

March 2014 Housing Commentary



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March 2014

Housing Scorecard

	M/M	Y/Y
Housing Starts ^A	△2.8%	▽5.9%
Single-Family Starts ^A	△6.0%	△1.9%
Housing Permits ^A	▽2.4%	△11.2%
Housing Completions ^A	▽0.2%	△7.7%
New Single-Family House Sales ^A	▽14.5%	▽13.3%
Existing House Sales ^B	▽0.2%	▽7.5%
Private Residential Construction Spending ^A	△0.8%	△16.0%
Single-Family Construction Spending ^A	△0.2%	△13.2%

M/M = month-over-month; Y/Y = year-over-year

New Housing Starts

	Total Starts*	Single- Family Starts	Multi-Family 2-4 unit Starts	Multi-Family 5 or more unit Starts
March	946,000	635,000	19,000	292,000
February	920,000	599,000	10,000	311,000
2013	1,005,000	623,000	26,000	356,000
M/M change	2.8%	6.0%	90.0%	-6.1%
Y/Y change	-5.9%	1.9%	-26.9%	-18.0%

* All start data are presented at a seasonally adjusted annual rate (SAAR)

New Housing Permits and Completions

	Total Permits*	Single-Family Permits	Multi-Family 2-4 unit Permits	Multi-Family 5 or more unit Permits
March	990,000	592,000	28,000	370,000
February	1,014,000	589,000	23,000	402,000
2013	890,000	599,000	25,000	266,000
M/M change	-2.4%	0.5%	21.7%	-8.0%
Y/Y change	11.2%	-1.2%	12.0%	39.1%
	Total Completions*	Single-Family Completions	Multi-Family 2-4 unit Completions	Multi-Family 5 or more unit Completions
March	872,000	602,000	12,000	258,000
February	874,000	626,000	9,000	239,000
2013	810,000	591,000	5,000	214,000
M/M change	-0.2%	-3.8%	33.3%	7.9%
Y/Y change	7.7%	1.9%	140.0%	20.6%

New and Existing House Sales

	New Single-Family Sales [*]	Median Price	Month's Supply	Existing House Sales ^{B*}	Median Price ^B	Month's Supply ^B
March	384,000	290,000	6.0	4,590,000	\$198,500	5.2
February	449,000	260,900	5.0	4,600,000	\$188,300	5.0
2013	443,000	257,500	4.2	4,960,000	\$184,000	4.7
M/M change	-14.5%	11.1%	20.0%	-0.2%	5.4%	4.0%
Y/Y change	-13.3%	12.6%	42.8%	-7.5%	7.9%	10.6%

^{*} All sales data are SAAR

Existing House Sales

National Association of Realtors (NAR®)^B

March 2014 sales data: 4.59 million houses sold (SAAR)

February 2014: 4.60 million (SAAR) and March 2013: 4.96 million (SAAR)

Distressed house sales: 14% of sales –
(10% foreclosures and 4% short-sales);

16% in February 2014 and 21% in March 2013.

All-cash sales: decreased to 33% in March 2014; 35% in February 2014.

Investors are still purchasing a substantial portion of
“all cash” sale houses – 17% in March 2014, and
21% in February 2014 and 19% in March 2013;

Seventy-one percent of investors paid cash in March 2014.

First-time buyers*: increased to 30% (28% in February 2014)
and were 30% in March 2013

* Historically – 40%

March 2014 Construction Spending

March 2014 Private Construction: \$369.80 billion (SAAR)

0.8% more than the revised February estimate of \$367.01 billion (SAAR)

16.0% greater than the March 2013 estimate of \$318.73 billion (SAAR)

March SF construction: \$185.66 billion (SAAR)

0.2% more than February: \$185.36 billion (SAAR)

13.2% greater than March 2013: \$163.99 billion (SAAR)

March MF construction: \$39.15 billion (SAAR)

4.4% more than February: \$37.50 billion (SAAR)

32.5% greater than March 2013: \$29.53 billion (SAAR)

March Improvement^C construction: \$144.99 billion (SAAR)

0.6% more than February: \$144.15 billion (SAAR)

15.8% greater than March 2013: \$125.19 billion (SAAR)

The US DOC does not report improvements directly, this is an estimation. All data is SAAR and is reported in nominal US\$.

Conclusions

Several housing market indicators declined in March. Historically, March is one of the better months for housing – so, April and May data need to be scrutinized carefully. March's housing bright spot was increasing single-family starts– which may hold promise for the future.

As in written in previous months, the near-term outlook on the U.S. housing market remains unchanged – there are potentially several negative macro-factors or headwinds at this point in time for a robust housing recovery (based on historical long-term averages). Once the economy improves, we should expect to see housing activity increase as well.

Why?

- 1) Lack-luster household formation,
- 2) a lack of well-paying jobs being created,
- 3) a sluggish economy,
- 4) declining real median annual household incomes (though February increased slightly),
- 5) strict home loan lending standards,
- 6) new banking regulations, and
- 7) global uncertainty

Housing comments – March 2014

Economy getting better albeit slowly, but there are some issues:

- government debt – all levels of government – exacerbates the job problem
- European economy getting better(slowly) – some deflation risk ; China is slowing too as they focus on domestic economy versus exports (1st qtr 2014 GDP was 7.4%, slowest in 18 years)
- Housing's issues - Weak domestic economy ; slowing world economy; weak job market; sluggish income growth; high consumer debt levels; tight credit environment
- main problem is uncertainty stemming from dysfunctional government

- Two key questions –

- (1) can the economy (and housing) stand on its own without Fed stimulus?
- (2) Uncertainty is a key reason holding back job creation . Ex., impact of health care legislation; Dodd/Frank; dysfunctional “Washington.” Also, demand is a problem - too many jobs are low income, no health care, no benefits.

Some additional issues impacting housing:

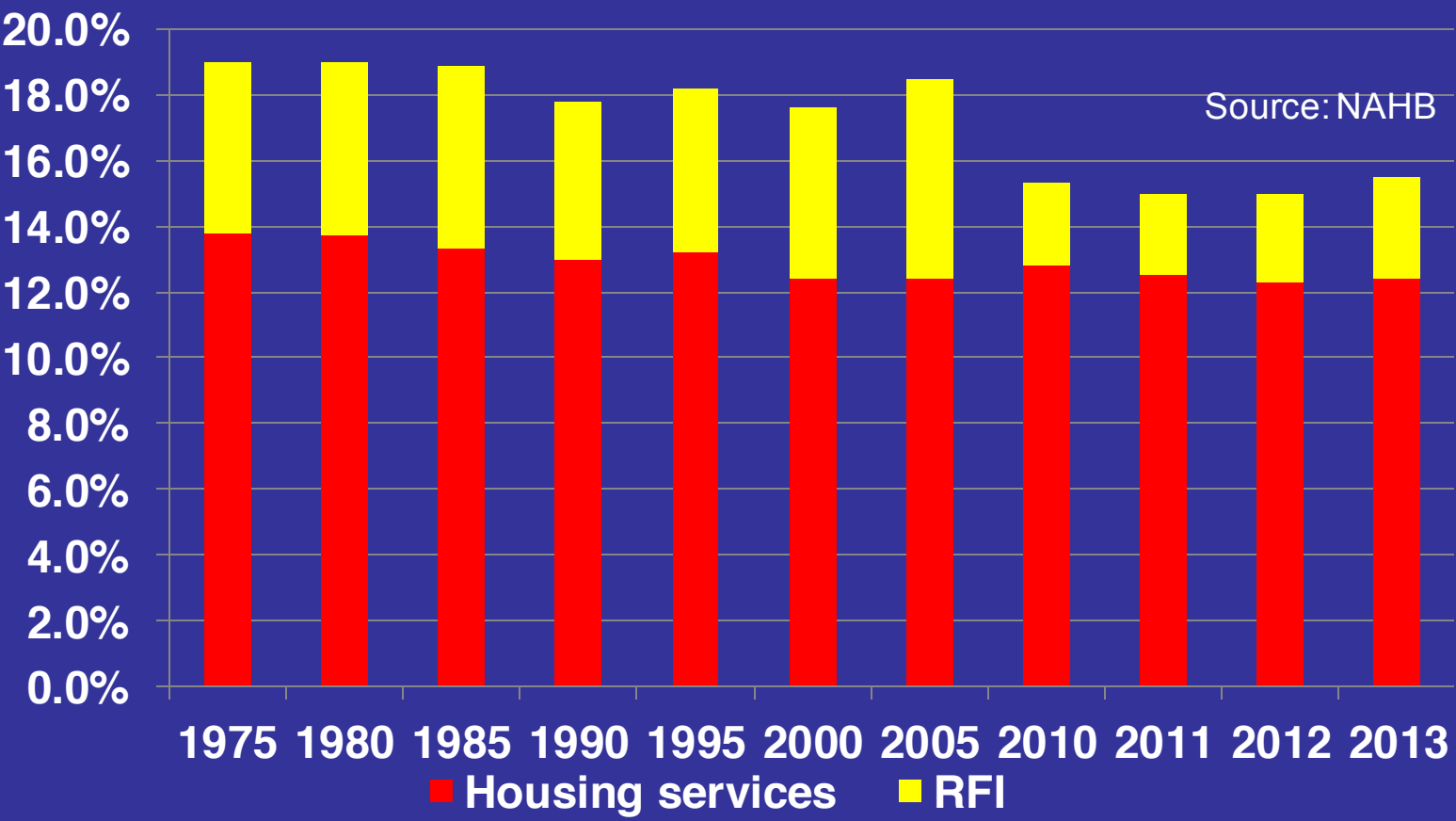
- A. This economic recovery is much slower
- B. Mortgage rates are trending upward as the Fed pulls back on QE/money printing
- C. There is a growing trend to multi family versus single family and this has implications for the economy and demand for wood products (here is link to NAHB article on housing's impact on the economy, job creation, tax revenue, etc.

(http://www.nahb.org/reference_list.aspx?sectionID=784)

Housing, Economy, and Wood Products

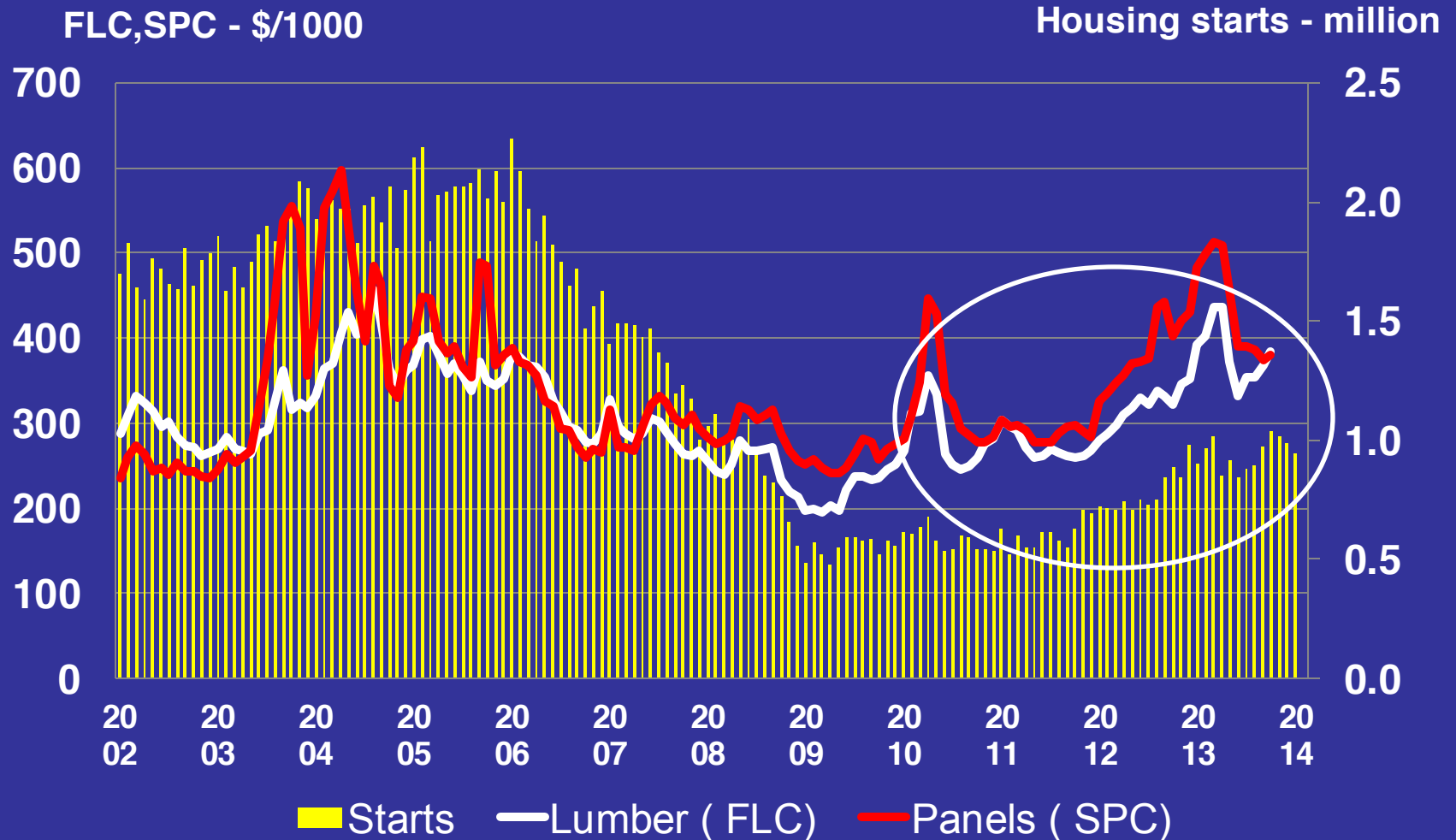
Housing's contribution to GDP (%) – historically, it is almost 20% of the economy when you include housing services and fixed investment, but today it is down to 15%. In reality, it is even more important when you include purchased furniture, landscaping, general maintenance, etc. key reason why the economic recovery remains muted

Housing services = gross rents paid by renters (include utilities) + owner's imputed rent (how much It would cost to rent owner occupied homes) + utility payments
RFI (residential investment) = construction of new SF and multifamily structures, remodeling, manufactured homes , plus broker's fees



Housing starts and wood product prices – Economics 101

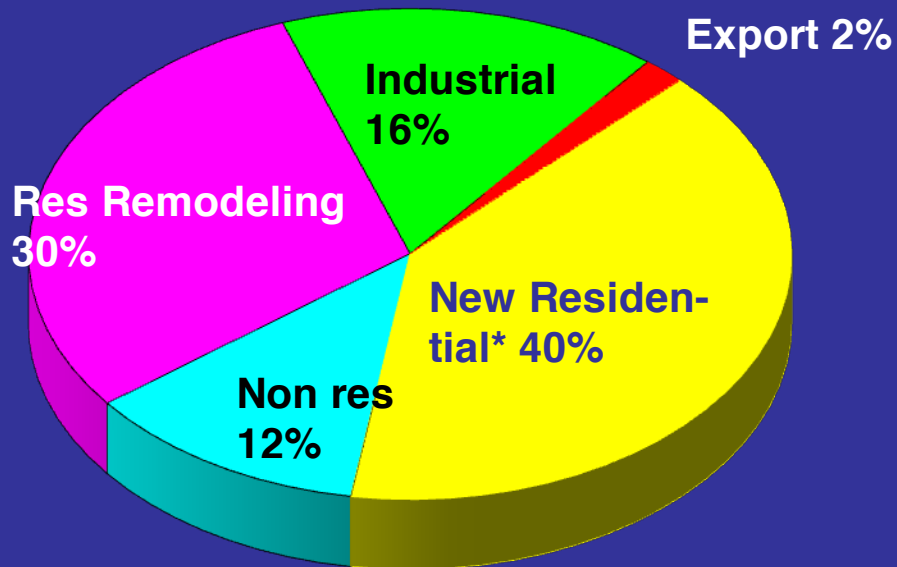
75% of structural wood products go to housing (new construction plus remodeling)
50% or more of hardwoods go to housing related activities.



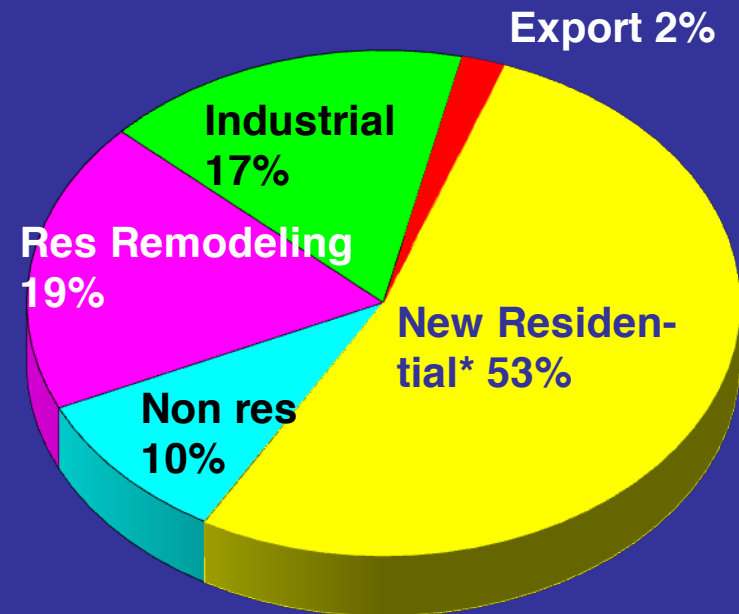
Sources: Prices – Random Lengths (<http://www.randomlengths.com/>); starts (Bureau of Census (<http://www.census.gov/construction/nrc/>)

Softwood Market Shares: Average during 1998 – 2007

U.S. Softwood Lumber



U.S. Structural Panels

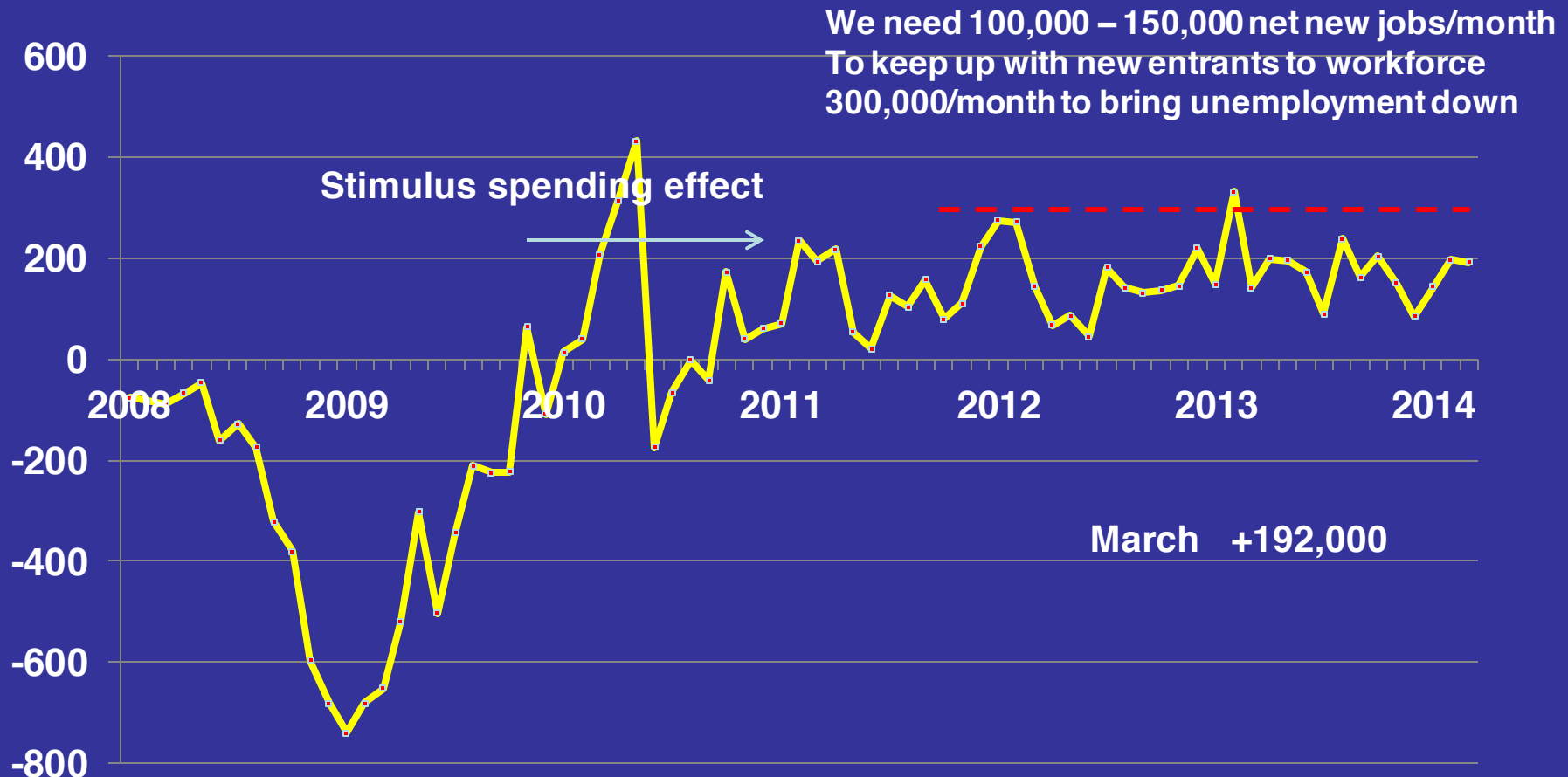


*New Residential incl. SF, MF, and Mobile Homes

Source : Lumber – WWP; Panels - APA

**Employment situation - our biggest problem - it's getting better, but the jobs recovery remains weak by past standards, and many jobs (e.g., temporary ones)
Don't include health care or retirement benefits (because they are
Often part time jobs) – those kinds of jobs don't encourage people to buy houses**

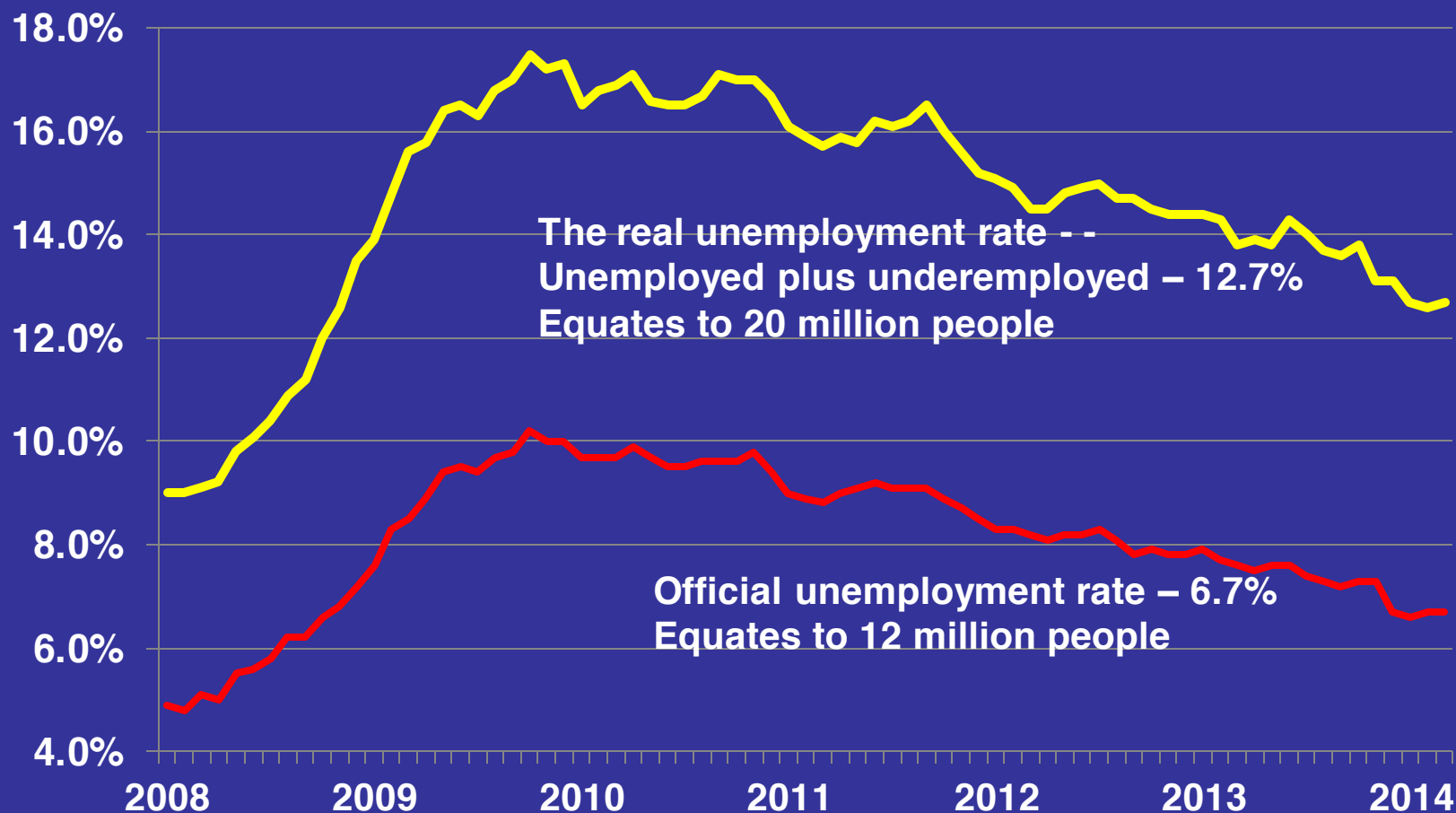
Net change in non farm payrolls – monthly, thousands



Source: U.S. BLS (www.bls.gov)

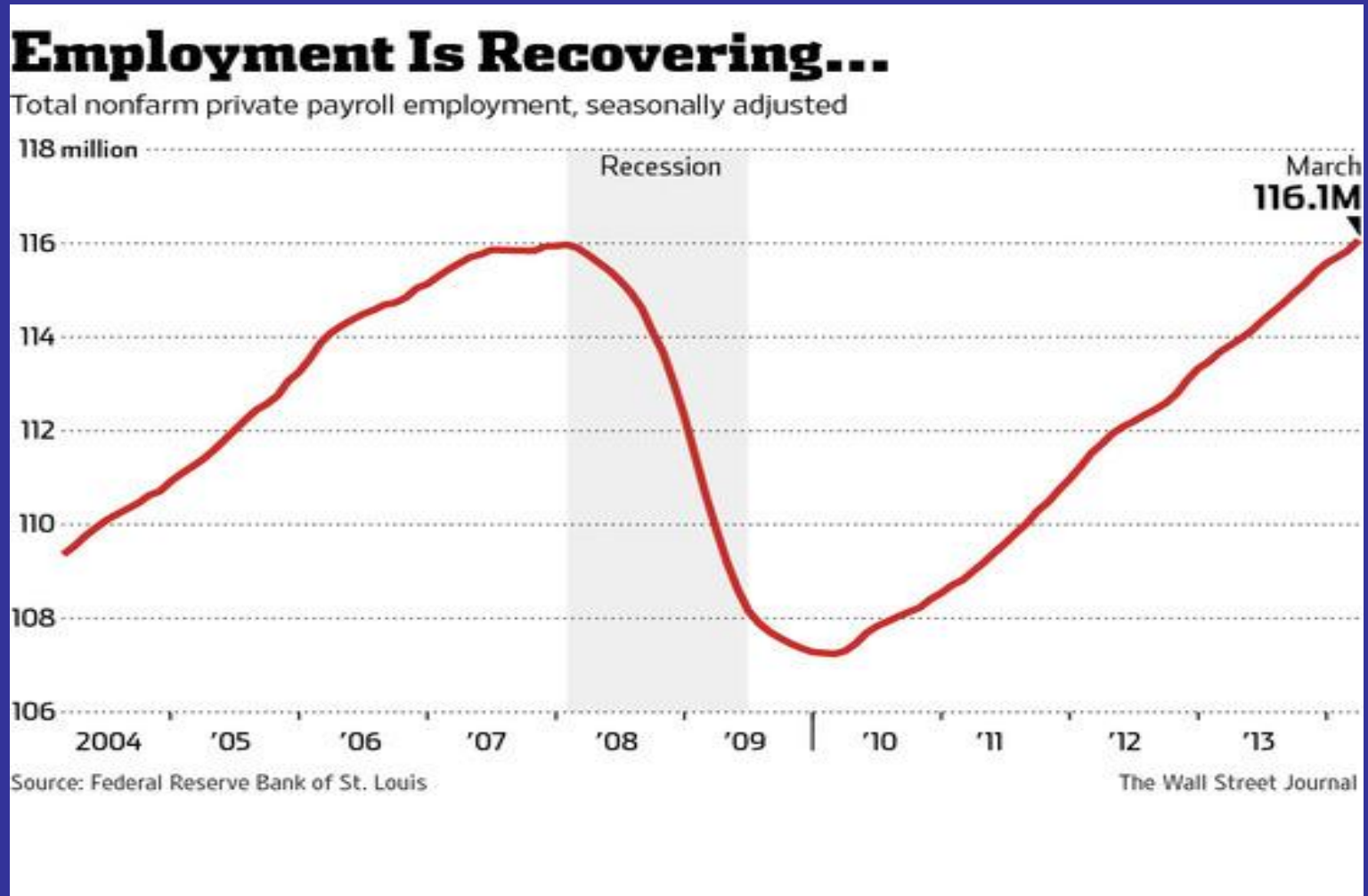
Unemployment will remain relatively high for awhile longer – but, it's getting better !!!!

