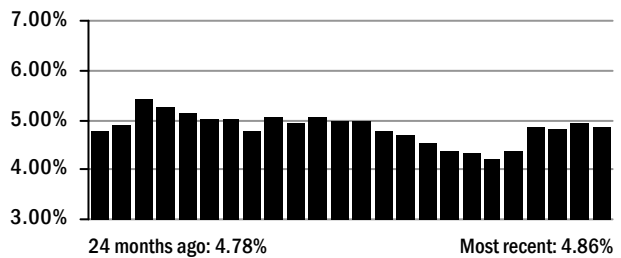
**MONTHS' UNSOLD INVENTORY**



**FORECLOSURE FILINGS (000)**



**30-YEAR FIXED MORTGAGE RATES**



[Download current spreadsheet at CS24.us](http://CS24.us)

Sources: RealtyTrac, U.S. Census Bureau, National Association of Realtors, Freddie Mac, U.S. Bureau of Economic Analysis, U.S. Department of Labor. Data compiled by



(Continued from page 2)

vacant rentals, which have zero bearing on the foreclosure crisis. The Census Bureau also conducts quarterly surveys, and while the numbers don't give precisely due to different collection methods, the 4Q 2010 report says that [just 2.7% were homeowner vacancies](#).

Moreover, not all homeowner vacancies are available for sale. CNN acknowledged that, but still cited Maine, Vermont, Florida, and Arizona as states with "gluts of empty houses."

See a pattern? That's right: All are popular spots for vacation homes, which are counted as vacancies. At any given point in time, only about 20% of homeowner vacancies are for sale. As of 4Q 2010, the Census Bureau put the total at 1.98 million units.

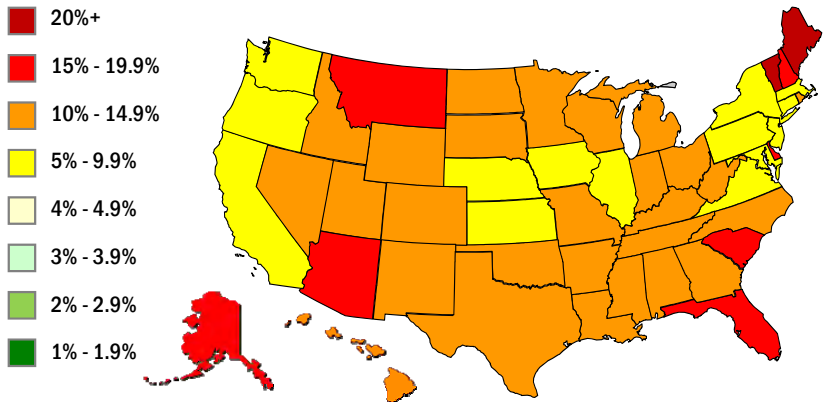
That's not to say we don't have excess vacancies. The homeowner vacancy rate averaged 1.6% in the 1990s; if that's the baseline, the current rate of 2.7% is 69% above normal. Based on 1.98 million total units, the excess is roughly 807,000 units or two months' inventory at a normal sales pace.

That doesn't include shadow inventory (homes that have been repossessed or are on their way, but not on the market yet), which is currently estimated at [1.8 million units](#). But shadow inventory isn't excess inventory until it goes up for sale, and servicers are controlling the pace to minimize their losses.

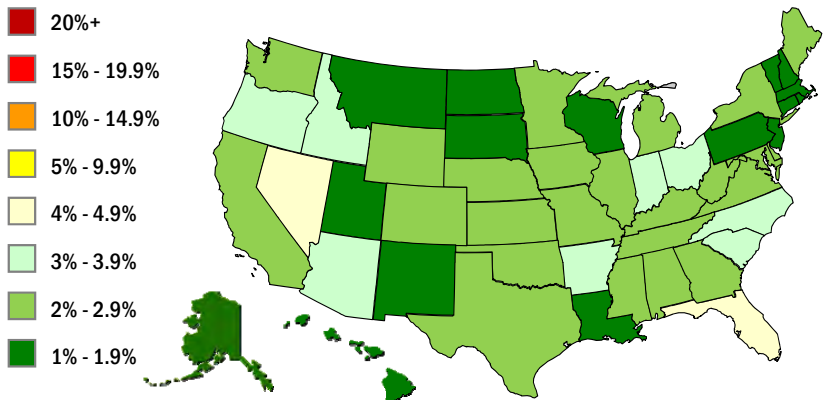
In other words, we have a slow leak. We do not have a blowout.

But you wouldn't know that when all you see are inaccurate or incomplete numbers coupled with misleading conclusions. The effect is to scare people away at a time when they could be snapping up bargains.

2010 total vacancies as a % of total housing units. Census Bureau



2010 homeowner vacancies as a % of total housing units. Census Bureau



At some point, the mood will change, the narrative will turn positive, and housing will kick into gear. But it won't be because the facts changed. The reporting will still be bad; it'll just be happy talk rather than sad talk.

Which raises an even more interesting question: It's easy to see how reporting on the housing market is flawed because we understand the market. What about the reporting on topics we're not as familiar with?

Such as that \$14 trillion debt, for example.

It's something to keep in mind as the press gears up for the next battle over the deficit. ☺



Greg Brooks, editor of THISMONTH, is a 41-year veteran of the

construction supply business with 20 years' experience in the field. Brooks is a former editor of *ProSales*, a steering committee member at the Harvard Joint Center for Housing Studies, and author of *Scope of the LBM Industry*, published by the National Lumber & Building Material Dealers Association.

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