There are about 20 million people either unemployed, underemployed, or stopped looking – **they are not buying houses



Source -- BLS: <http://www.bls.gov/news.release/pdf/empsit.pdf>; <http://data.bls.gov/cgi-bin/surveymost?ln>

Slowly, employment is improving from the worst recession since the 1930's



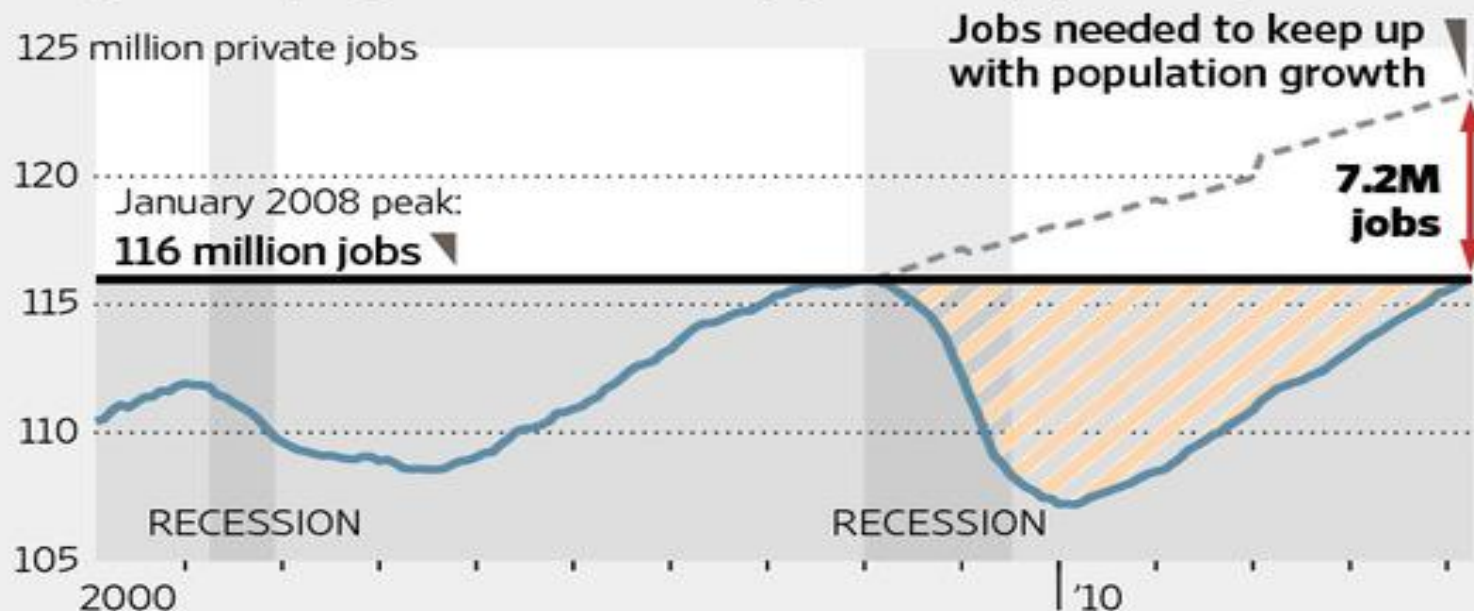
Source: WSJ (http://online.wsj.com/news/articles/SB10001424052702304441304579477341062142388?mod=WSJ_hppMIDDLENexttoWhatsNewsSecond&mg=ren064-wsj)

Private sector payrolls are back to where we were in January 2008

But, we need 7.2 million more jobs just to keep pace with population growth

Hire Ground

Private-sector payrolls hit a high in March, but the recession derailed the potential job gains needed to keep pace with population growth.*

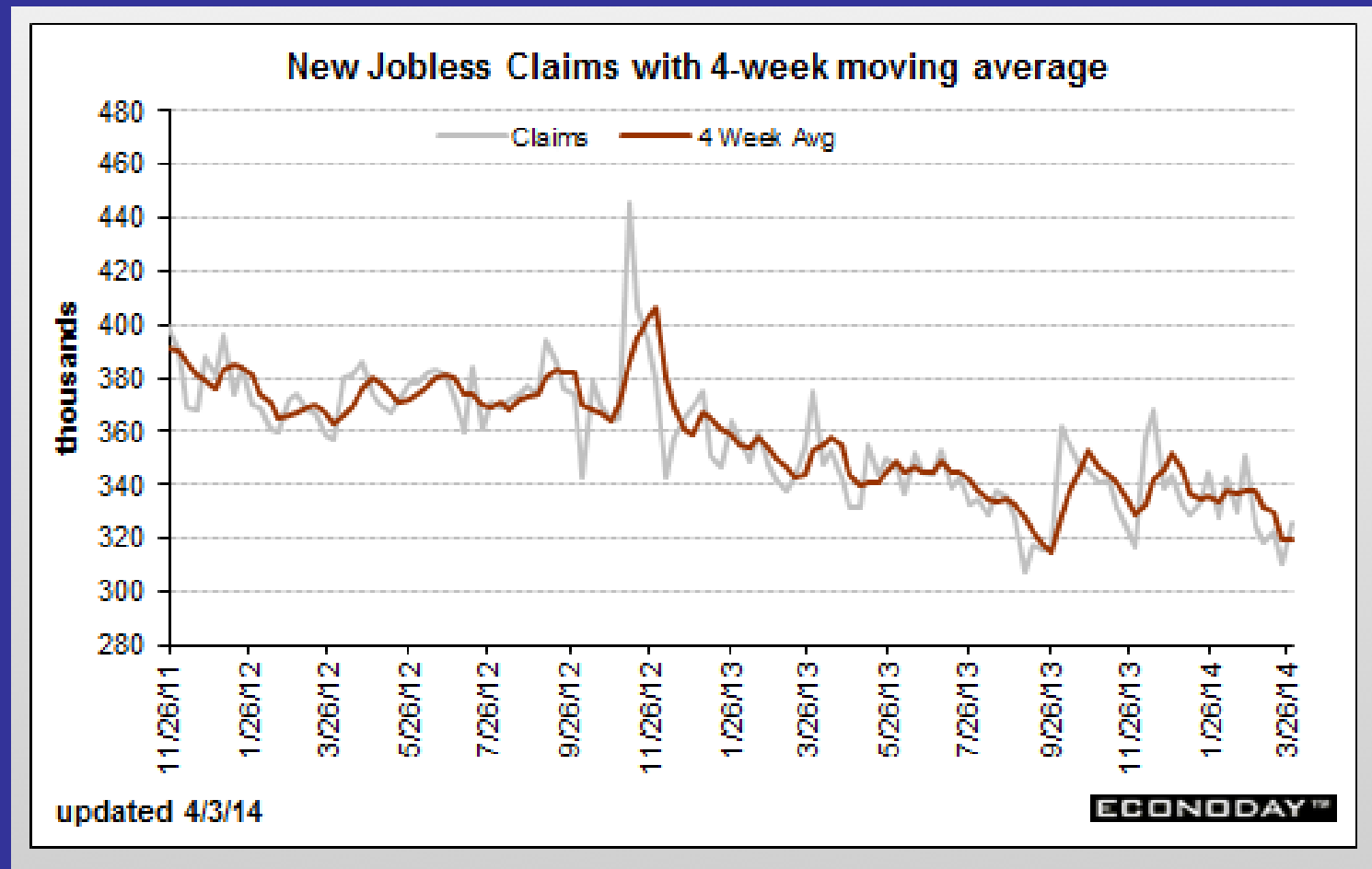


*Potential jobs measured using 2008 ratio of private-sector jobs to working-age people

Note: Jobs data are seasonally adjusted. Source: Labor Department

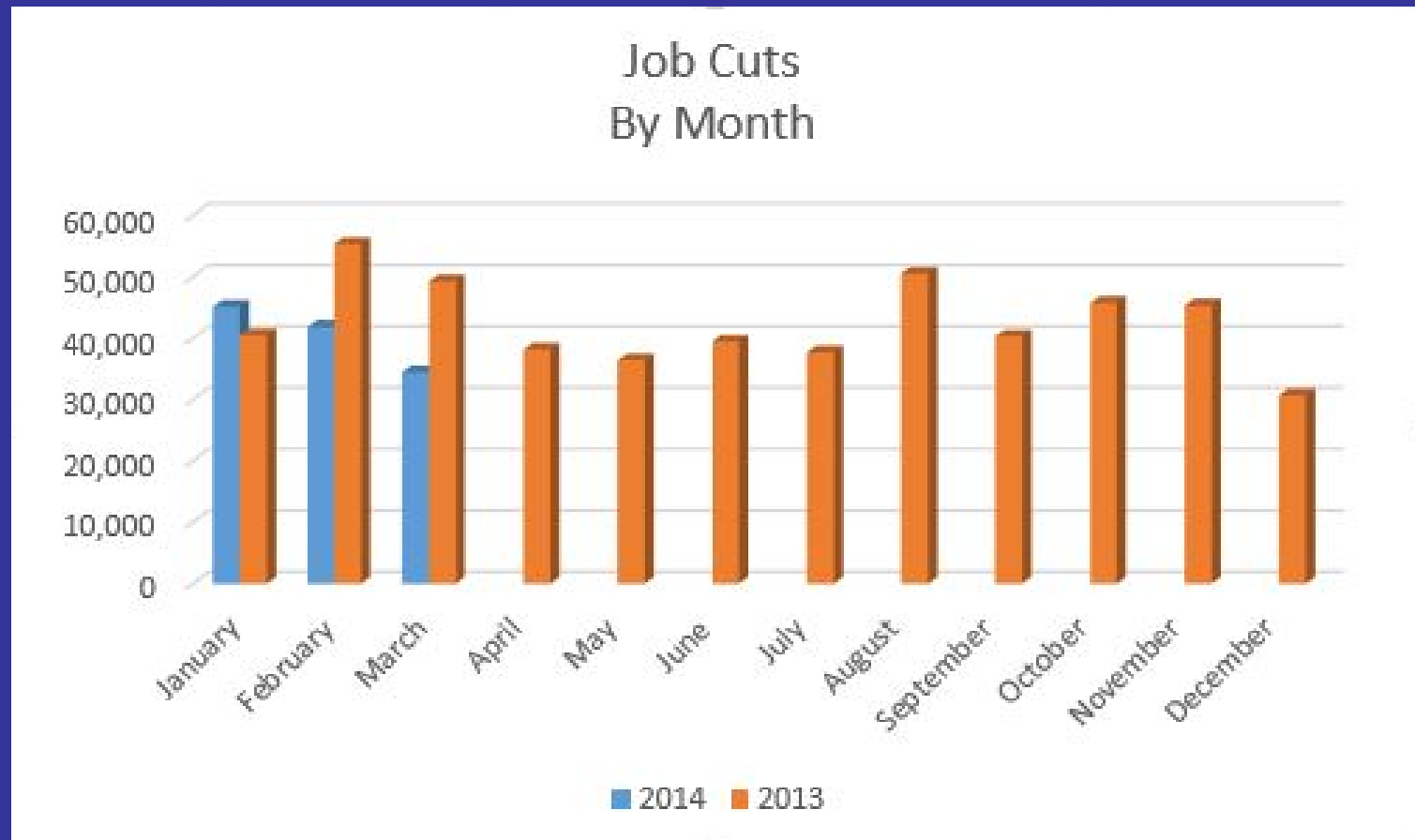
The Wall Street Journal

But, things are getting better



Source: WSJ (<http://wallstcheatsheet.com/politics/5-charts-to-explain-labor-market-health.html/?a=viewall>)

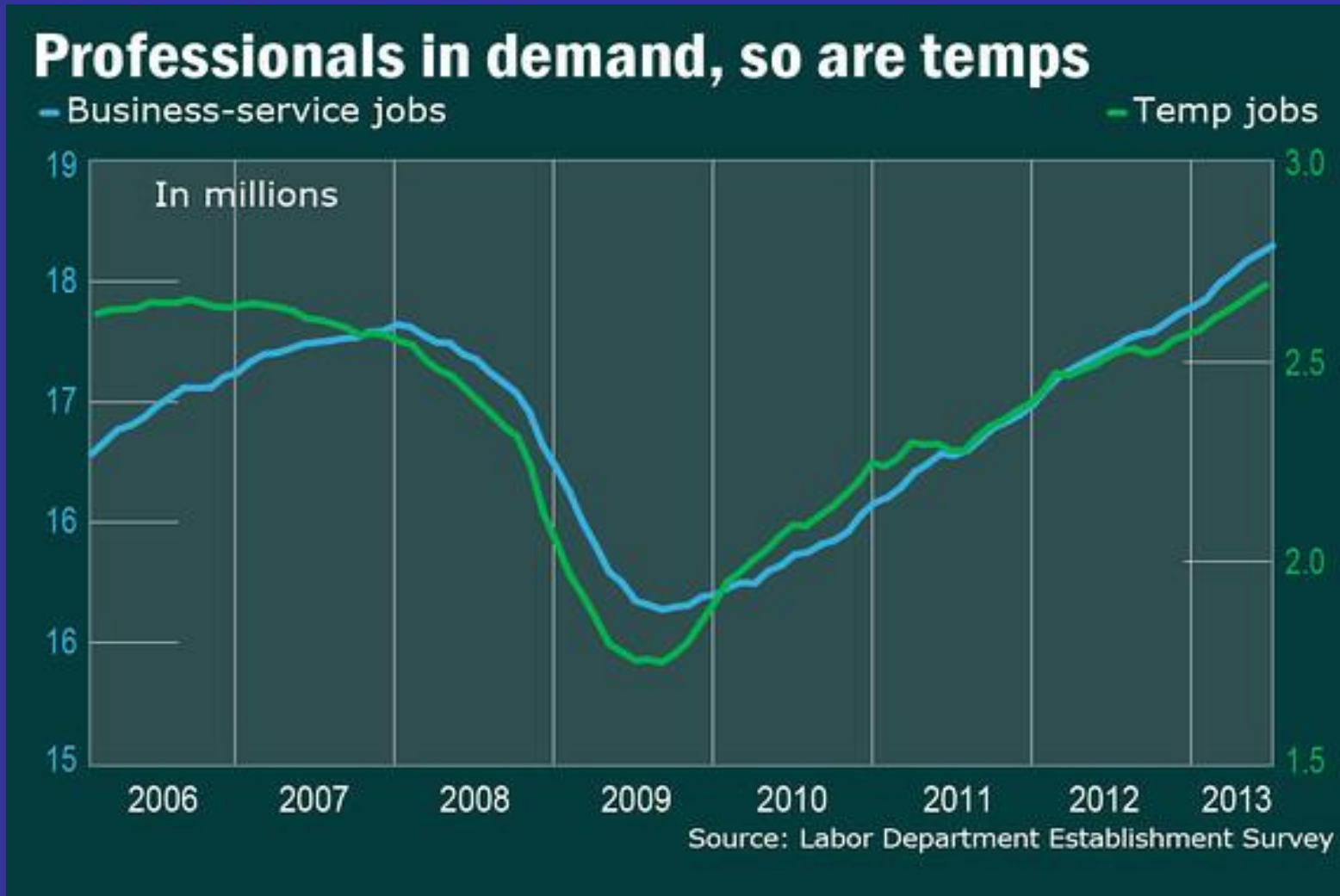
More Signs of Improvement



Source: Challenger, Grey, Christmas
WSJ(<http://wallstcheatsheet.com/politics/5-charts-to-explain-labor-market-health.html/?a=viewall>)

Where the growth is - -

30% of jobs created in past 5 years are “temporary jobs” – little or no health care, retirement, salary – i.e., these people don’t buy houses, cars, eat out, etc. --- - again, underemployment is a big problem



Source: marketwatch : (<http://www.marketwatch.com/Story/story/print?guid=5C9788D6-FB68-11E2-A97E-002128040CE6>)

Temporary jobs keep increasing as firms cut expenses
(D. Paletta/WSJ) – main reason income gain is weak

Easy Come, Easy Go

The slump in temp jobs foreshadowed the recession. The boom in such positions since 2010, economists say, could mark a lasting shift in the job market.



Source: U.S. Labor Department

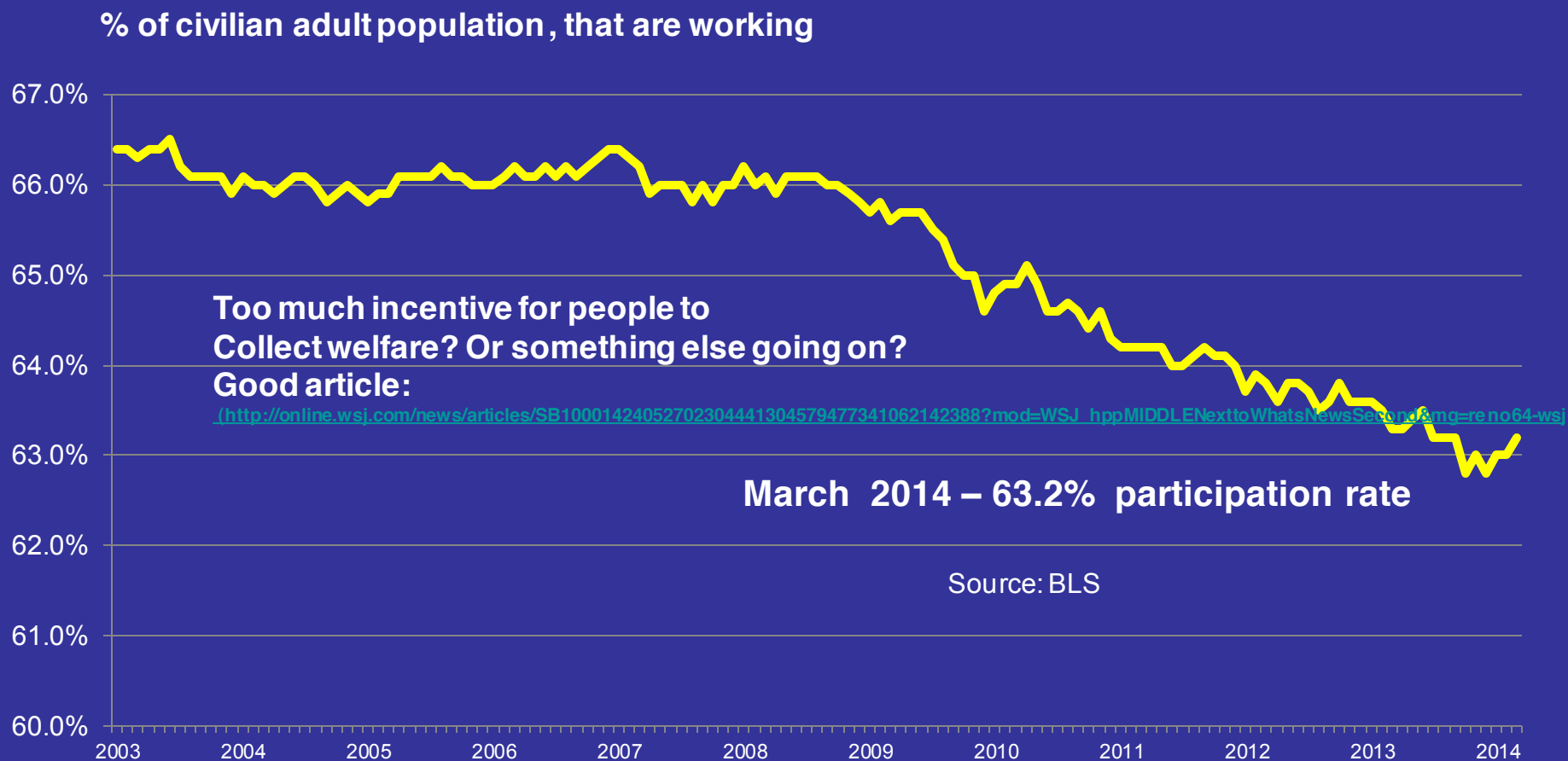
The Wall Street Journal

Other economic issues –

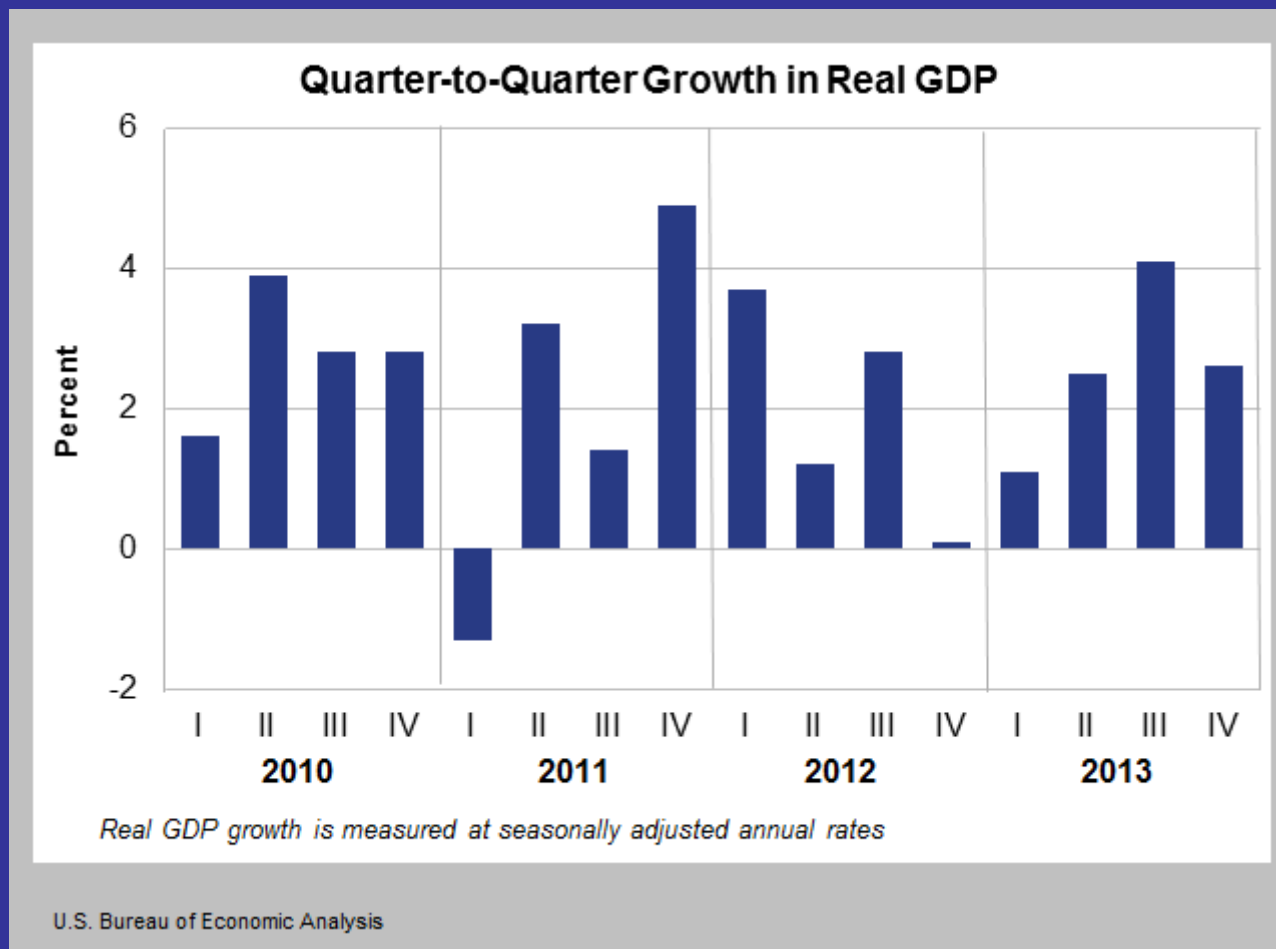
- The workforce is shrinking and labor force participation rate is lowest since WWII
main implication – there will be more labor shortages in the future
- Inflation not a problem yet - why? About 70% of inflationary price pressure comes from increasing wages. **If you want to predict when inflation will become a problem, watch two metrics – wages and employment** (<http://www.bls.gov/news.release/pdf/empst.pdf> ;
(<http://www.bls.gov/data/>)
- Going forward, unemployment will be a huge drag on the federal (and other government levels) budgets – implications for taxes, spending, domestic programs, and job creation
- Income growth (inflation adjusted) has been weak for two decades
- We need to invest more (infrastructure) and consume less - that will make us more competitive globally, and that will create more good paying jobs

Labor force participation rate is shrinking –

Major problems for social programs with our aging population – fewer people paying taxes, but more people collecting SSI, Medicare, etc. Also, we will see more labor shortages in the future



Economic growth - 2.6% in 4th qtr – still weak considering we have had “free money” now for 5 years – and, much of 3rd qtr growth was due to inventory building, and not demand
GDP for 2013 was 1.9% - nothing to write home about



NAR's latest Economic and Housing Outlook – 2015 is the year for housing to return to “normal”

	2014	2015
GDP	2.3%	2.9%
Housing starts(000)	1016	1433
Single	734	1013
Multi	363	420
Resales (000)	4976	5257

My comment: good conservative forecast, and I agree with 2014.

But, I would leave multi family(MF) at 35% for 2015 also –

This would give us 500,000 for MF leaving single family at 930,000 for 2015
(later in this note you will see some rationale for higher multi family numbers)

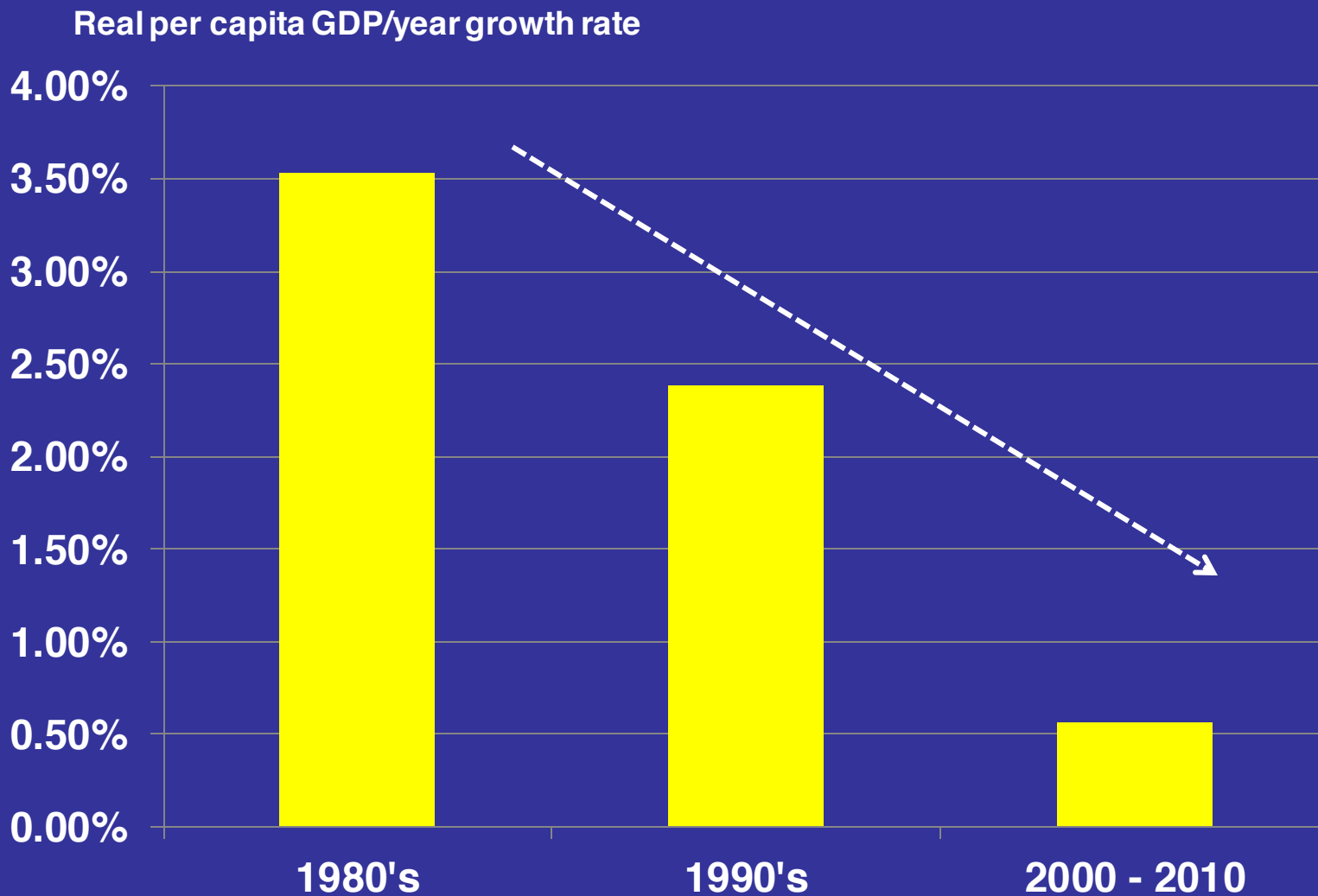
Source: NAR (<http://www.realtor.org/research-and-statistics>)

GDP per capita – rate of growth per decade

We over consume – borrow to spend what we don't earn

So, we accumulate debt – consequently, we don't invest enough for our future

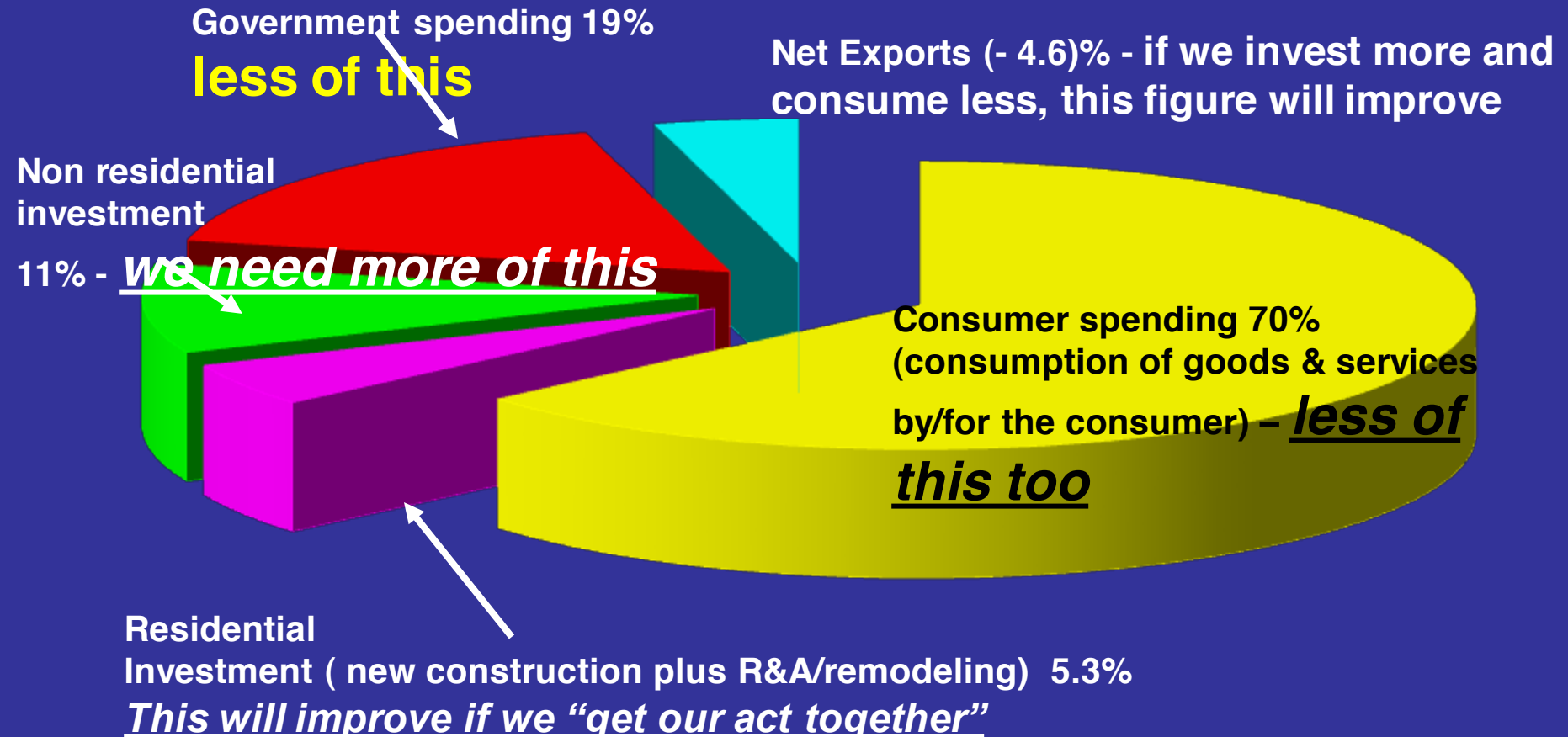
Result – weaker economy – this is a “no brainer”



Source: BEA (<http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>)

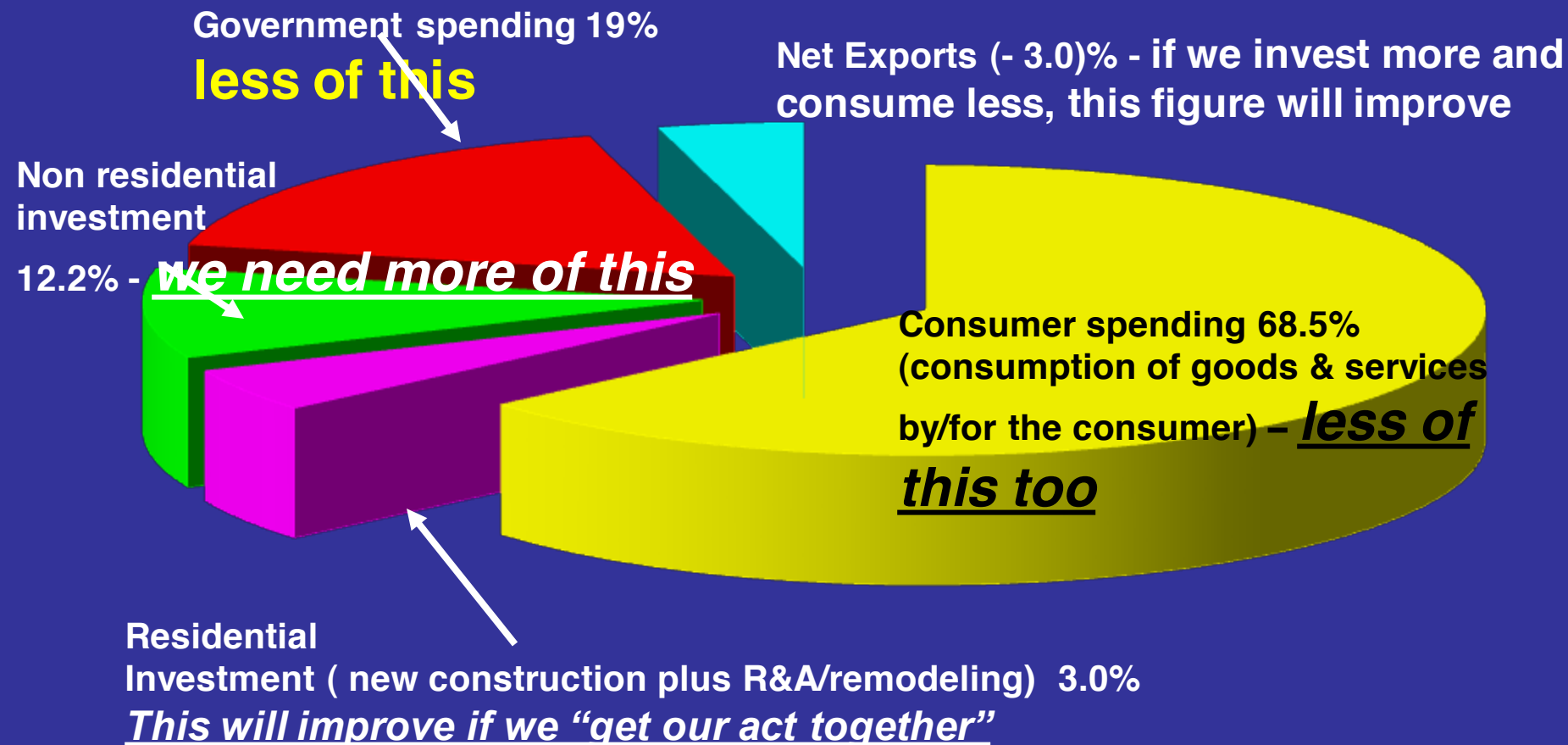
U.S. Economy 2000 – 2010

this type of economy not sustainable – insufficient investment in infrastructure, R&D, education makes us less competitive and this leads to reduced standard of living and less housing demand



Source: BEA (<http://bea.gov/national/nipaweb>)

U.S. Economy 2013



Source: BEA (<http://bea.gov/national/nipaweb>)

Recent Housing statistics

Background:

Markets are getting better –

Have we turned the corner? – Probably, but the climb back will remain muted until we see economic growth of 3% or more for an extended period of time!!!

Starts are finally turning the corner, but growth is elusive

Single family starts, Thousand units, SAAR



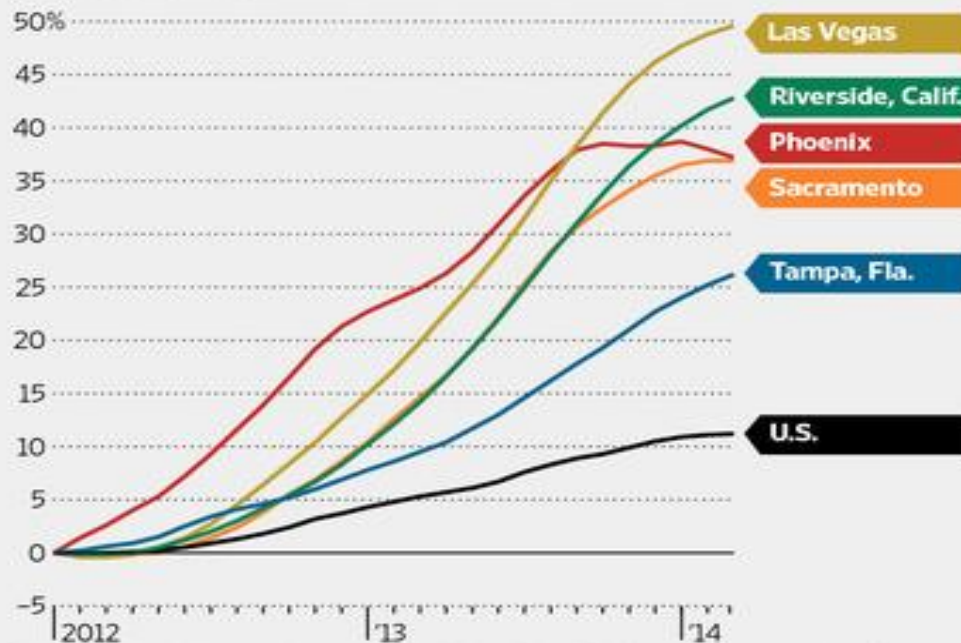
Source: Census (<http://www.census.gov/const/www/newresconstindex.html>)

The rebound in 2014 has been slow so far

Delay of Gain

An expected spring rebound in the housing market has been slow to materialize as asking prices in some markets are denting demand...

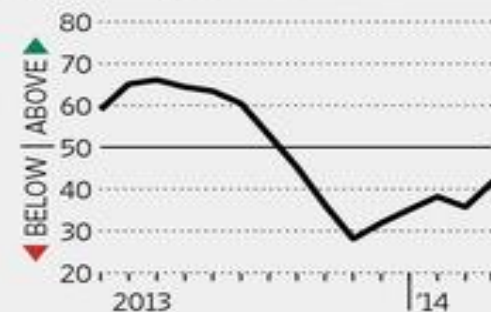
Change in home value since the end of 2011 for select markets



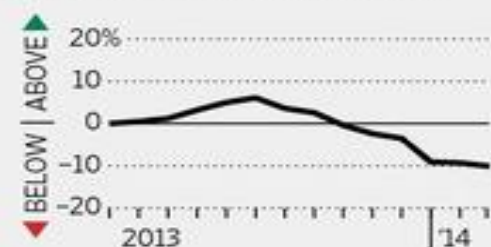
Sources: Zillow (home-value index); Credit Suisse (Buyer Traffic Index based on 40 U.S. markets); National Association of Realtors (Pending Home Sales Index)

...as shown through two indexes of home-buyer interest.

Buyer traffic relative to real-estate agents' expectations



Pending home sales, relative to January 2013 levels

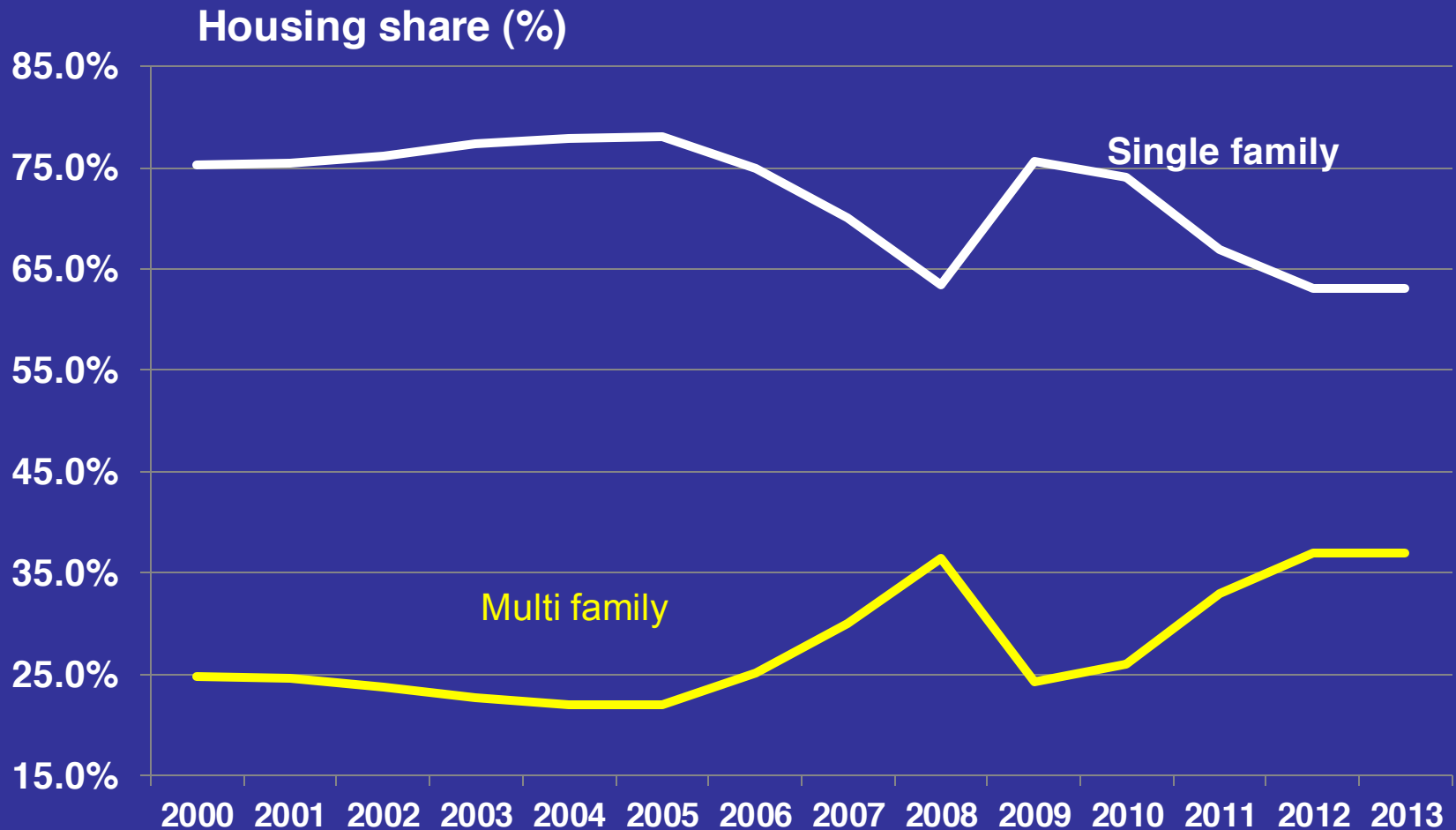


The Wall Street Journal

Following slides address some multi family issues

Multi family share is increasing – will it continue?

Yes – here are three drivers: financial/cost (tight credit and mortgage carrying cost big problem for buyers); social trends (suburban life Losing its appeal to many Americans); and demographics (aging population Downsizing). In addition, many young people can't find good jobs so they rent.



Source: Census (<http://www.census.gov/construction/nrc/>)

Multifamily rentals at highest level in 4 decades
Here is excellent article outlining interesting trends - -

(<http://online.wsj.com/news/articles/SB10001424052702304020104579429280698777544?KEYWORDS=new+home+building+is+shifting+to+apartments&mg=reno64-wsj>)

Built to Lease

Multifamily rental apartments built as a share of total U.S. housing starts:



Source: U.S. Census Bureau

The Wall Street Journal

Note: some multifamily are condos which are owned/not rented.

Determination of number of “rental units” isn’t as simple as I thought!

Issue #1 - definition of multi family versus single family (as defined by Census)

Issue #2 – some single family units are built to rent

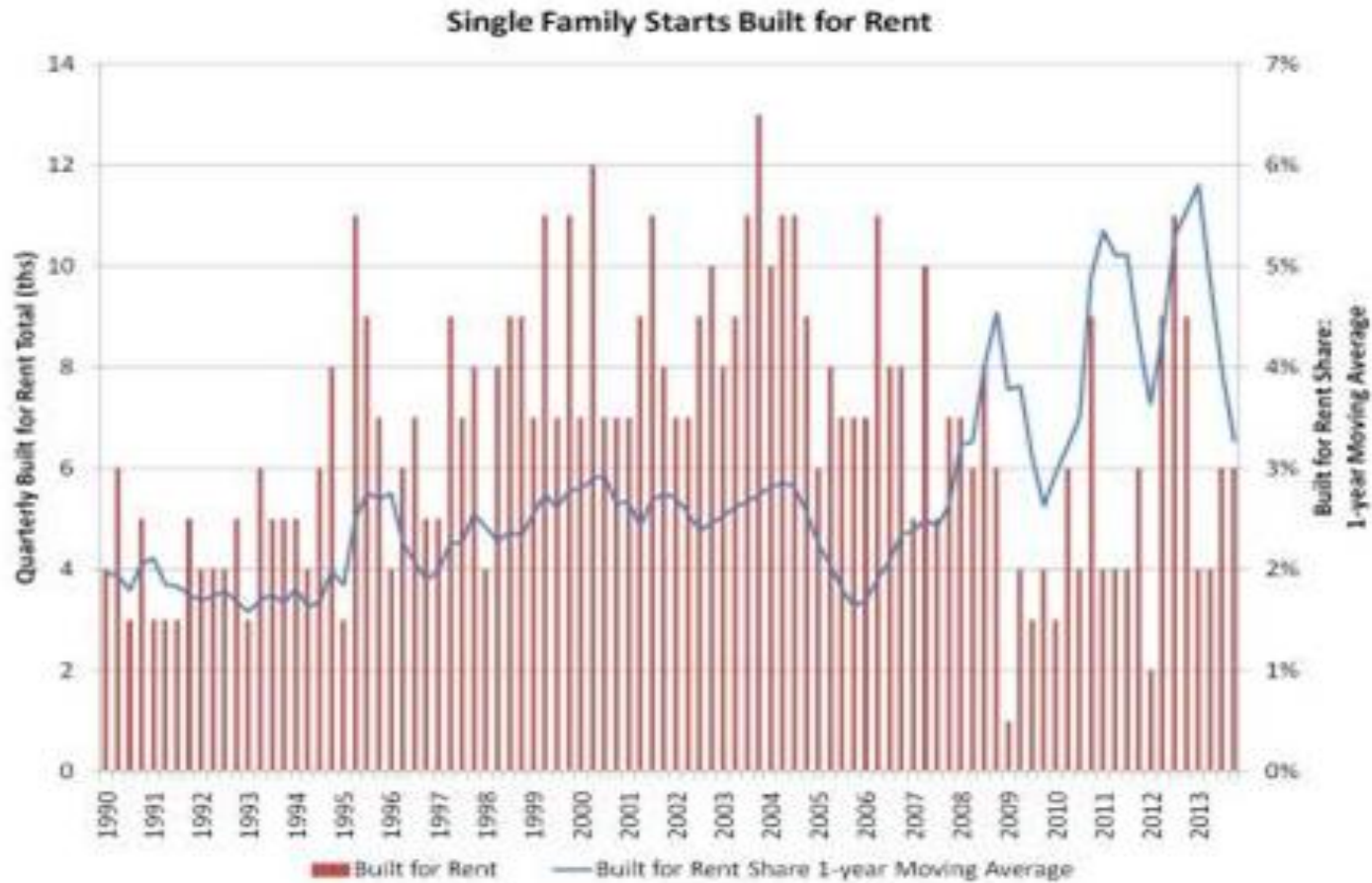
#1 - Multi family classification includes rentals and some units owned by occupants (e.g., Census when reporting housing starts, classifies condos as “multi family”, Yet, these many of these units are owned by occupants and not rented.

(<http://www.census.gov/construction/charts/definitions/#one>)

#2 - In addition, some single family homes are built to rent.

The next slide shows “multi family rentals” as percentage of total housing starts

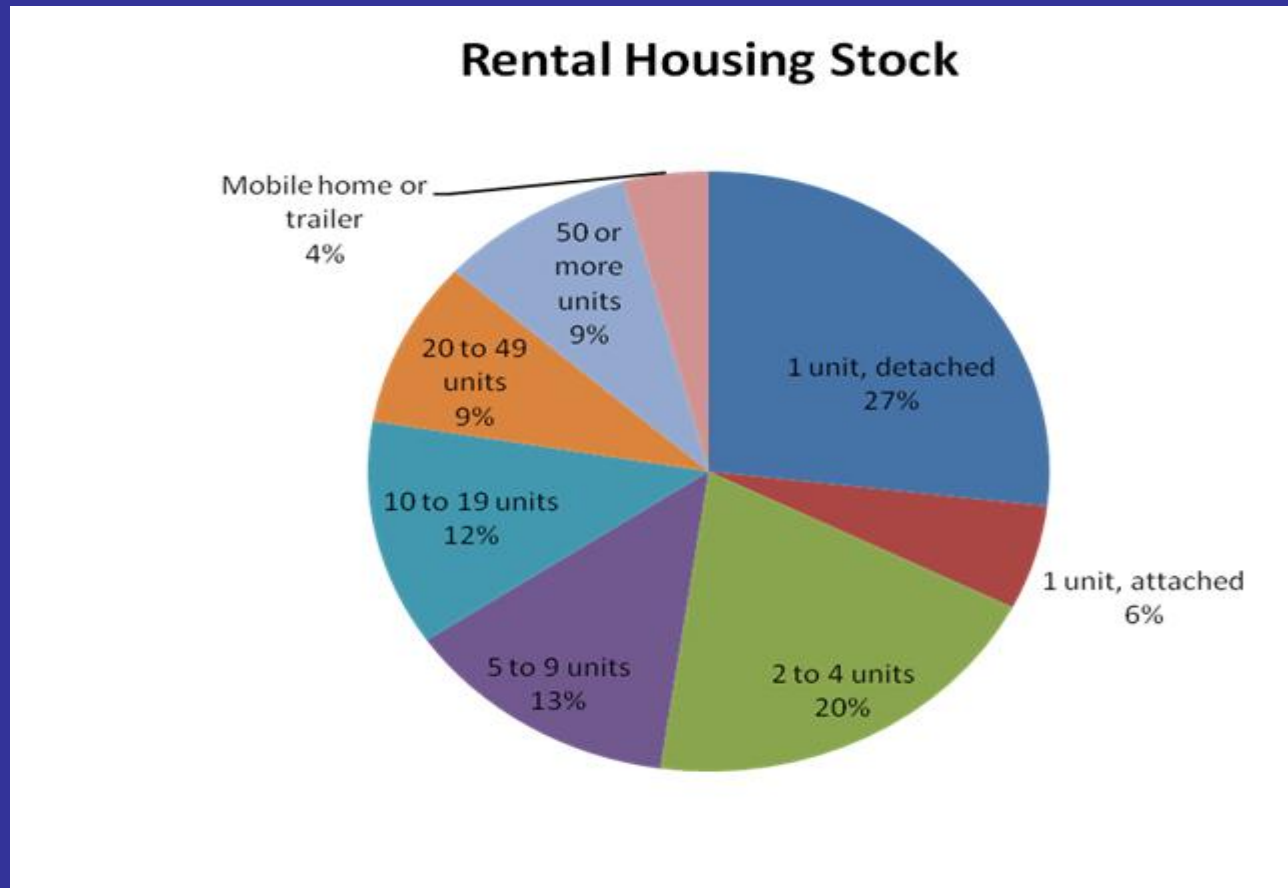
Approximately 3 – 5% of single family homes are built to rent



(<http://eyeonhousing.org/tag/single-family-built-for-rent/>)

Rental Housing Stock

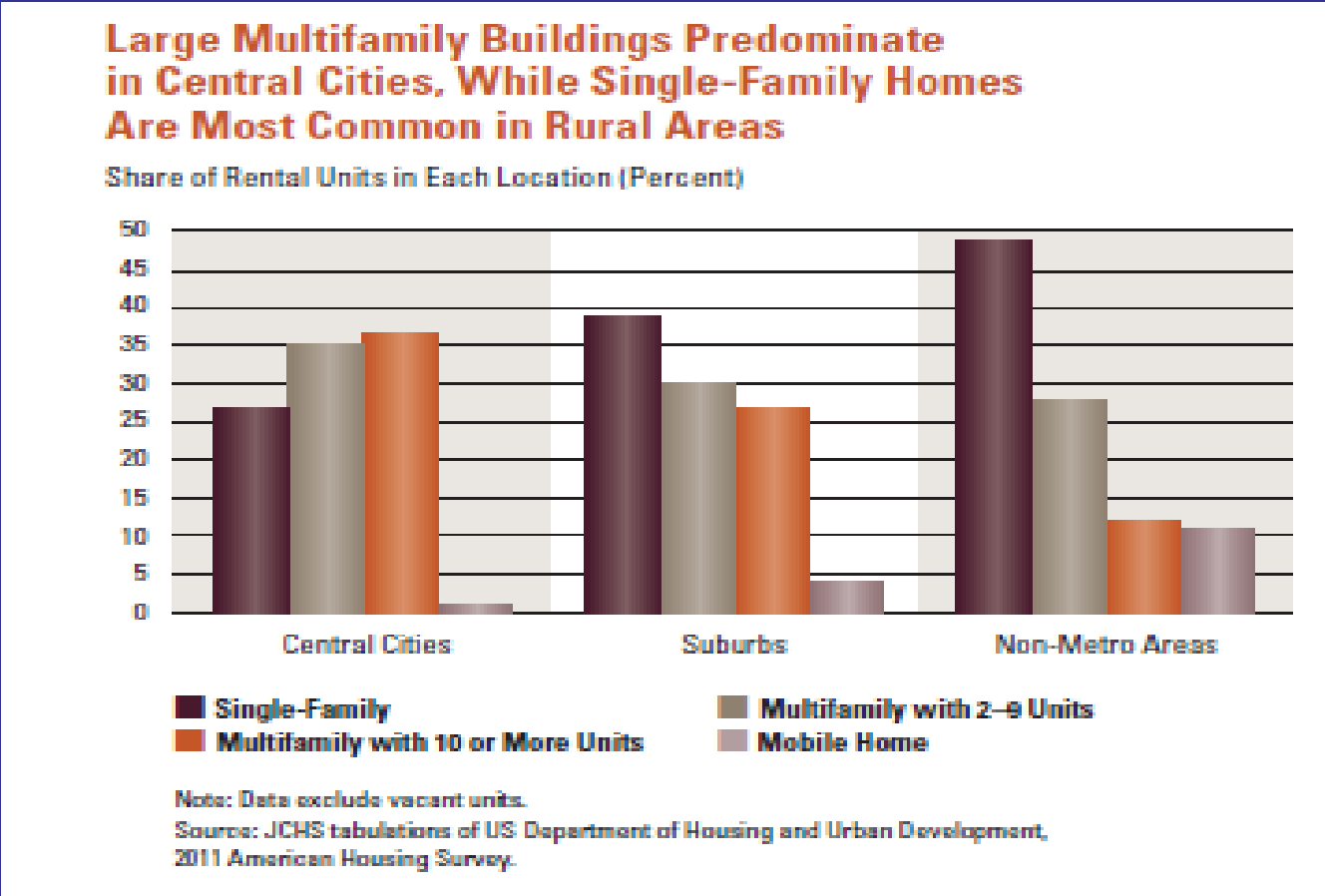
Using the 2009 American Housing Survey, the data show that 30% of all housing units in the United States (about 40 million units) are renter-occupied or vacant for-rent



Source: NAHB (<http://eyeonhousing.org/2011/07/20/the-rental-housing-stock/>)

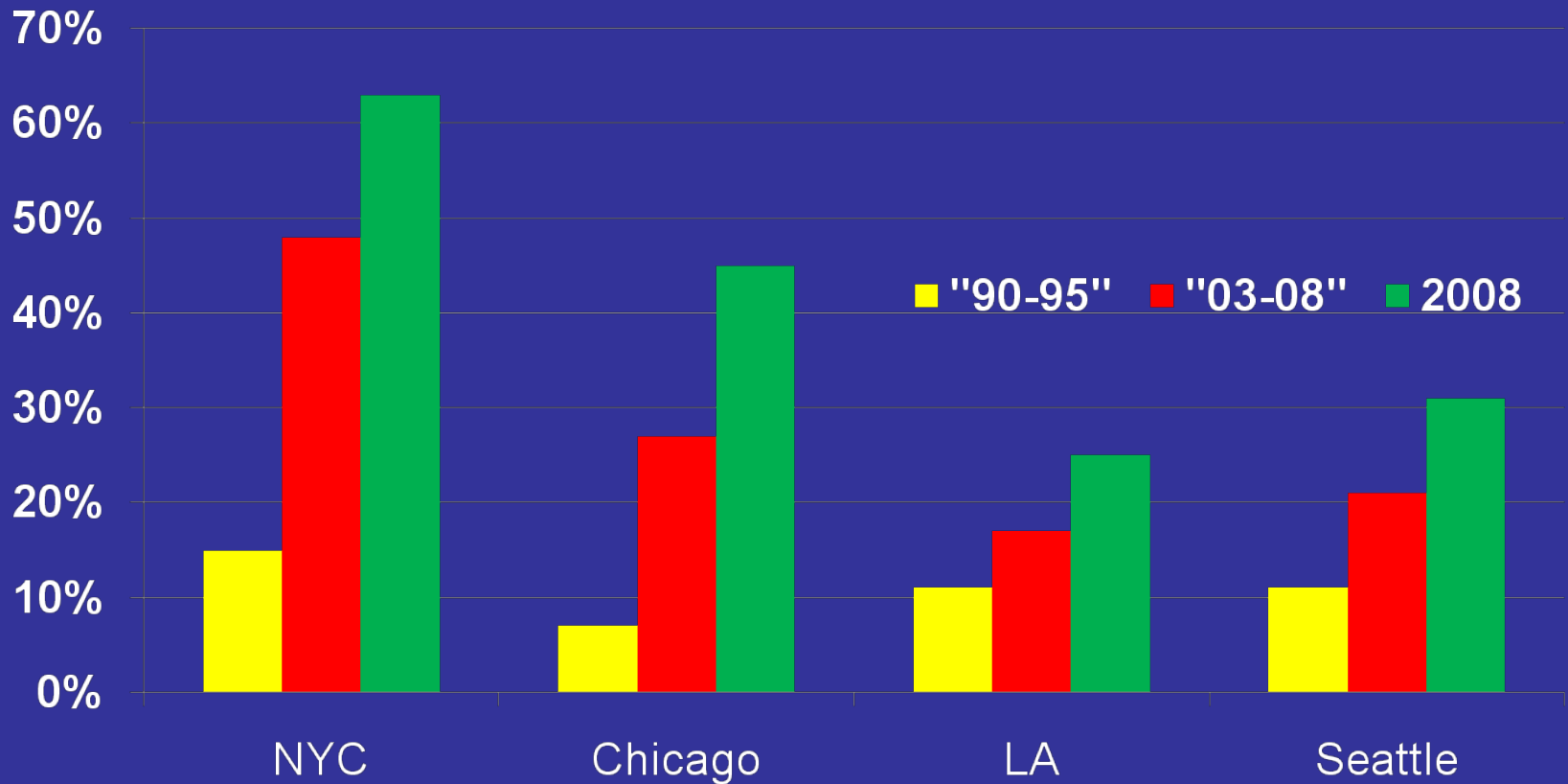
Rental units are not simply multi family high rises.

A recent Harvard study (http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs_americas_rental_housing_2013_1_0.pdf) - interesting read – good charts and data – thought provoking analysis,.....



Shift from suburbia to urban redevelopment?
More people are moving back to the cities – most prevalent
with young people and empty nesters
Implications for detached SF versus rental units?

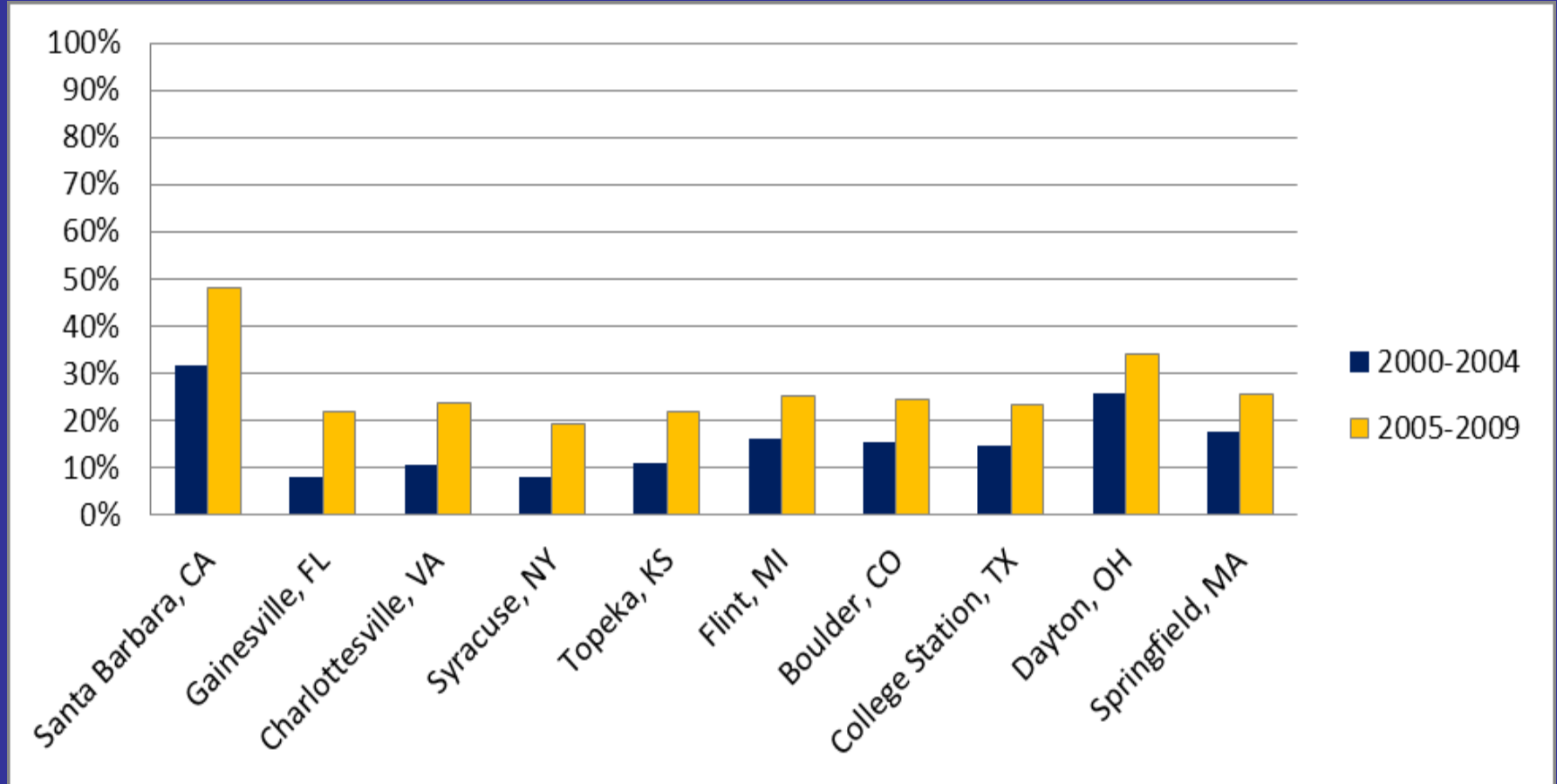
Central city share of metropolitan residential building permits



Source: residential construction trends in America's Metropolitan regions
EPA, January 2010. (http://www.epa.gov/smartgrowth/pdf/metro_res_const_trends_10.pdf)

Large metropolitan regions with largest share of infill construction

Parking lots, underused commercial properties, and former industrial sites are being replaced by condominiums, apartments, townhouses, and small-lot single-family homes. These are examples of residential infill or building new homes in previously developed areas - another trend suggesting smaller homes and more rental units?

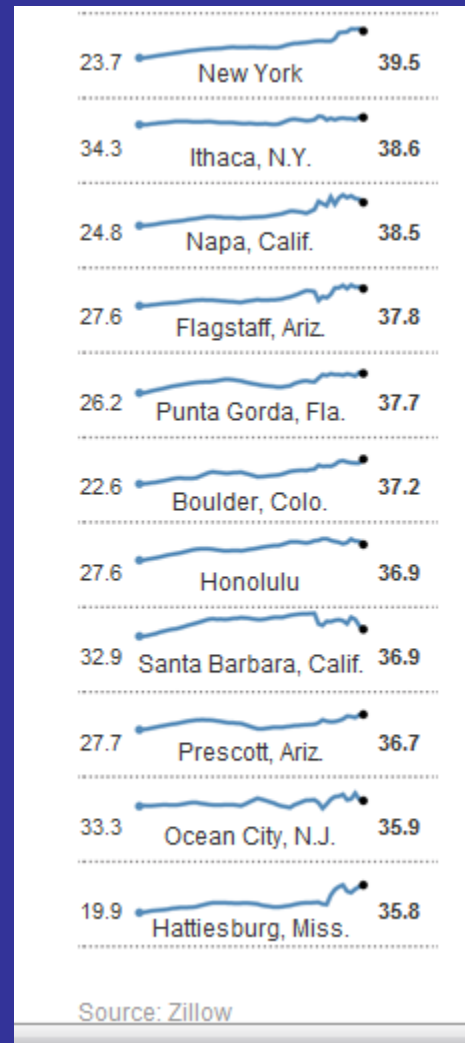
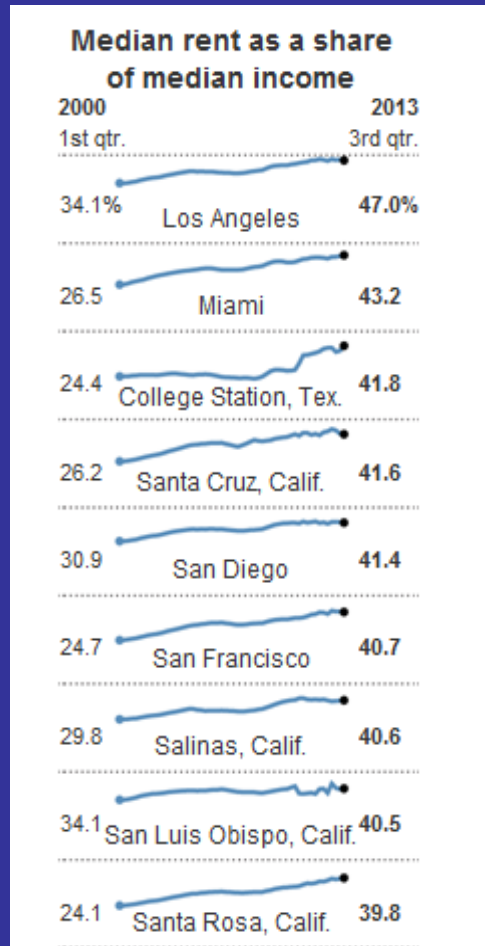


Source: EPA (http://community-wealth.org/sites/clone.community-wealth.org/files/downloads/report-ramsey_0.pdf)

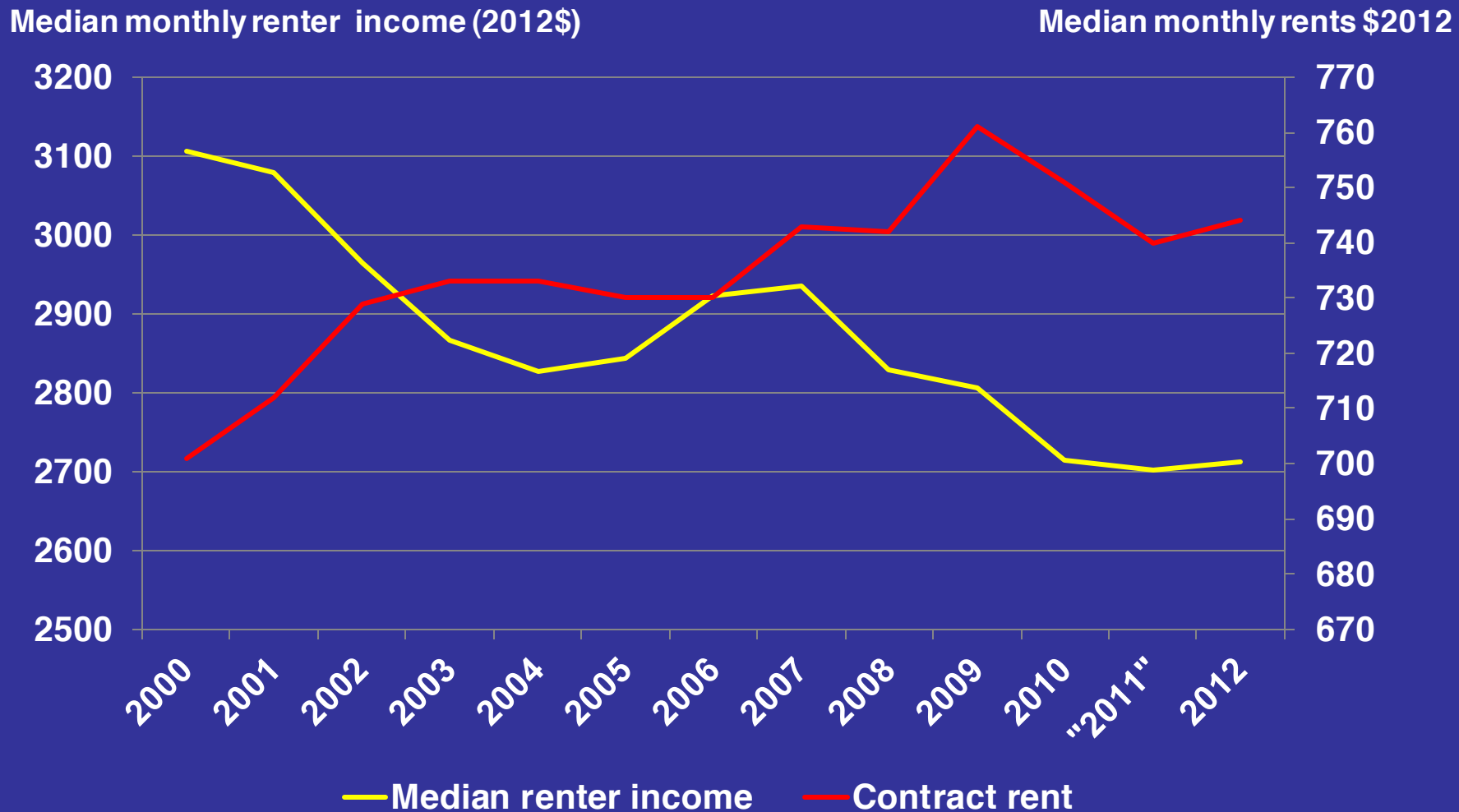
As rentals increase in popularity, rental prices escalate

According to a recent study by Zillow, in more than 90 cities, median rents, excluding utilities, exceed 30% of household income (30% is the metric often used to gauge affordability)

A sign for builders to build even more rental units?



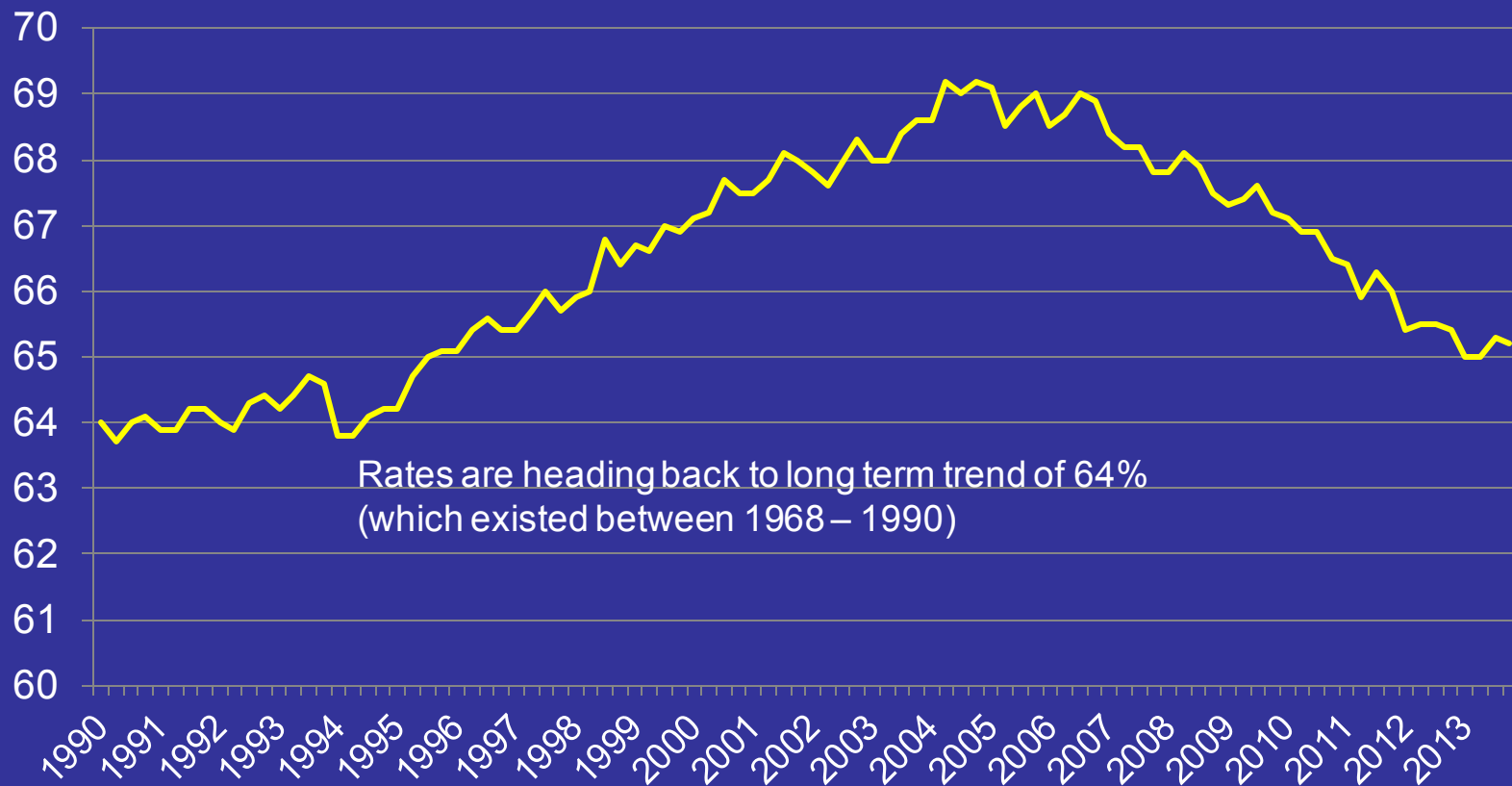
Incomes are falling as rents increase



Source: HJCHS (http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs_americas_rental_housing_2013_1_0.pdf)

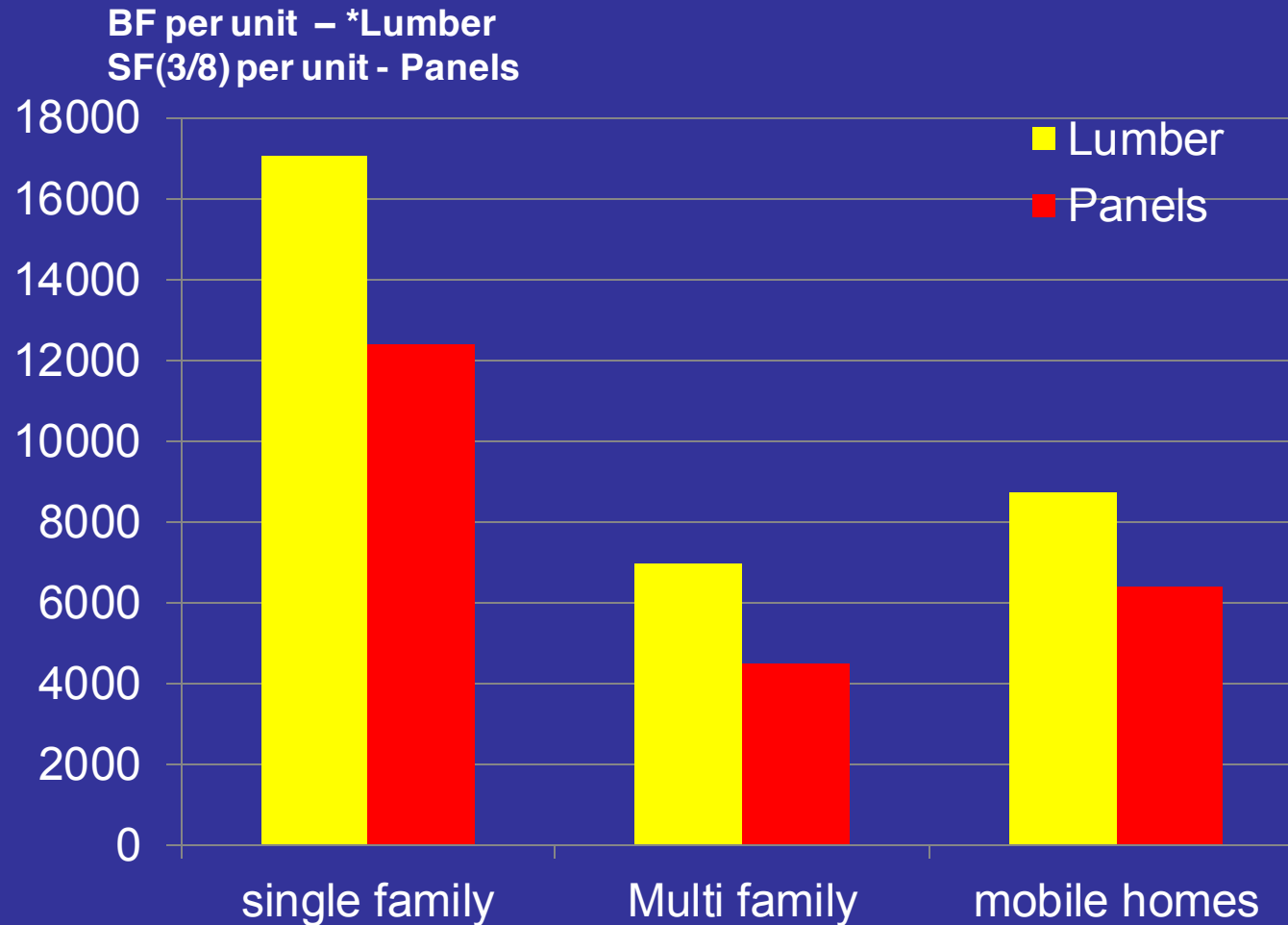
Homeownership rates have been falling for the past seven years – when the economy gets back to normal, will people go back to single family or will we see more renting?
There will be impacts on wood products demand

Home Ownership(%)



Source: Census (<https://www.census.gov/housing/hvs/data/q413ind.html>)

Wood Products Use per Unit

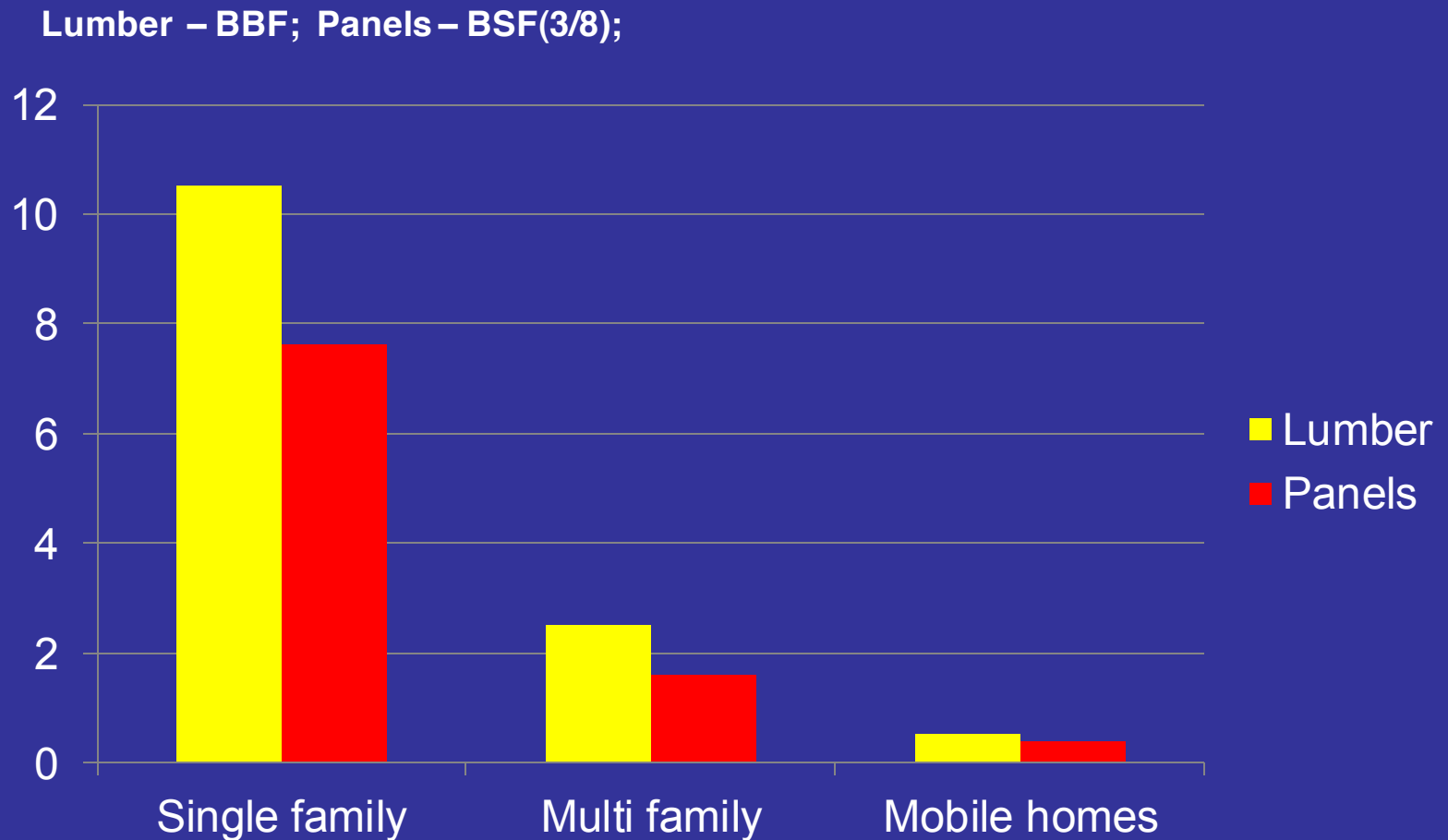


Source: Wood Products Council Table #7 and #13, ES4, 2006

(*Lumber includes BFE of engineered wood per unit)

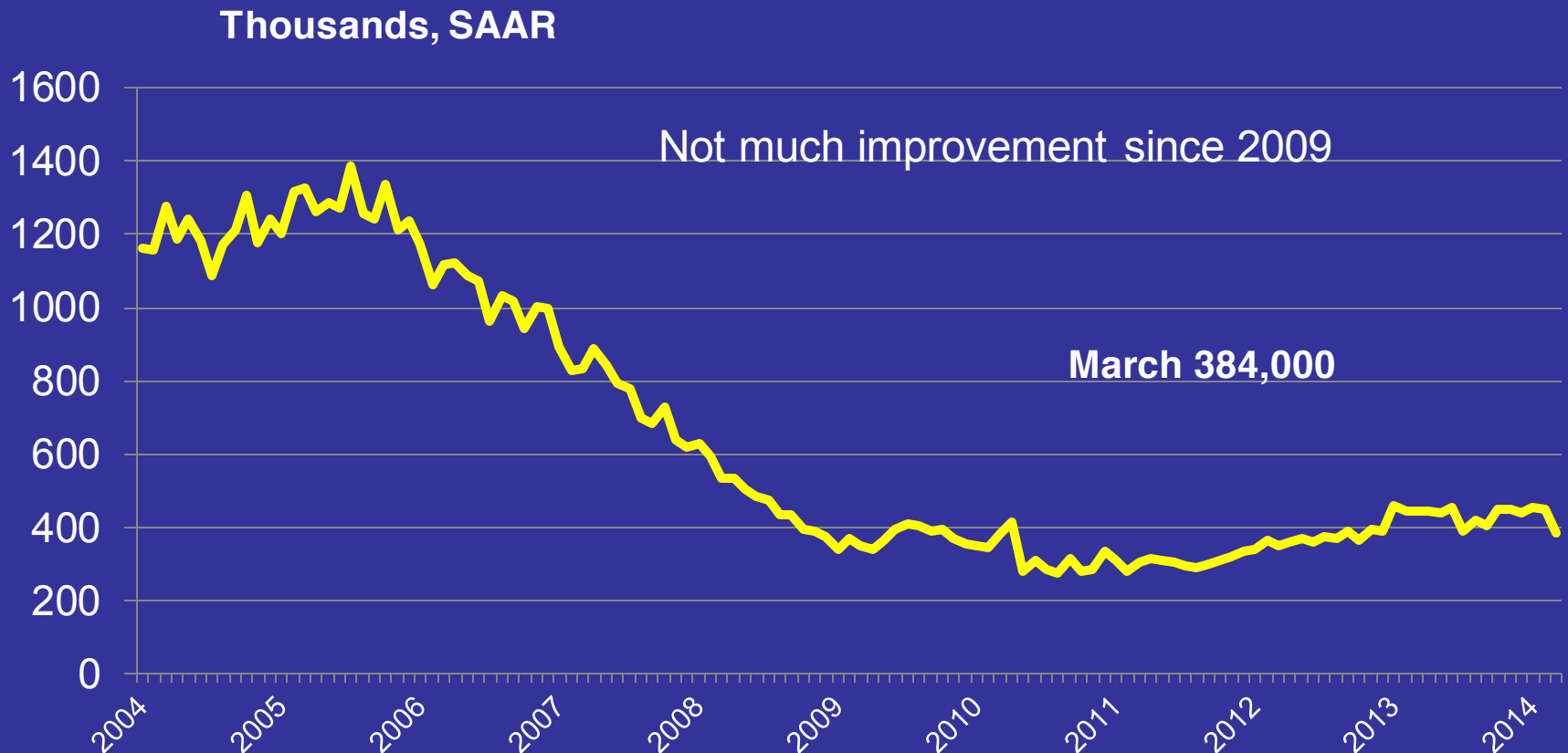
New residential markets – 2013 basis

Single family dominates!! – any switch to multifamily/rental has major impact on wood consumption



Source; WPC, Wood used in New Residential Construction, table #7, 2009

New Single Family Home sales is the key statistic to watch – sales drive housing starts – this drives demand for wood products!



Source: Census (<http://www.census.gov/const/www/newressalesindex.html>)

Resale market – higher prices and mortgages slow the rebound

Single family (incl condos), Monthly, Thousand units, SAAR



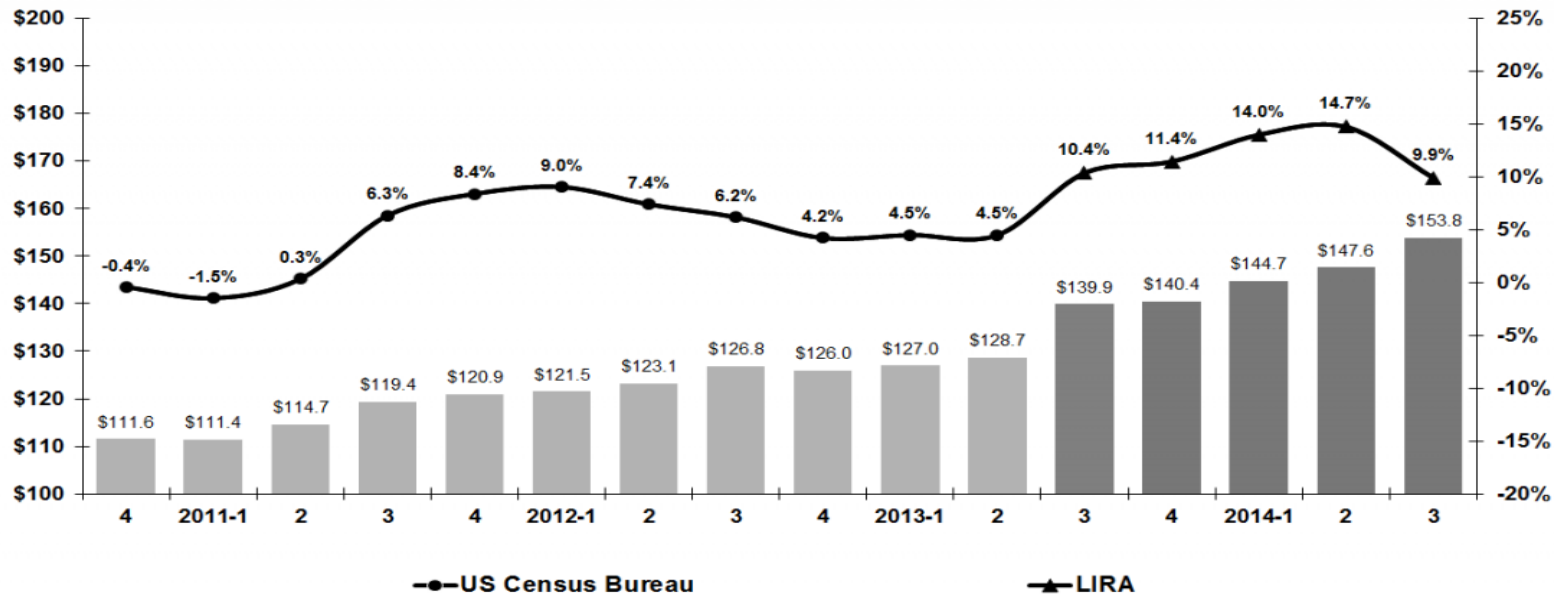
Source: NAR (<http://www.realtor.org/research>)

Remodeling to pick up as confidence improves, prices increase, and the economy picks up

Leading Indicator of Remodeling Activity – Fourth Quarter 2013

Homeowner Improvements
Four-Quarter Moving Totals
Billions of \$

Four-Quarter Moving
Rate of Change



Source: Joint Center for Housing Studies of Harvard University.

Note: Third quarter 2013 estimate does not include Census Bureau data, because third quarter data collection for home improvement spending was affected by the October 2013 government shutdown.

Source: HJCHS (<http://www.jchs.harvard.edu/remodeling-gains-expected-continue-2014>)

Median Age of U.S. Housing Stock

In 2011, half of U.S. homes were 37 years old or older. Good news for remodeling business – in fact, over time, we will emulate Europe where remodeling expenditures routinely exceed expenditures on new construction



Source: AHS (<http://www.census.gov/hhes/www/housing/ahs/nationaldata.html>)

Bottom line – when economy returns to normal, demand for shelter will strengthen.

Question – what will the mix be between detached single family and multi family housing and what are the implication for the wood products industry? Also, implications if house size gets smaller??

Most of you have seen this article by Craig Adair and myself and it is three years old, but there is some material there that addresses the question posed above as it relates to the wood products industry

(<http://www.nxtbook.com/nxtbooks/naylor/EWAB0110/index.php?startid=16#/16>)

Another issue to ponder – the role of the federal government in housing. There is a huge federal presence – more than in any other country. Federal agencies (Fannie, Freddie, FHA, VA, etc.), control over 90% of the residential mortgage market. That means there is too much temptation to influence housing according to political whims. Fannie, and Freddie are still in “conservatorship” – i.e., wards of the state, and therefore depending on taxpayer support.

The real key to a housing recovery is the return of mortgage purchase business – i.e., owner occupant buyers in lieu of “REFI” business and speculators paying cash for distressed sales which are then rented.

Again, that requires JOBS!

Here is an excellent video (about 90 minutes) on CSPAN
(<http://www.c-spanvideo.org/program/HousingandG>) .

Experts from academia, private sector, government, etc.
discuss what is right and wrong with today's housing
market. Lots of good charts, discussions, etc.

Here is a good article about why housing is getting better
only slowly, understating the importance of well-paying
jobs (NYT, April 27, 2014)

(http://www.nytimes.com/2014/04/27/upshot/the-housing-market-is-still-holding-back-the-economy-heres-why.html?_r=0)

Some conclusions – housing continues to improve albeit slowly

- (1) Economy will muddle along until 2015? Depends on world economy, China, Europe, Question – can the economy “stand on its own” without QE?**
- (2) What will housing look like in the future? My guess – smaller homes; higher percentage of renters; and more people moving back to the city – this is due to demographic trends and changes in social values**
- (4) This has implications for demand for wood products in housing**
- (3) We’re in “uncharted waters” territory right now (i.e., massive money printing) to date, it has helped prevent worsening of economy, but, certainly hasn’t had the impact the FED had hoped for (i.e., jump start the economy)**
- (4) Problems going forward are higher interest rates and continuing uncertainty.**
- (5) The key to a recovery in housing and the economy is the job market - it’s really that simple!!!!**
- (6) Longer term, housing demand will hinge on the footprint of the Federal government – will they continue to promote housing to the degree they have in the past? My guess is the federal government will slowly reduce its footprint on housing and let the private sector play a larger role. Financing will be one of the 1st changes.**

State of the United States Housing Market and Implications for the United States Wood Industry

Moulding & Millwork Producers Association
51st Annual Meeting

May 1, 2014
Savannah, Georgia

Delton Alderman

United States Forest Service
Forest Products Marketing Unit, Madison, WI and
Northern Research Station-01, Princeton, WV

Urs Buehlmann

Virginia Tech
College of Natural Resources and Environment
Department of Sustainable Biomaterials
Blacksburg, VA

Al Schuler

United States Forest Service - Retired



Housing Demand Overview

Factors Influencing Housing Demand

Key Variables

Economic

United States Housing Indicators:

Demographics

Housing Permits, Starts, and Completions

Existing and New House Sales

Construction Spending

Residential Remodeling

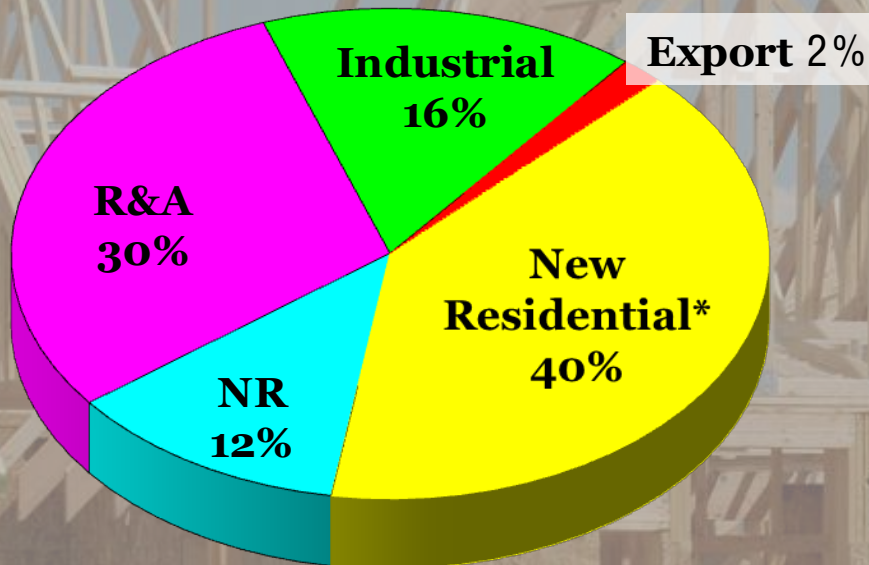
Projections

Conclusions

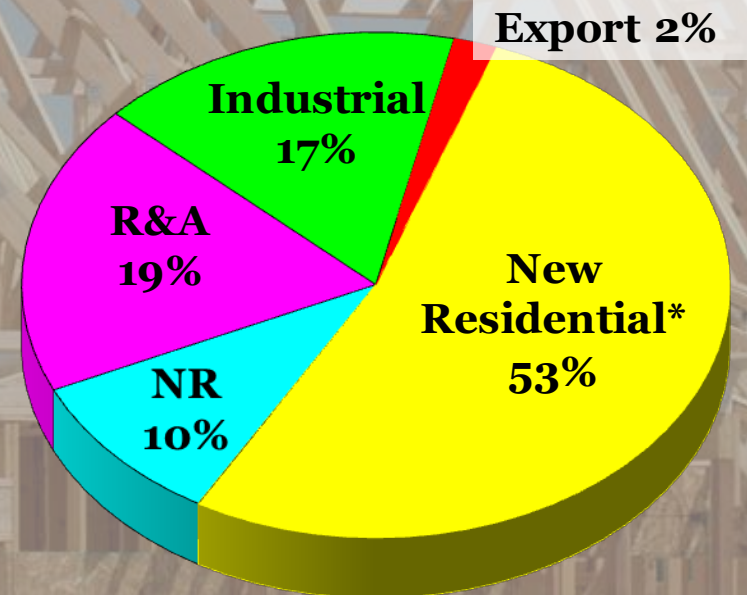
United States Housing

Softwood Market Shares: Average during 1998 – 2007

U.S. Softwood Lumber



U.S. Structural Panels



*New Residential incl. SF, MF, and Mobile Homes

Housing Demand Factors

Factors Influencing Housing Demand

Household Formation

United States Census Bureau: household = occupied housing unit.

In any year, the sum of single- and multi-family units is about equal to the number of U.S. households¹ (132 mm houses; 75 mm owner occupied and 40 mm rentals; about 18 mm vacant)².

Demographics

Changes in the size and composition of the U.S. population shift the demand for housing units (with constant house prices).

The growth of the U.S. population over time has increased aggregate demand for housing units¹.

Housing Demand Factors

Factors Influencing Housing Demand

Technology

Rapid advancements in automobile technology allowed people to live further from where they worked -- helping fuel demand for single-family housing

Public Policy

Public investments in highways after World War II allowed people to live further from where they worked¹

Housing Replacement

Disaster, dilapidation, other uses, etc.

Housing Demand Factors

Factors Influencing Housing Demand

Housing Price

As relative house prices increase, the number of housing units demanded will decrease

Business Cycle

Households tend to reduce housing expenses when jobs become scarce and increase them when jobs become plentiful

Lifetime Income

Long-run trend increases in real income have caused many households to increase spending on housing¹

Housing Demand Factors

Factors Influencing Housing Demand

Real Median Income

Inflation-adjusted household income – “Real” income

Median inflation-adjusted household income generally increases or decreases with the business cycle¹

Employment → → “Jobs”

Well-paying jobs are important – if not critical

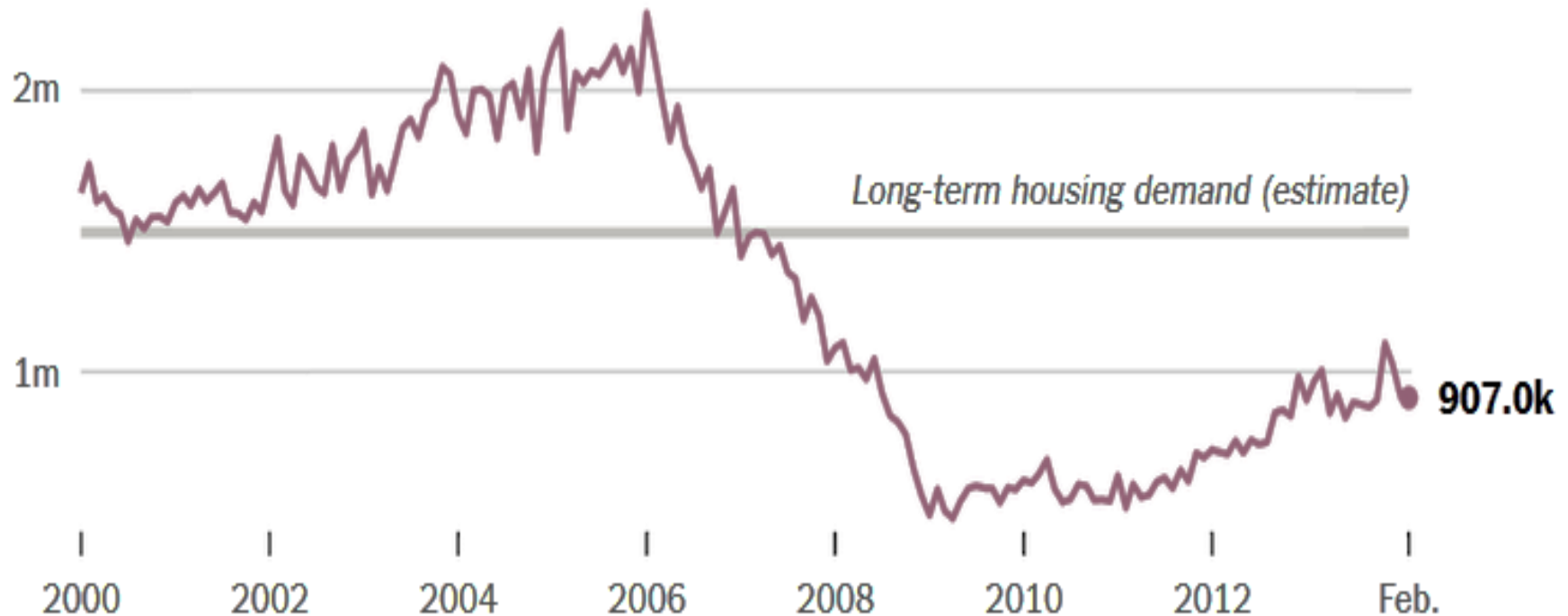
United States Housing Forecasts: 2014

(000s)	New House Sales	Single-Family Starts	Multi-Family Starts	Total Starts
APA - The Engineered Wood Association		730	365	1,095
NAHB	607	820	326	1,146
Barclays				1,200
BMO (Montreal)				1,240
Fannie Mae	518	768	338	1,106
Forest Economic Advisors		753	365	1,095
Ivy Zelman & Associates		735	325	1,060
JP Morgan				1,080
MBA	497	750	335	1,085
Merrill Lynch	517			1,100
RBC				1,329
TD Economics				1,200
UBS				1,150
Wells Fargo	535	800		1,140

United States Housing

Home Construction vs. Demand

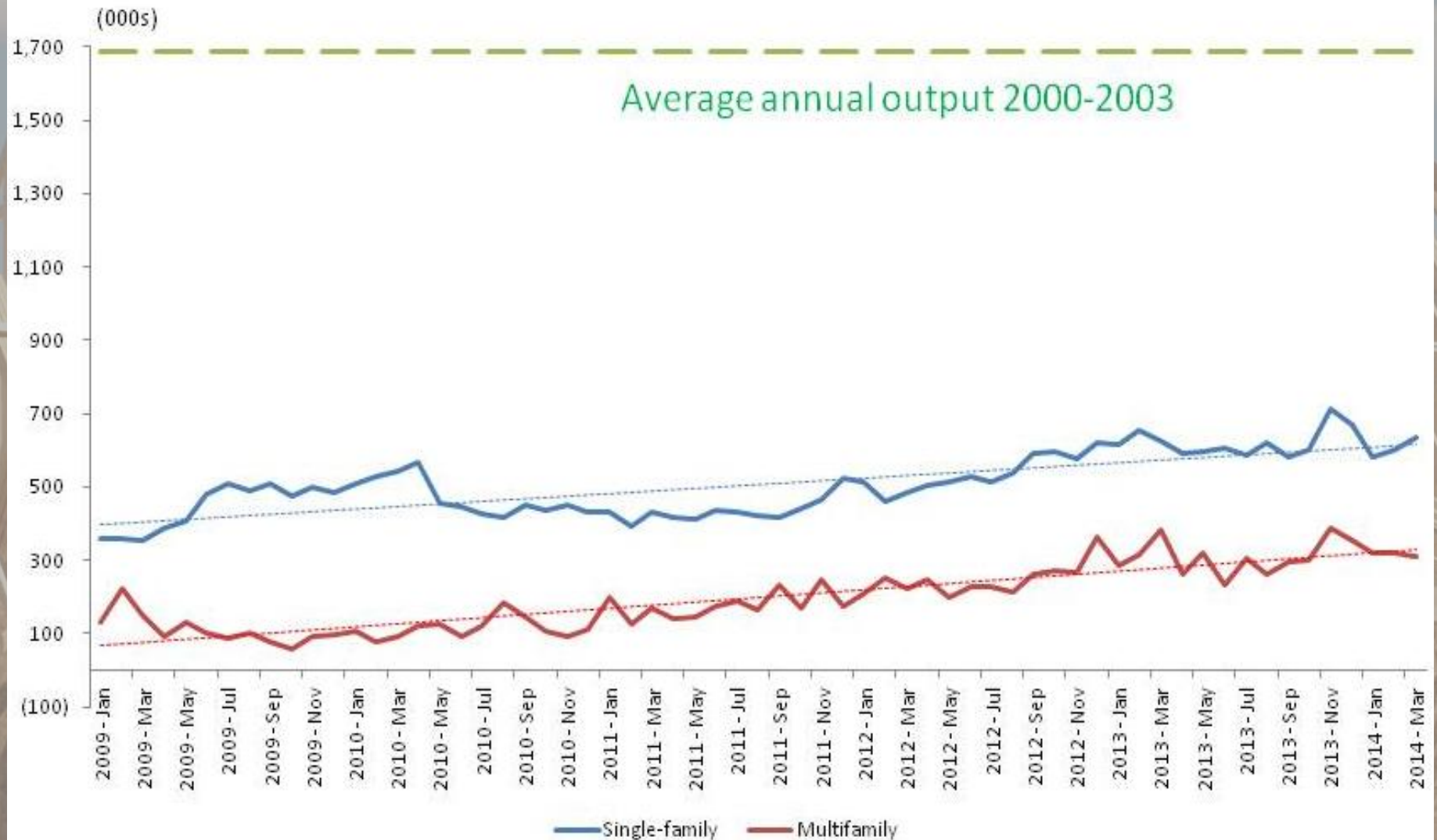
Economists estimate that the United States should build around 1.5 million new housing units a year to meet long-term demand. They have undershot since 2007.



Source: Census Bureau, Zillow.com

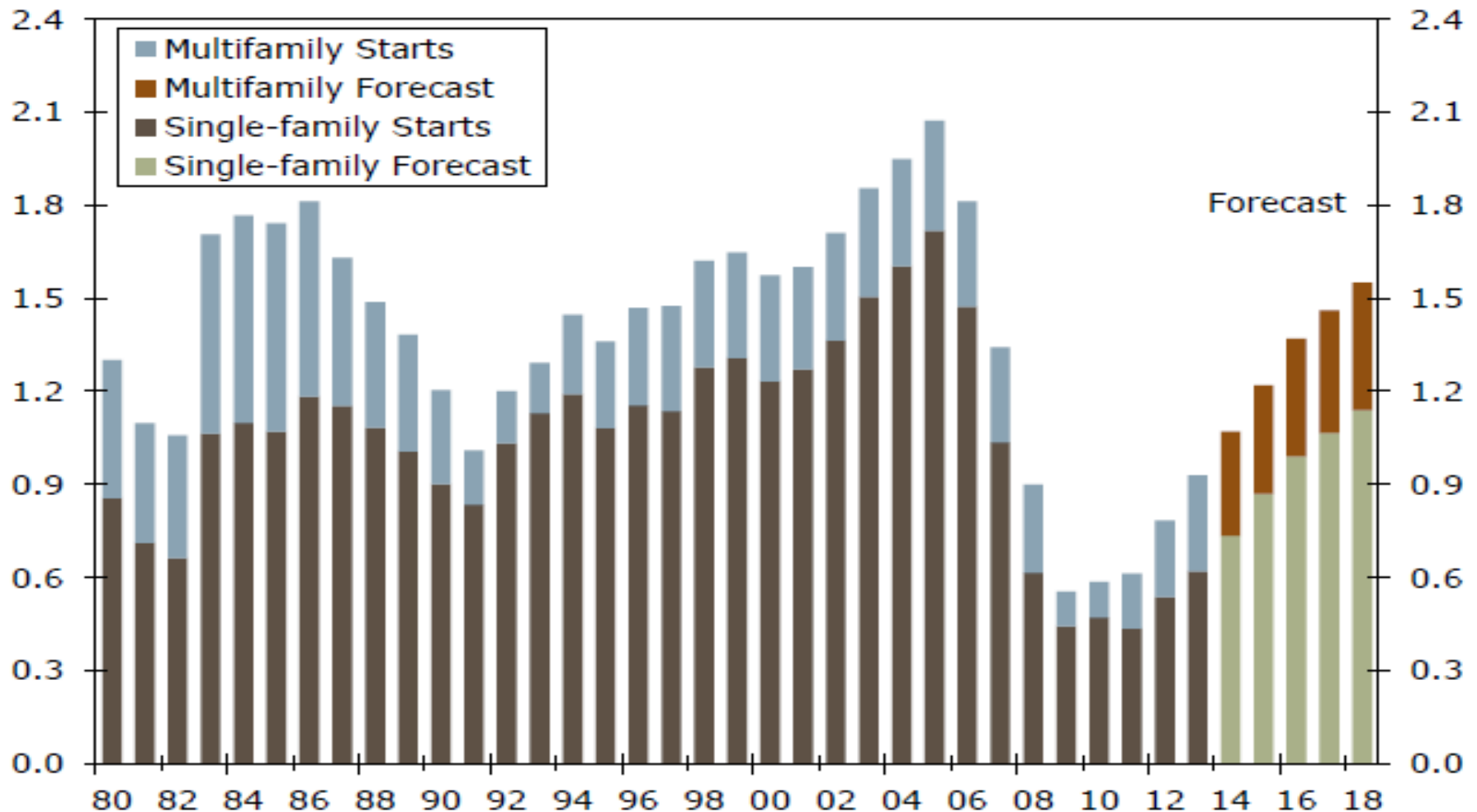
United States Housing Starts

Housing Starts: Actual, Trend, and Sustainable Levels



United States Housing Forecast: 2014-2018

Housing Starts Millions of Units

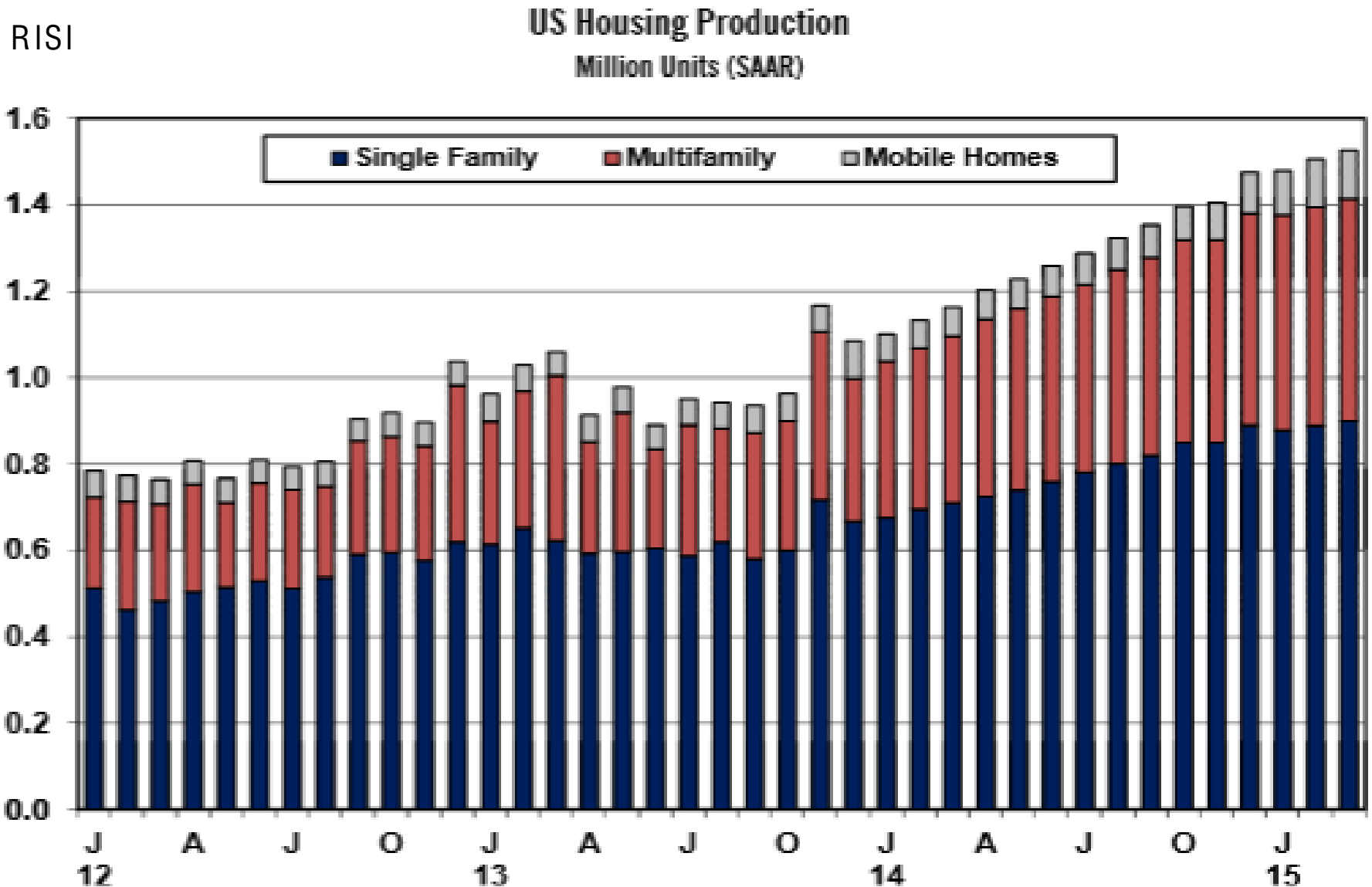


Source: US DOC and Wells Fargo Securities, LLC

Source: <https://wellsfargo.mworld.com/econ/alerts.asp>; 4/23/14

[Return TOC](#)

United States Housing Forecast: 2012-2015



United States Housing

NFIB Small Business Optimism

Overall Index 1986 = 100



Source: National Federation of Independent Business and Wells Fargo Securities, LLC

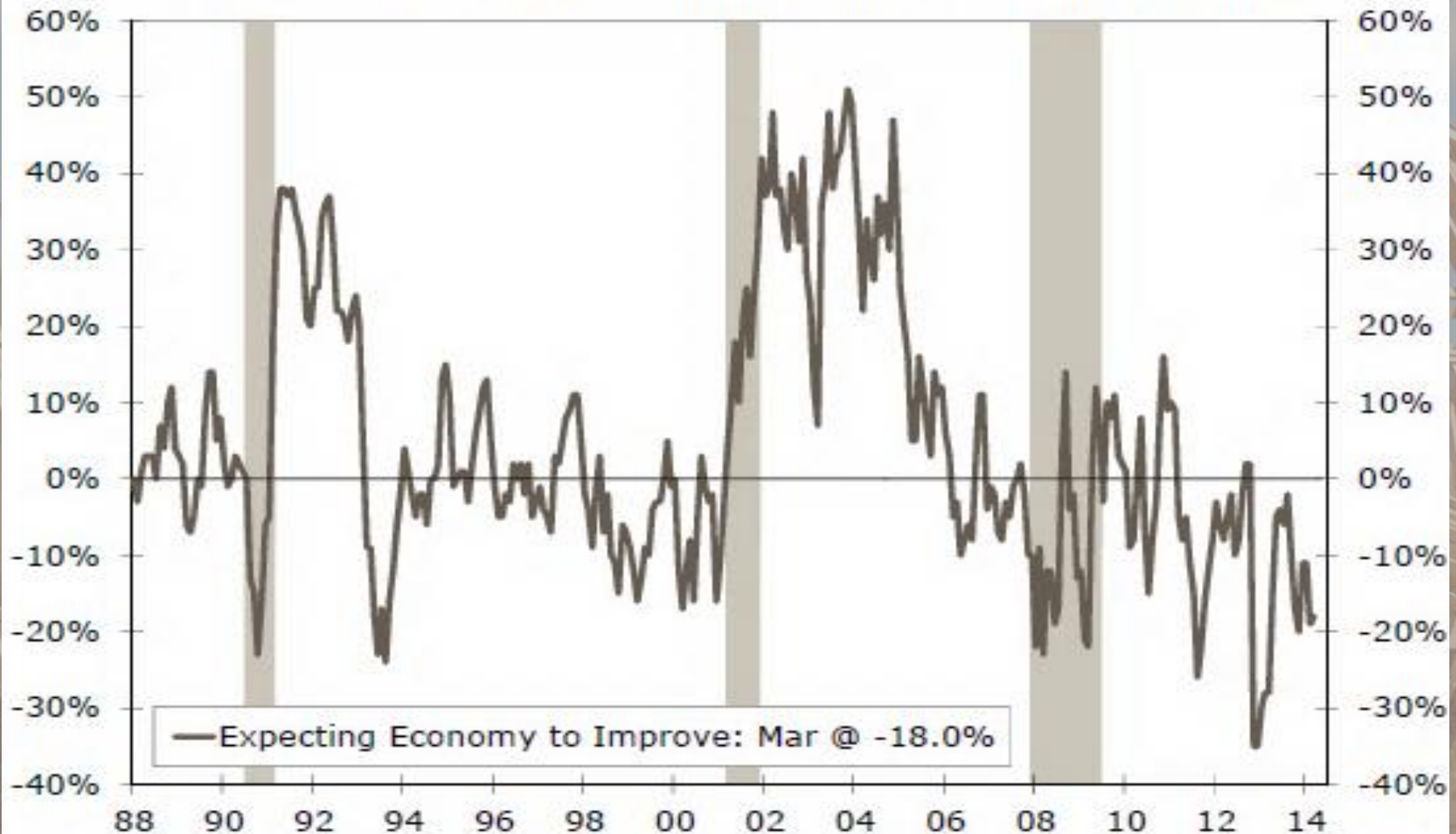
Source: <https://wellsfargo.mworld.com/econ/alerts.asp>; 4/8/14

Return TOC

United States Housing

Firms Expecting Economy to Improve

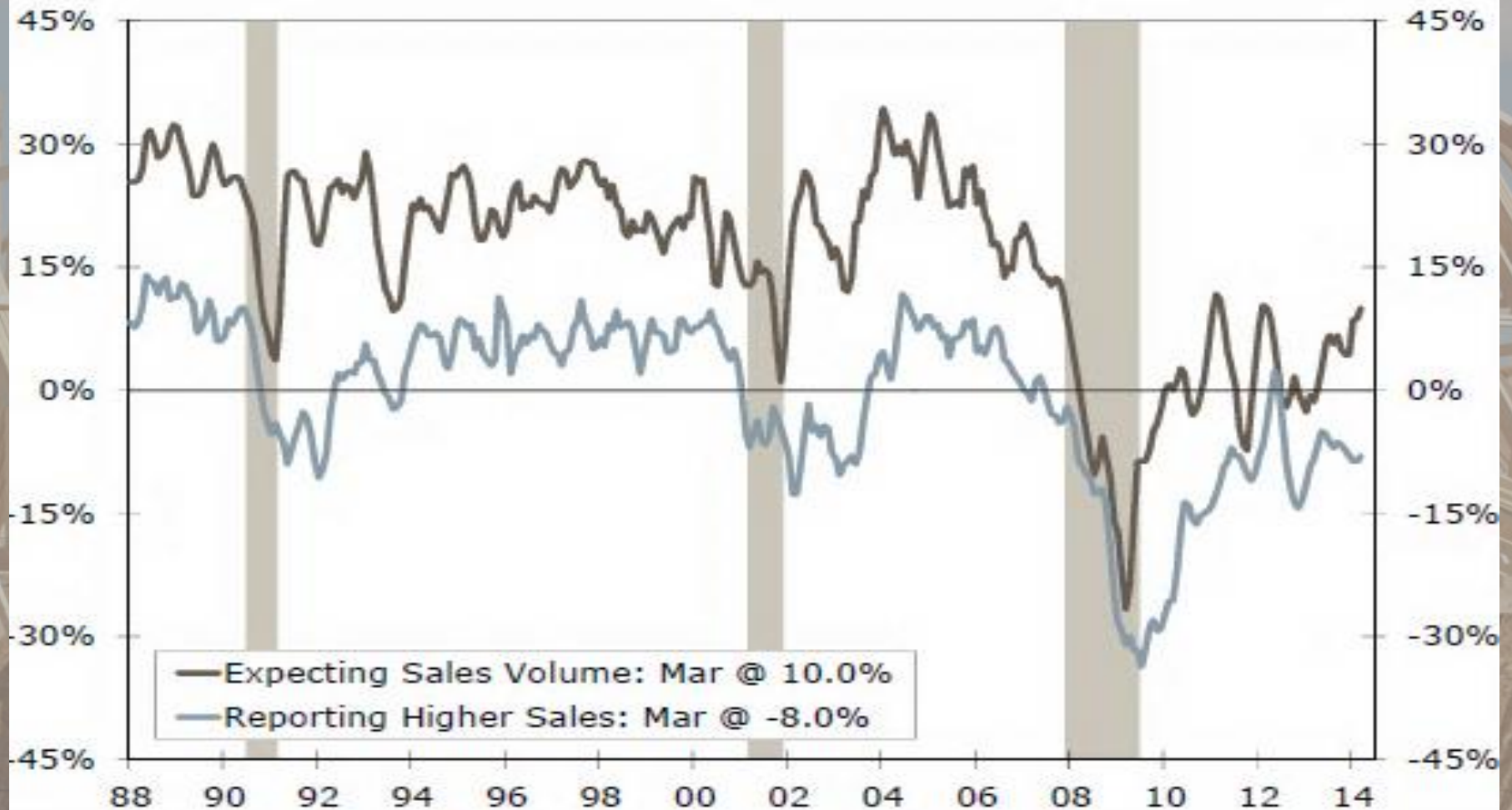
Net % of Firms Expecting Economy to Improve Over the Next 6 Mo.



Source: National Federation of Independent Business and Wells Fargo Securities, LLC

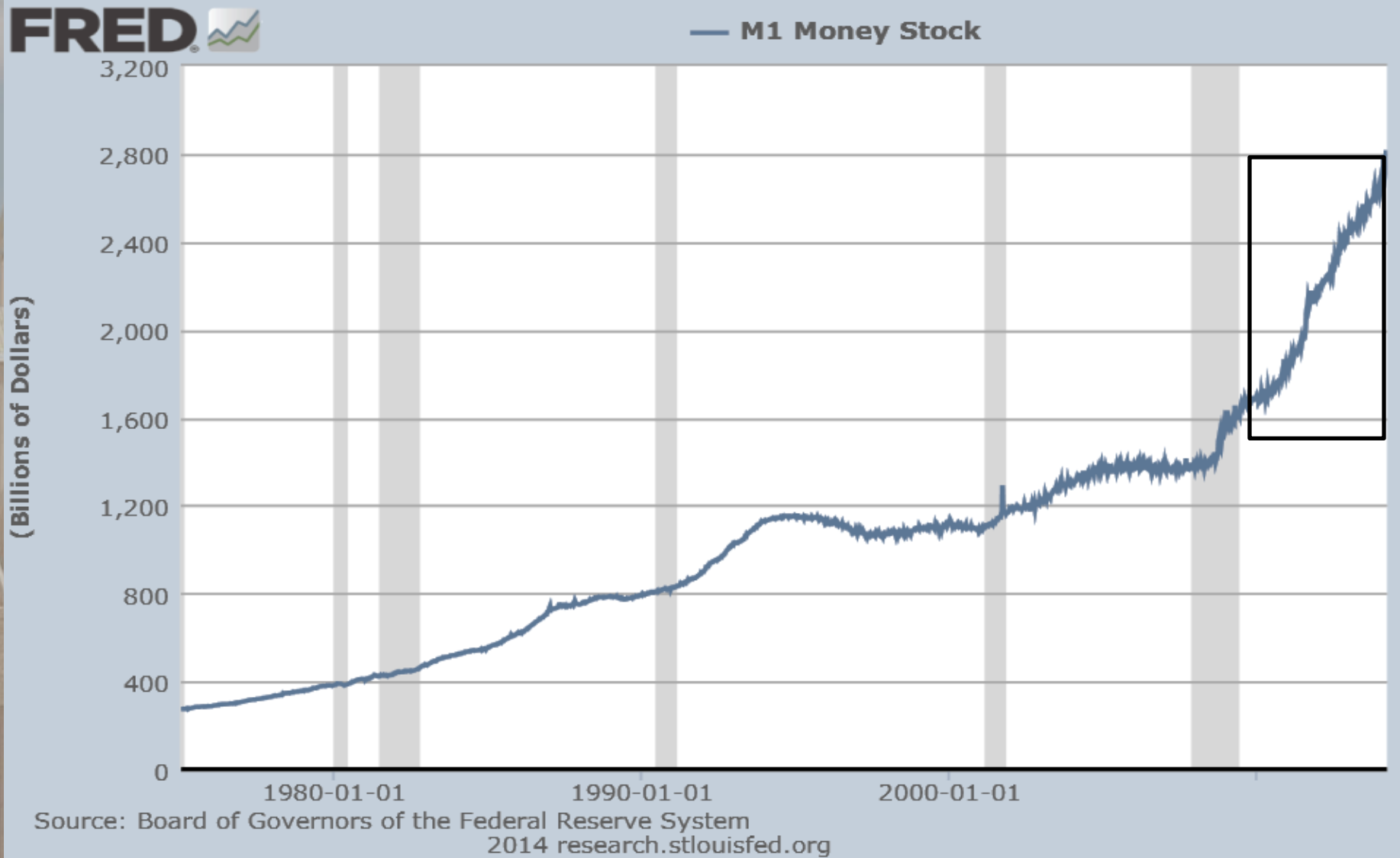
United States Housing

Small Business Actual Sales and Expected Sales
Net Percent of Firms, SA 3-MMA



Source: National Federation of Independent Business and Wells Fargo Securities, LLC

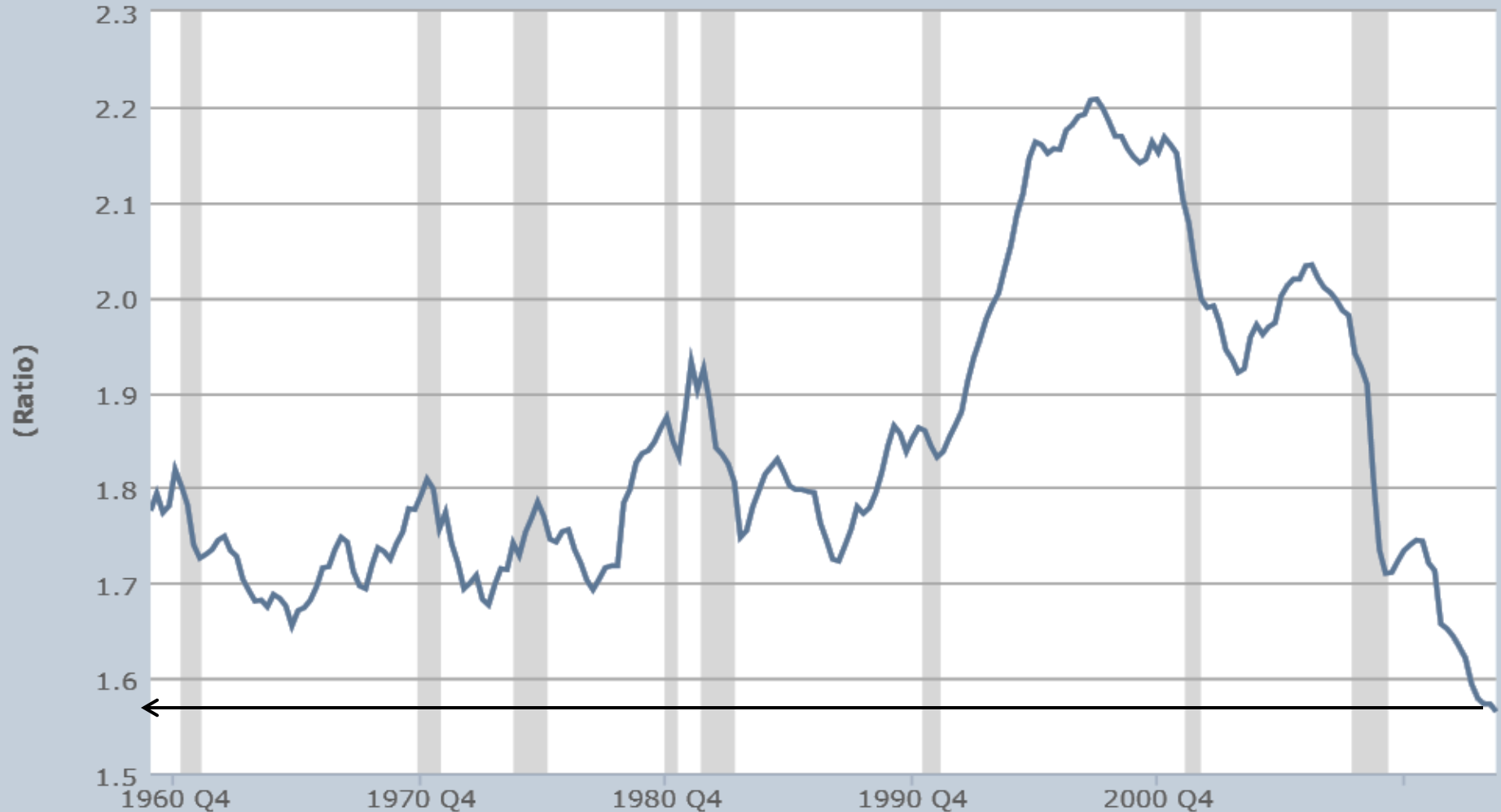
United States Housing



United States Housing



— Velocity of M2 Money Stock



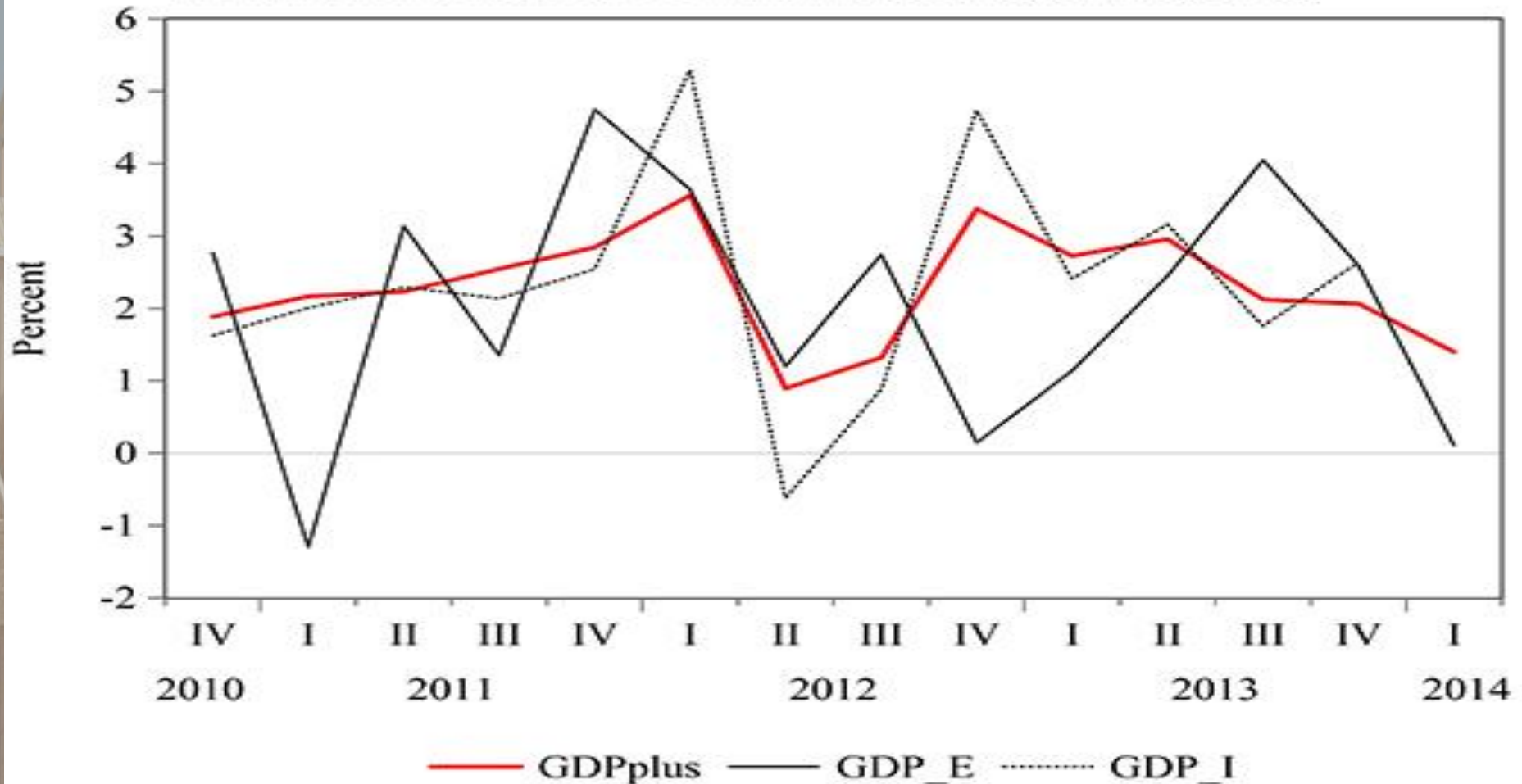
Source: Federal Reserve Bank of St. Louis

2014 research.stlouisfed.org

United States Housing

GDP Growth

GDPplus is a measure of the quarter-over-quarter rate of growth of real GDP in annualized percentage points. GDP_E and GDP_I are quarter-over-quarter rates of growth of expenditure and income-side measures of real GDP in annualized percentage points, respectively.



United States Housing

Architecture Billing Index

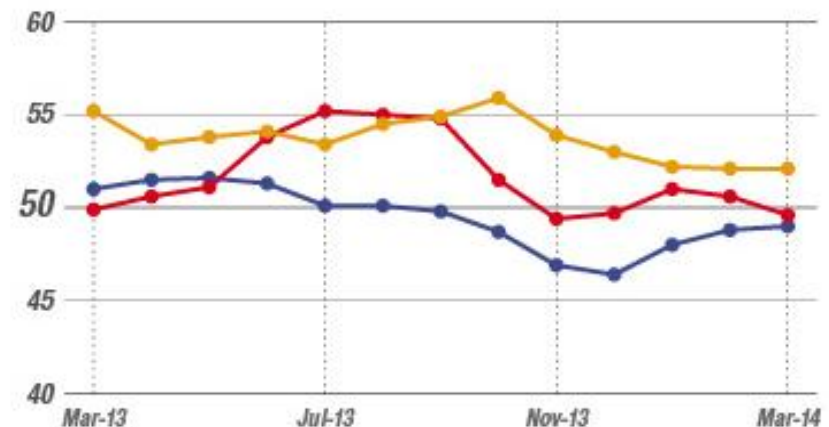
SECTOR

Institutional Firms Continue to See Challenging Business Conditions

Graph represents data from March 2013 – March 2014 across the three sectors.

50 represents the diffusion center.

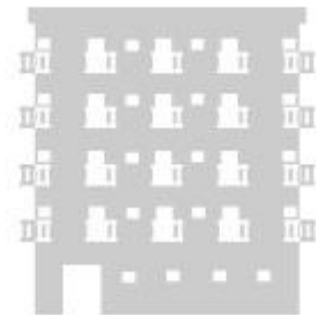
A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.



Commercial/Industrial: 49.6



Institutional: 49.0



Residential: 52.1

United States Housing

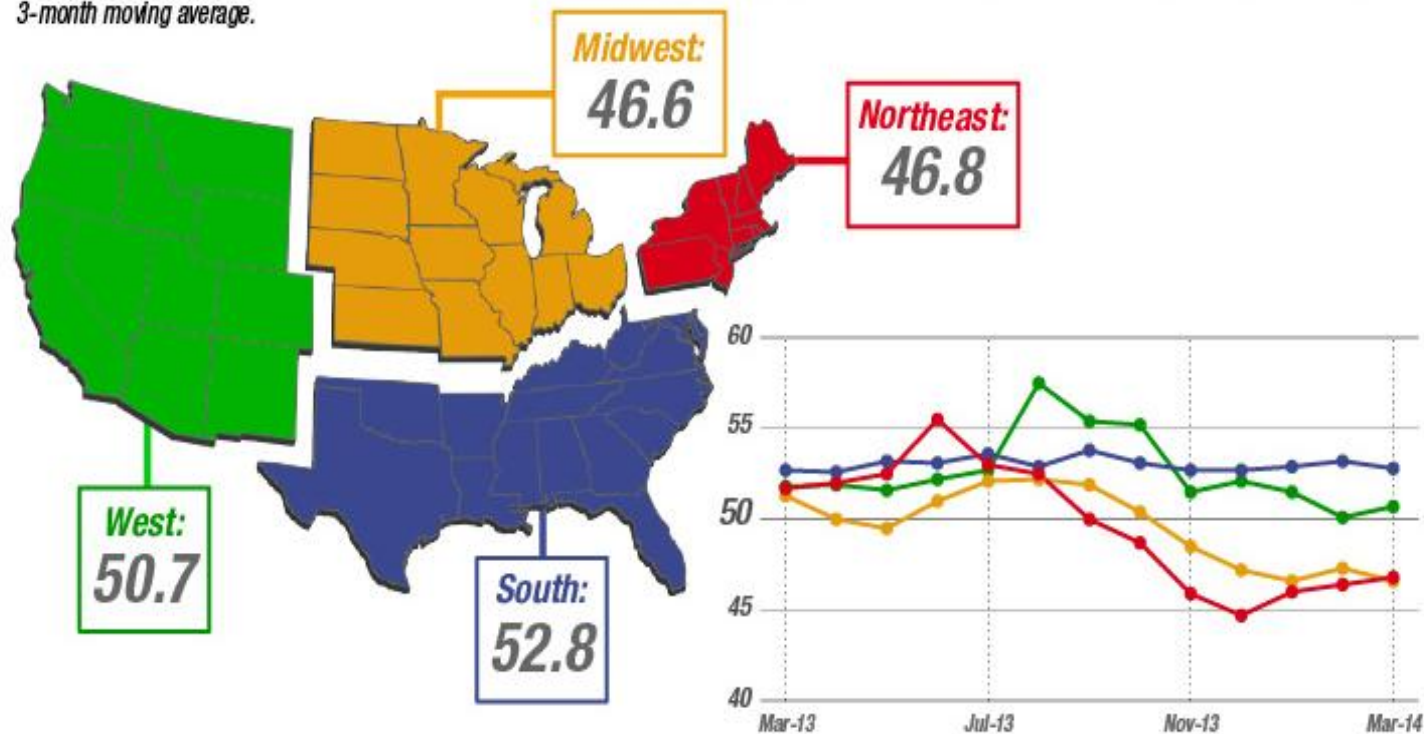
Architecture Billing Index

REGIONAL

Sunbelt Firms Still Reporting Growth

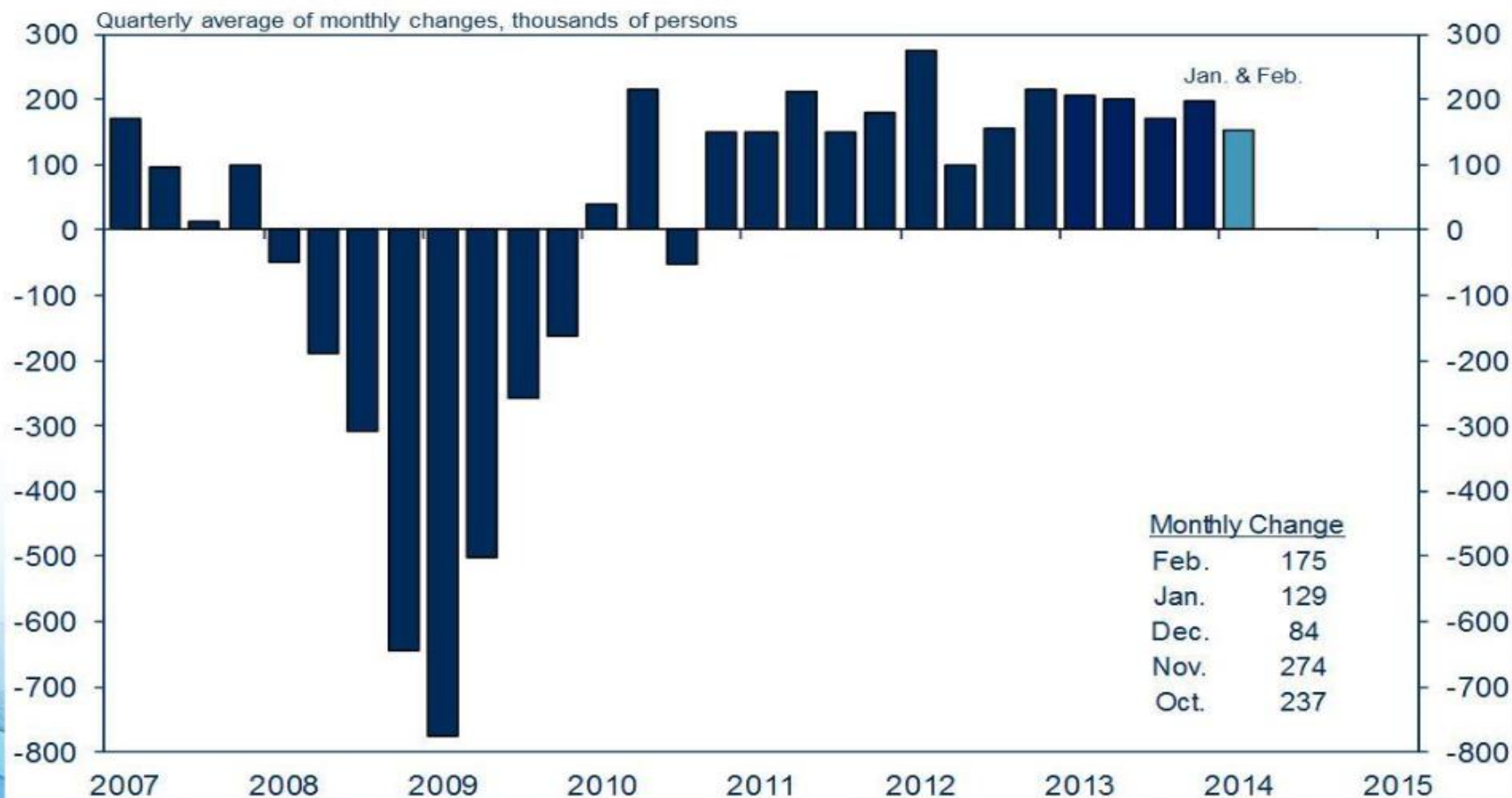
Graphs represent data from March 2013 – March 2014 across the four regions.

50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.



United States Housing

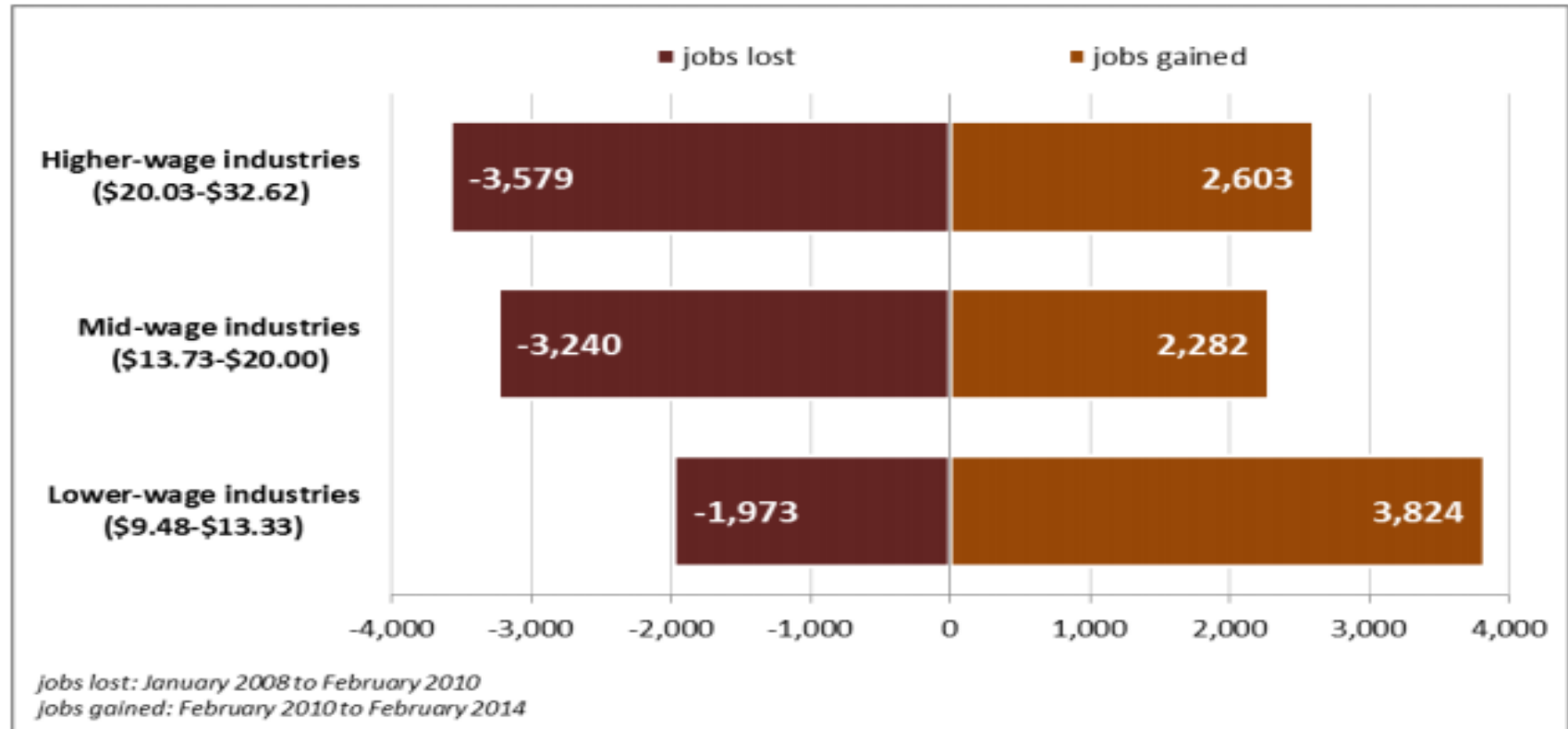
Nonfarm Payroll Employment



United States Housing

Private Sector Employment

Figure 1. Net Change in Private Sector Employment (in thousands)



Source: NELP analysis of Bureau of Labor Statistics data, see Appendix A for details.

Note: Wage ranges are updated from earlier reports to adjust for inflation and are in 2013 dollars. At the time of publication, employment data for disaggregated industries was only available through February 2014.

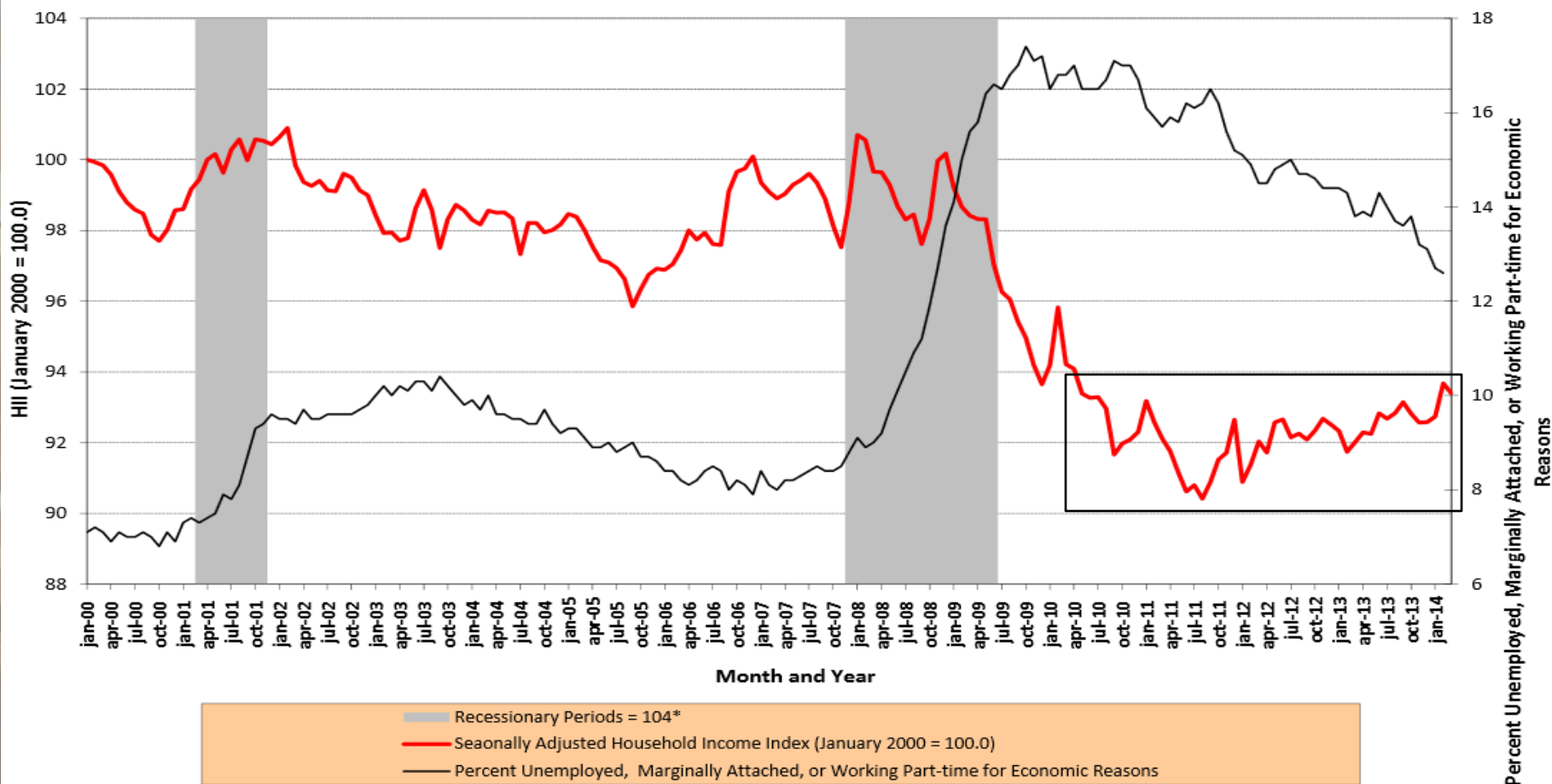
Source: NELP analysis of Bureau of Labor Statistics

U.S. Housing Demand

“March ‘14 median income: \$53,043, 4.0% less than the median of \$55,261 (June ‘09); the end of the recent recession and beginning of the “economic recovery”.”

Figure 3.

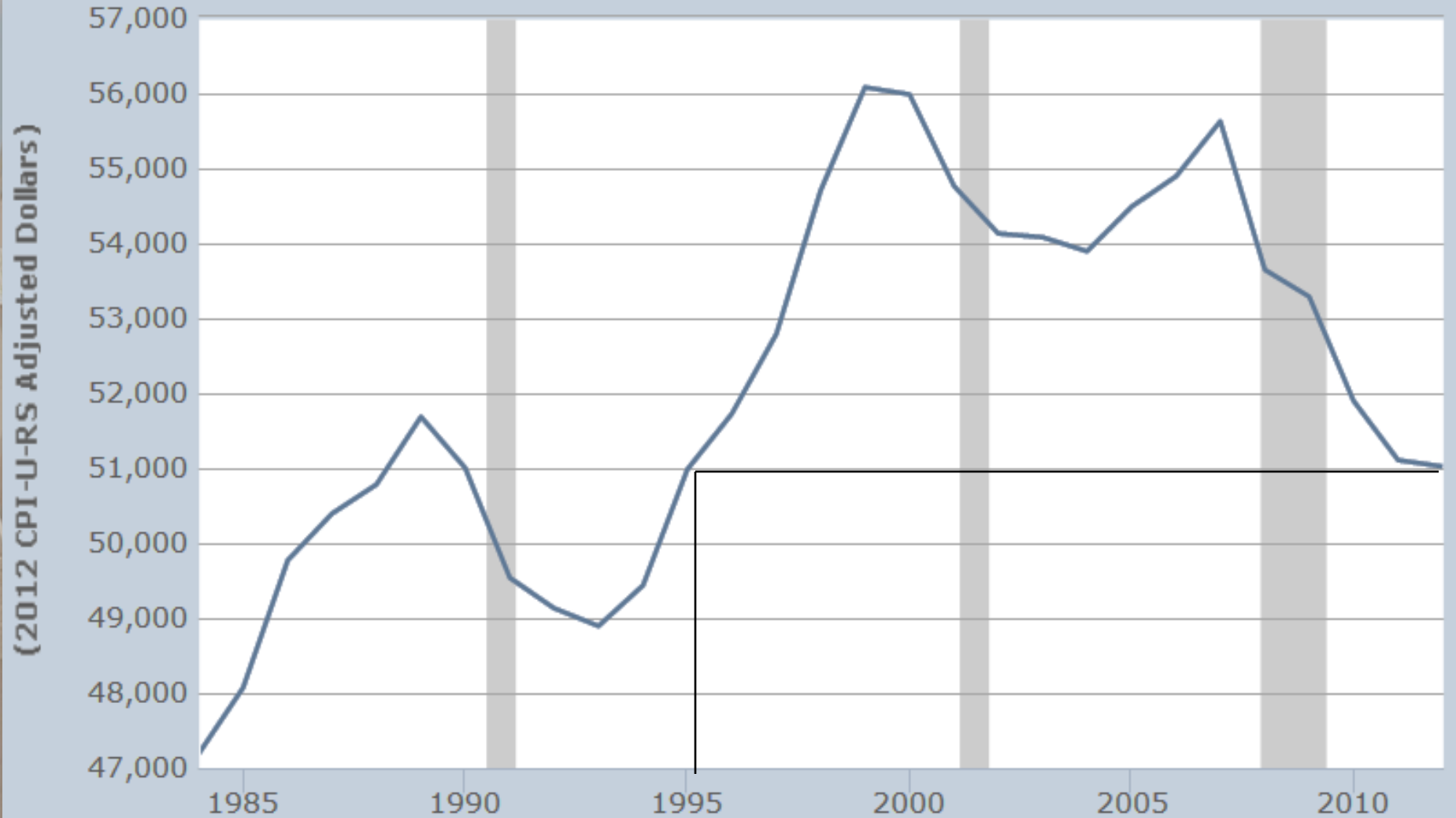
Median Household Income Index (HII) and Percent Unemployed, Marginally Attached, or Working Part-time for Economic Reasons by Month, January 2000 to March 2014



United States Housing

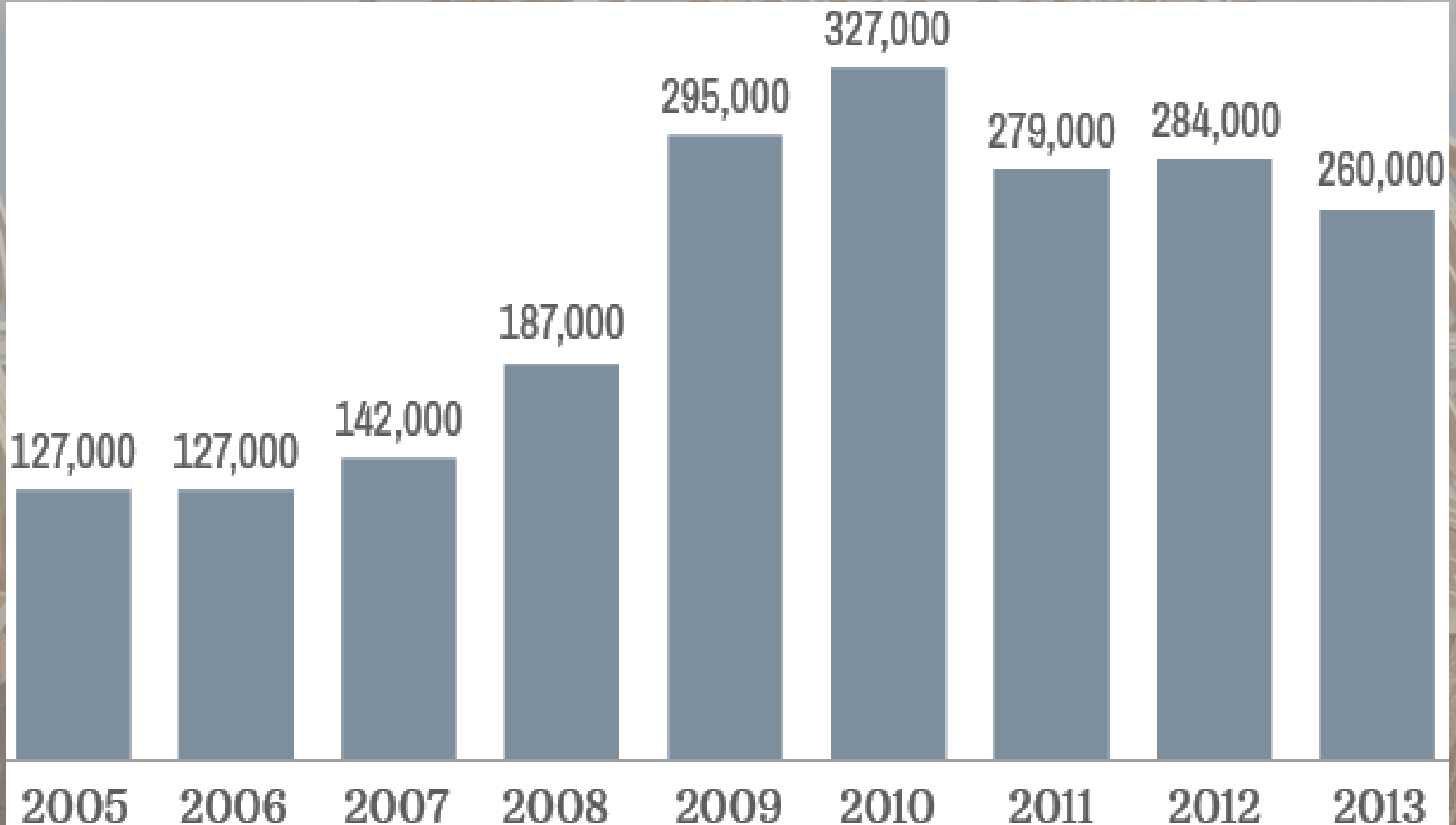


— Real Median Household Income in the United States



United States Housing

“260,000 Graduates In Minimum Wage Jobs”



Source: US Bureau of Labor Statistics

United States Housing

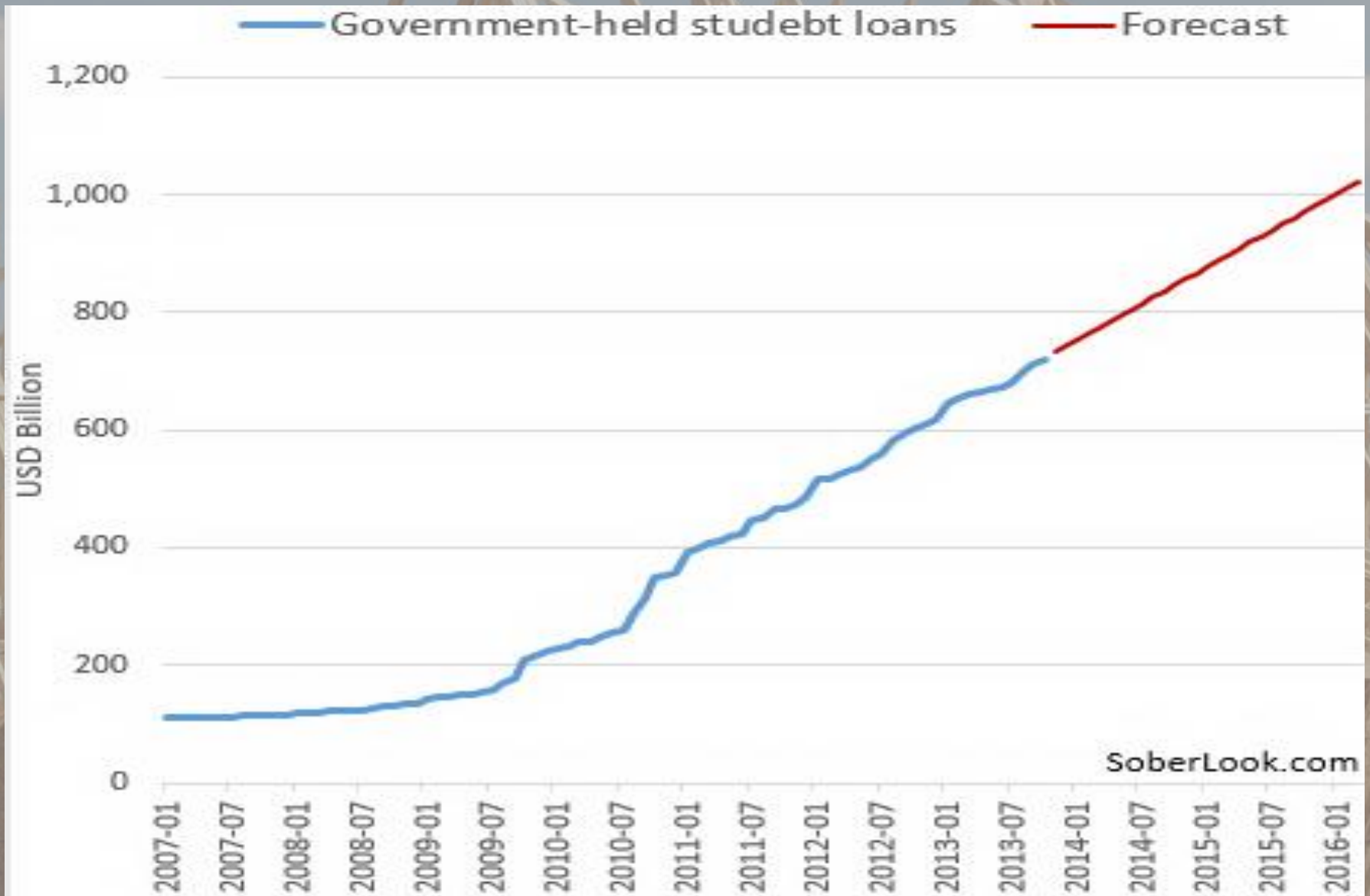
- US Student Loan Debt
- US Credit Card Debt



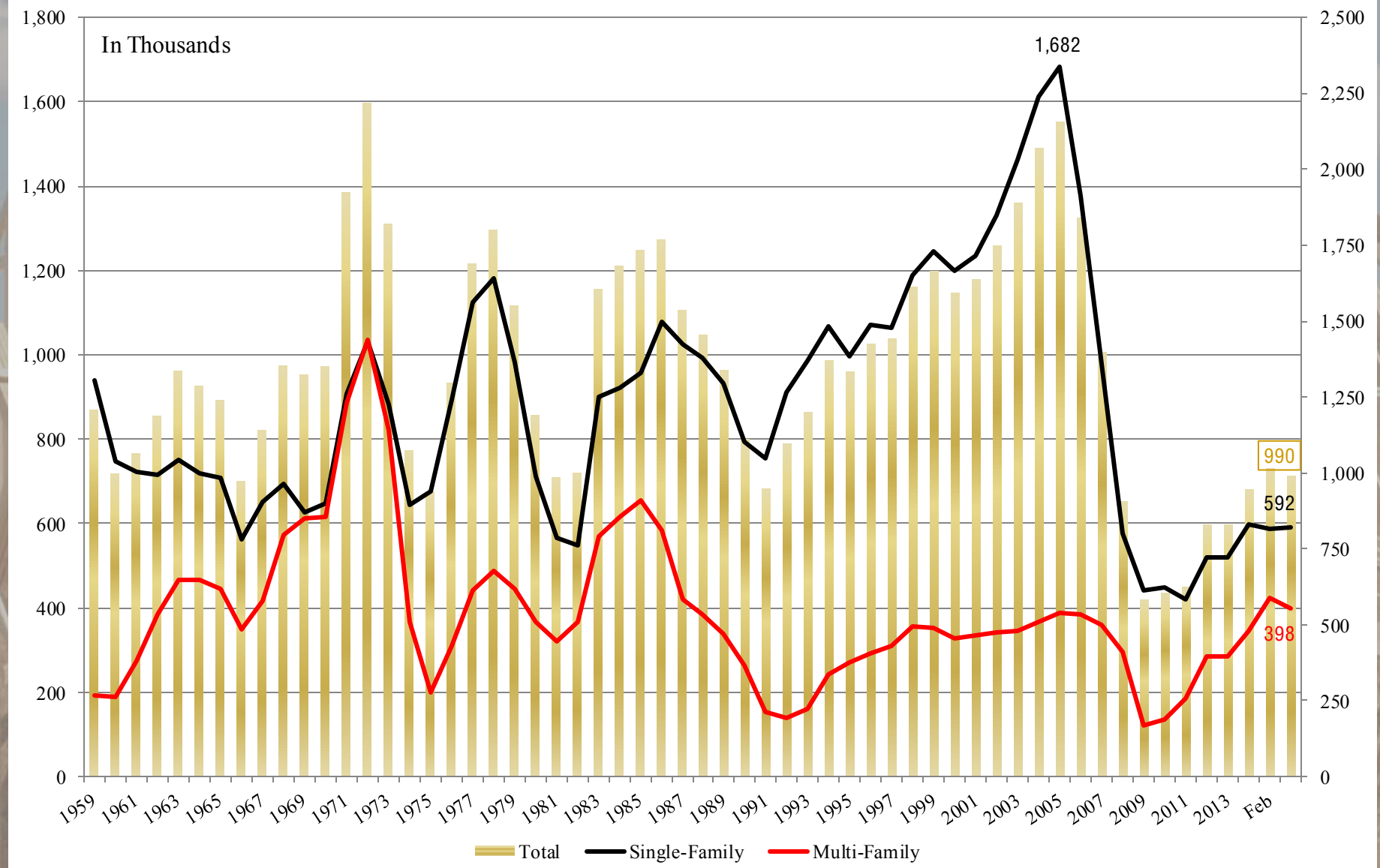
Source: Federal Reserve Bank of New York

Jan 17 2014, 7:12PM UTC. Powered by **YCHARTS**

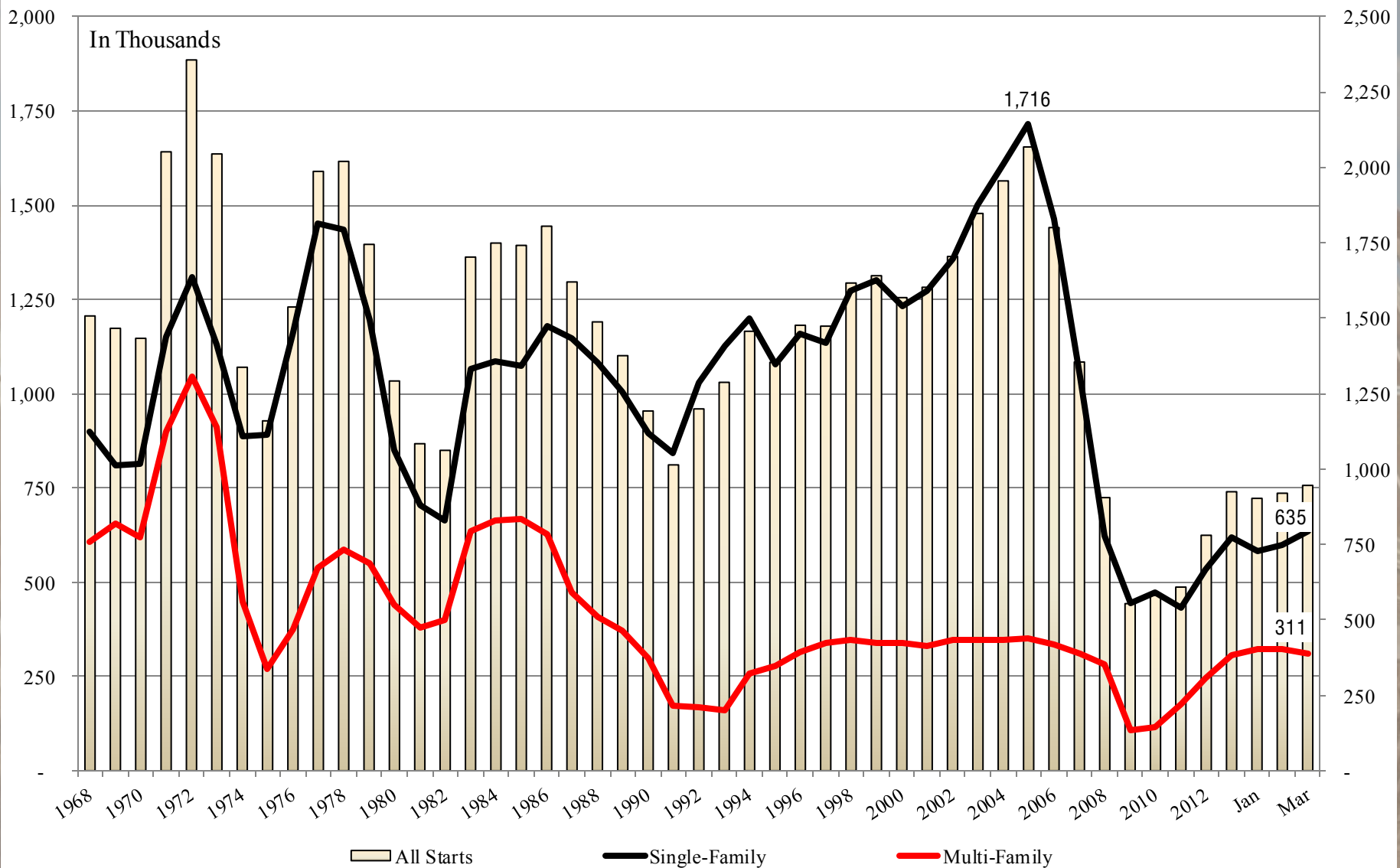
United States Housing



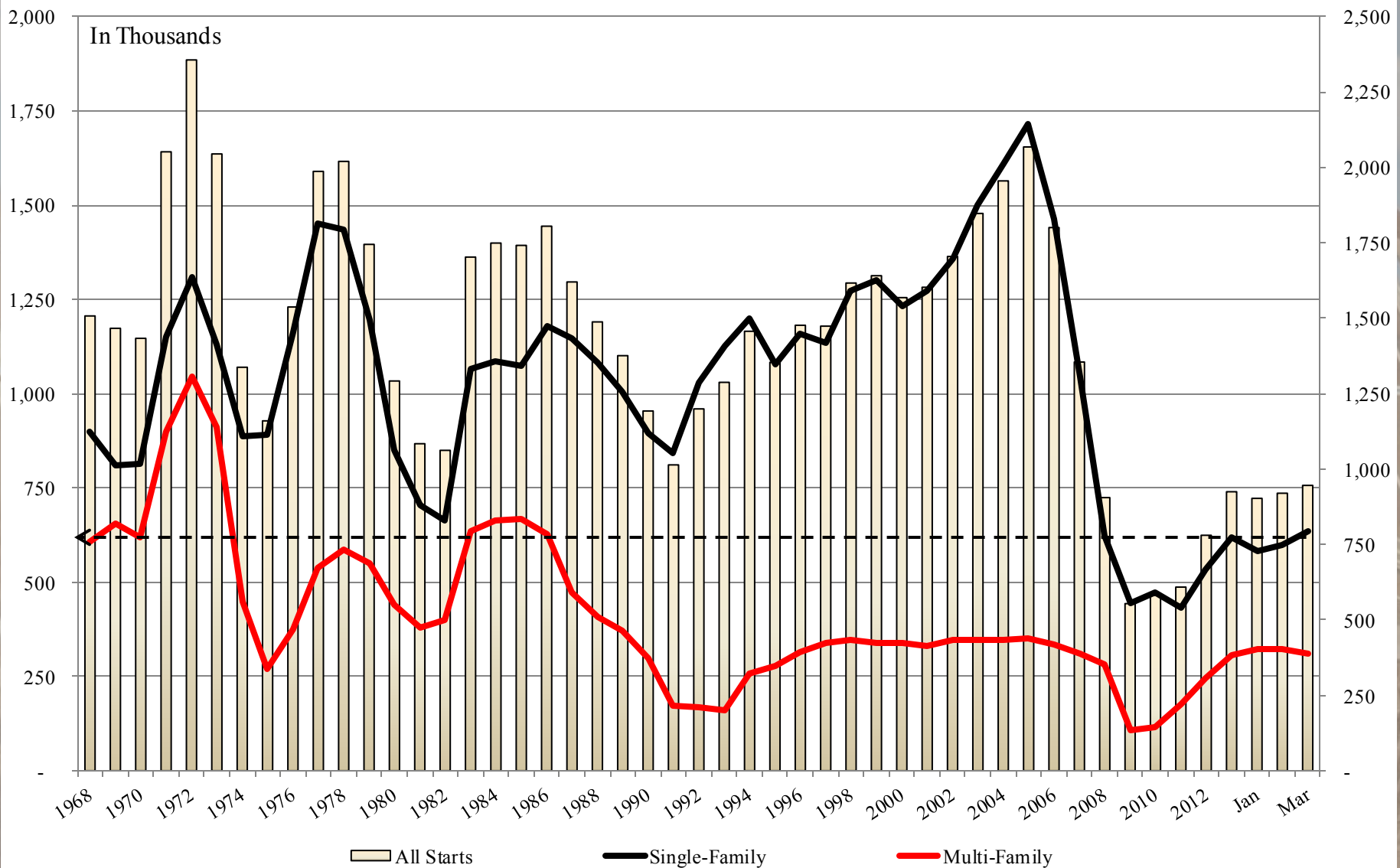
United States Housing Permits



United States Housing Starts



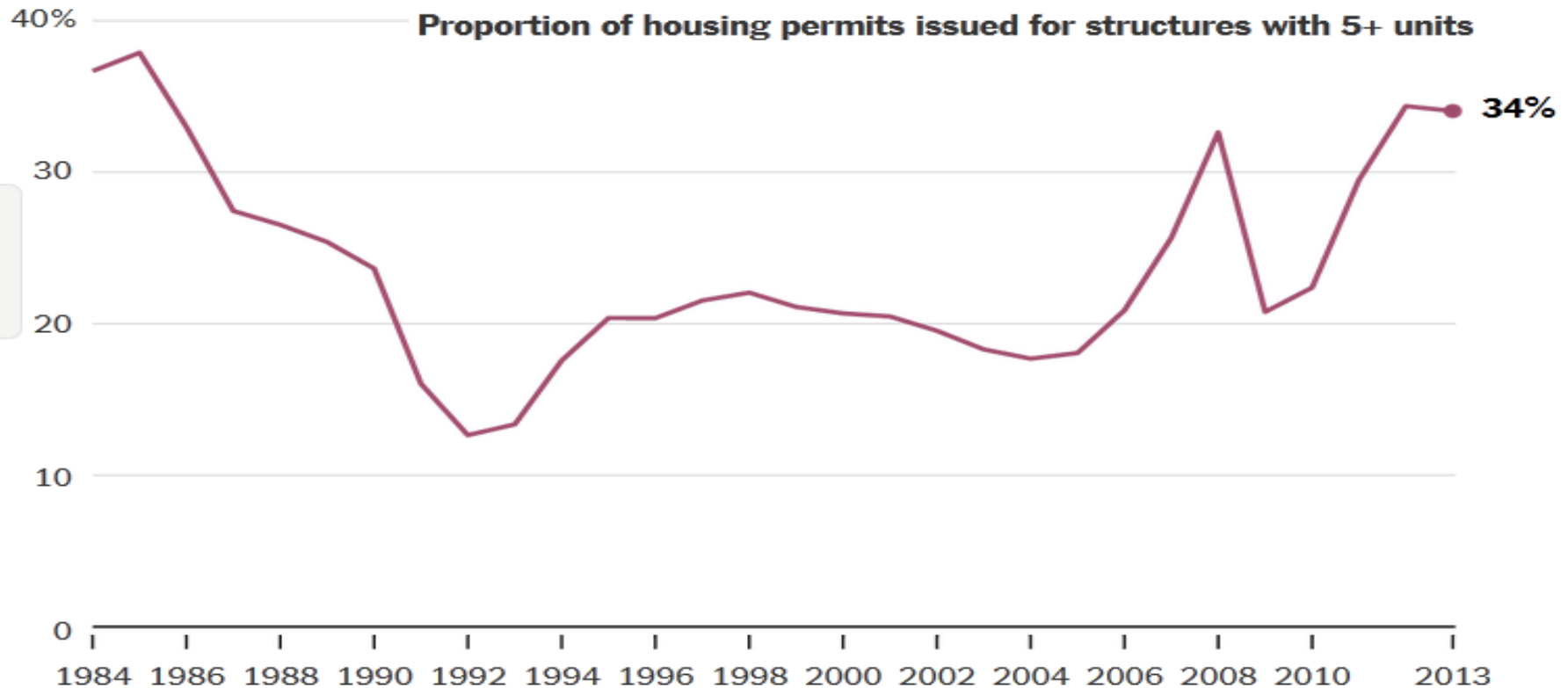
United States Housing Starts



United States Housing Starts

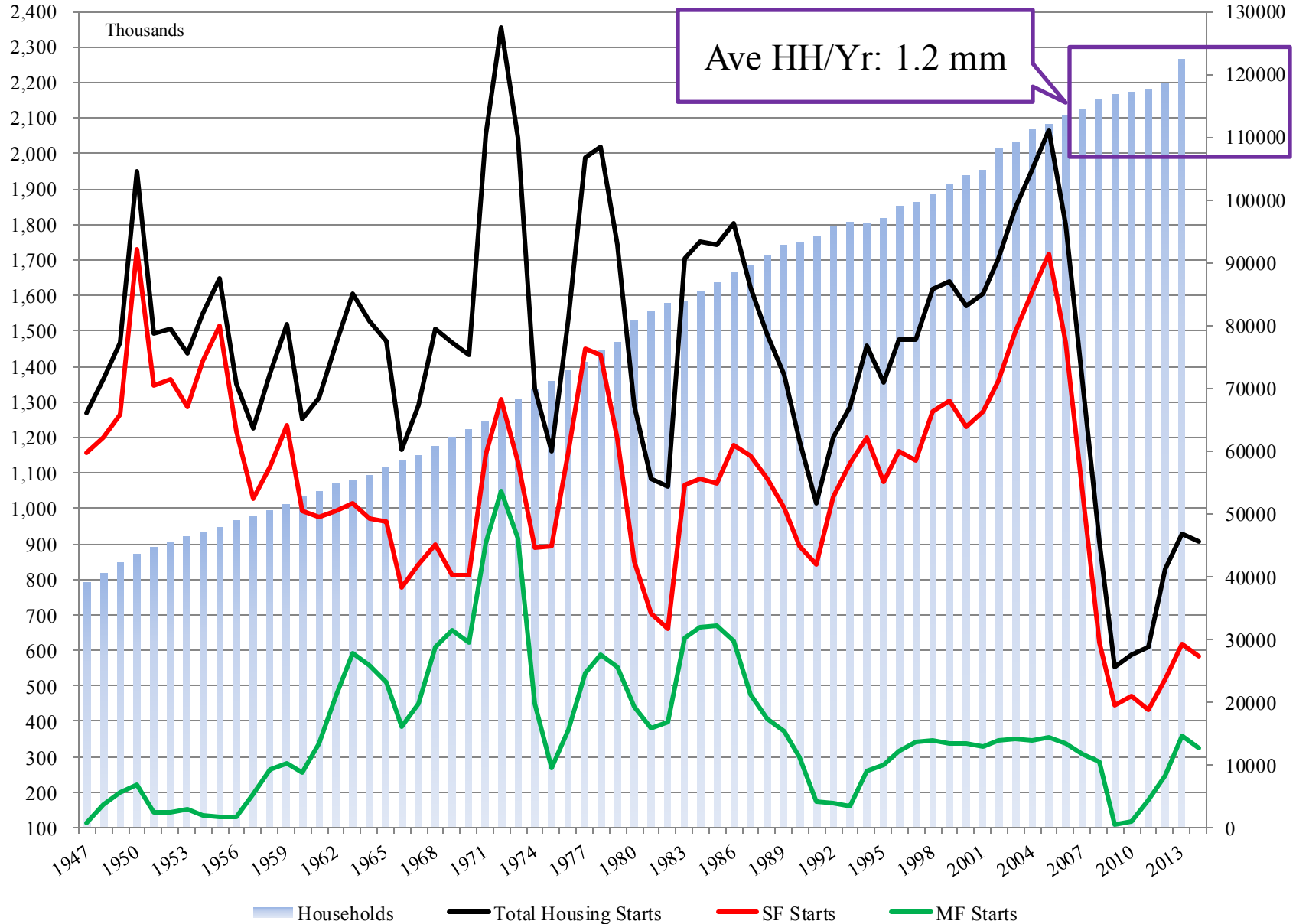
More of the homes being built are for multiple families

Single-family home construction remains moribund, while building activity for larger projects, most of them intended as rentals, has recovered strongly. Projects such as apartment buildings and blocks of rowhouses, now account for their highest proportion of overall homebuilding since the early 1980s.

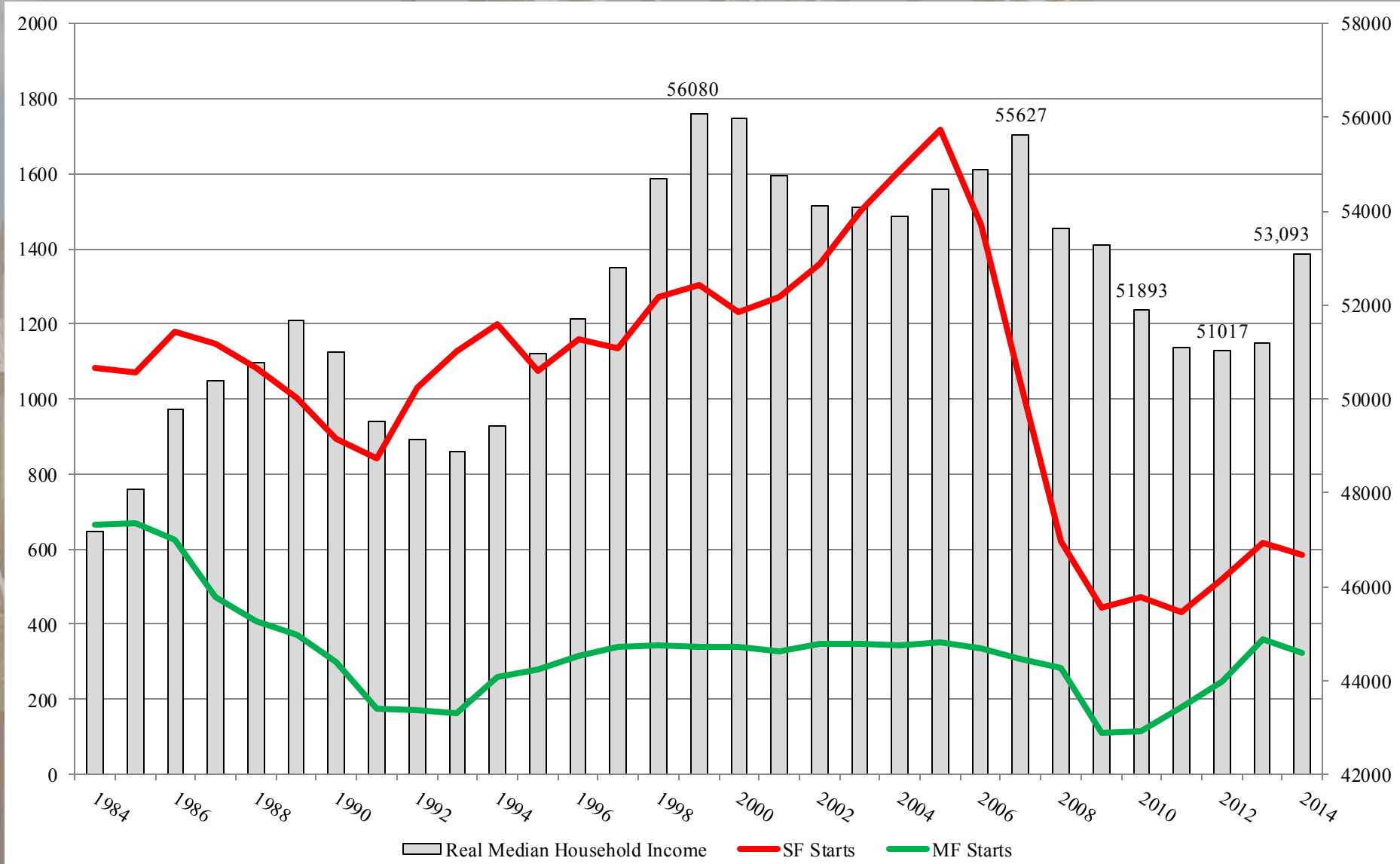


Source: Census Bureau

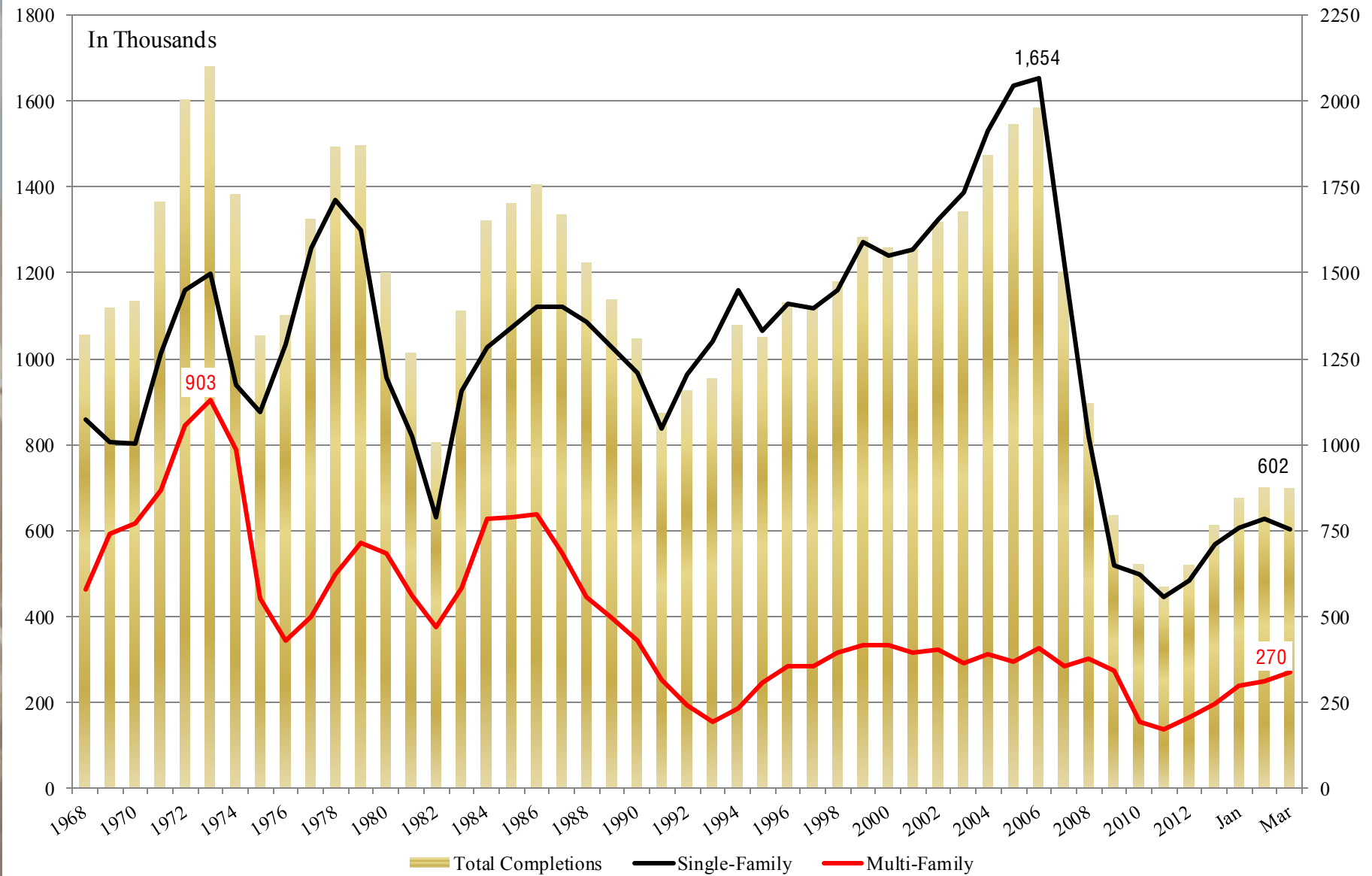
U.S. Households and Housing Starts



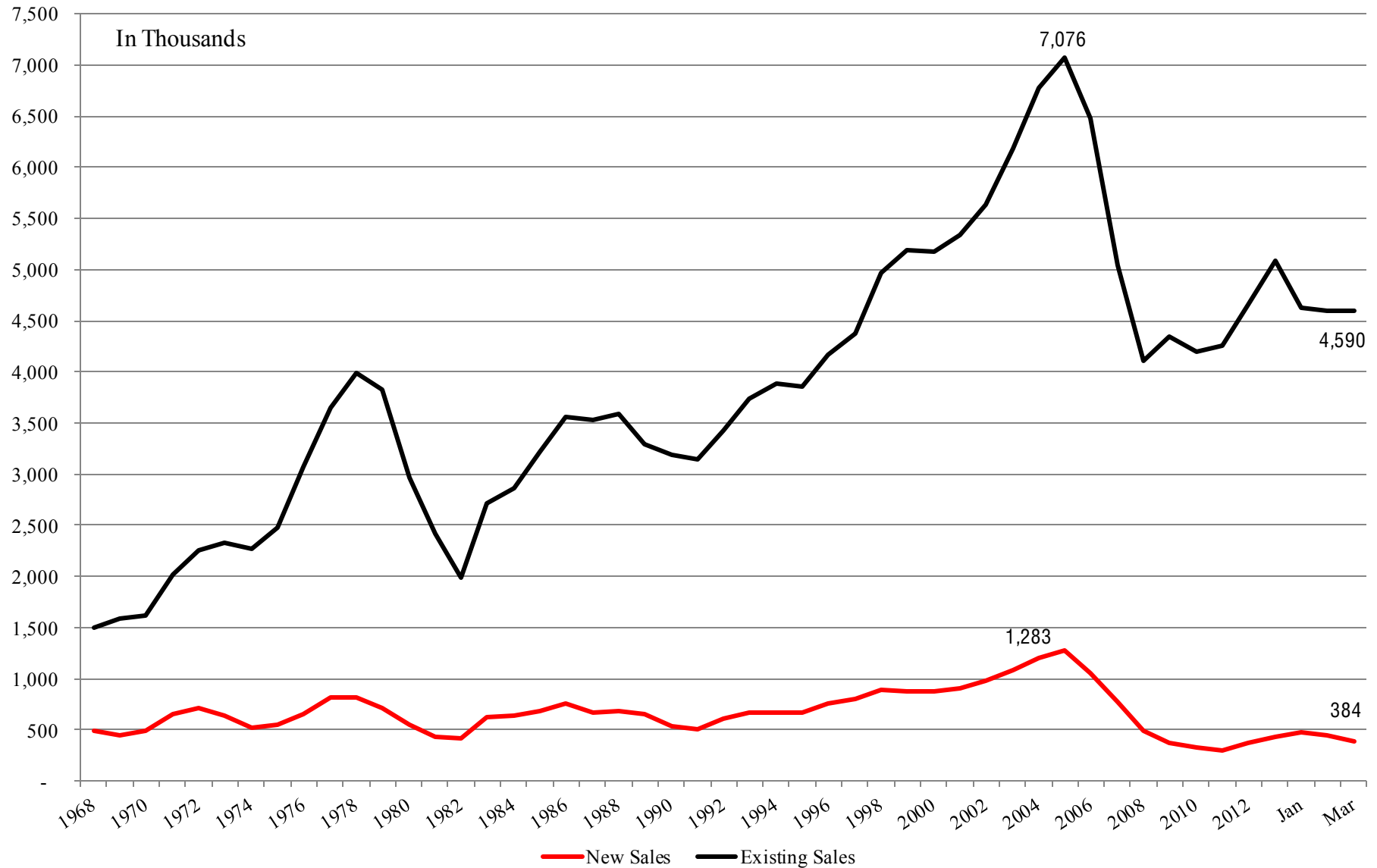
U.S. Housing: Income and Starts



United States Housing Completions

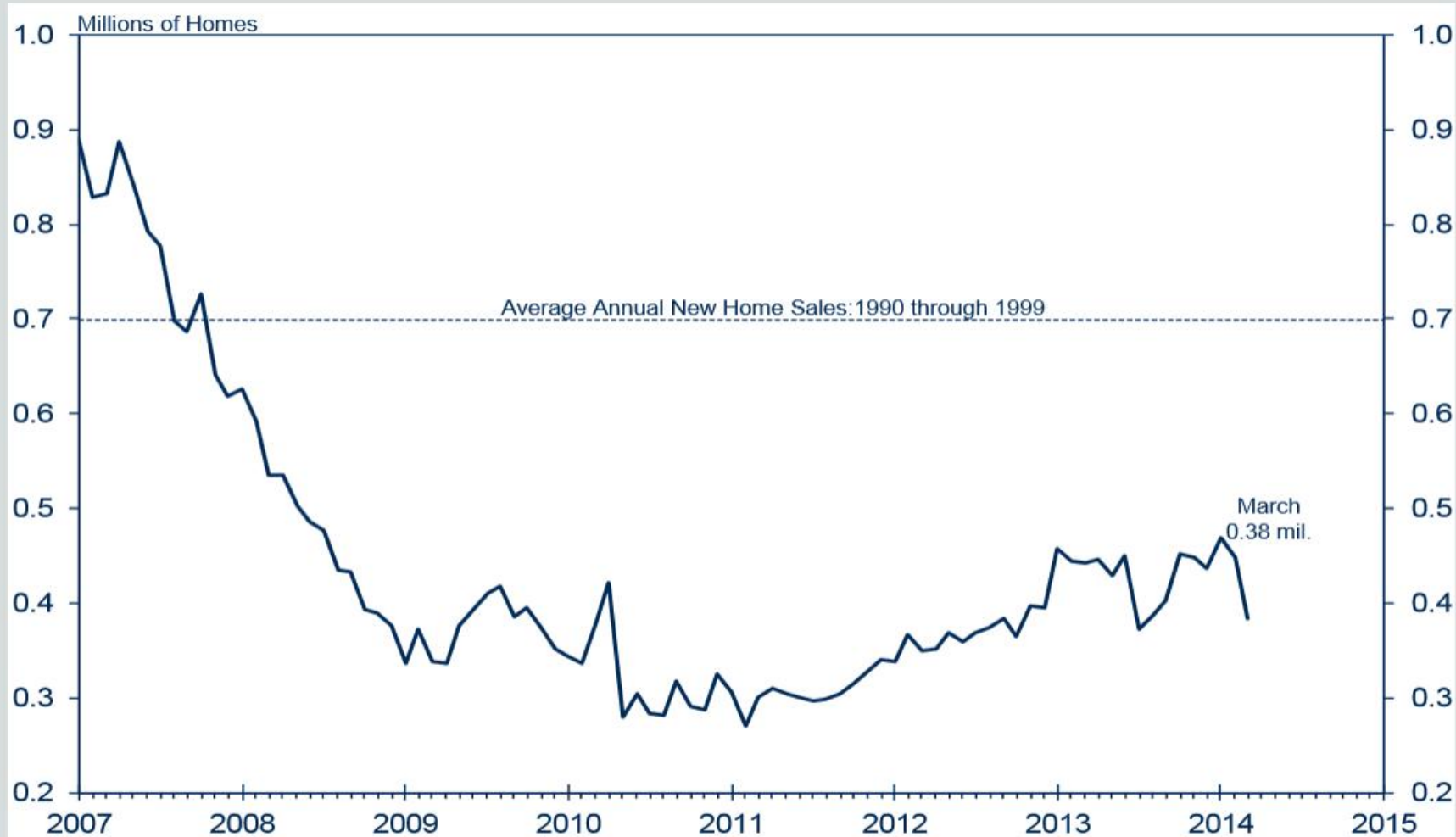


United States Housing Sales



United States Housing Sales

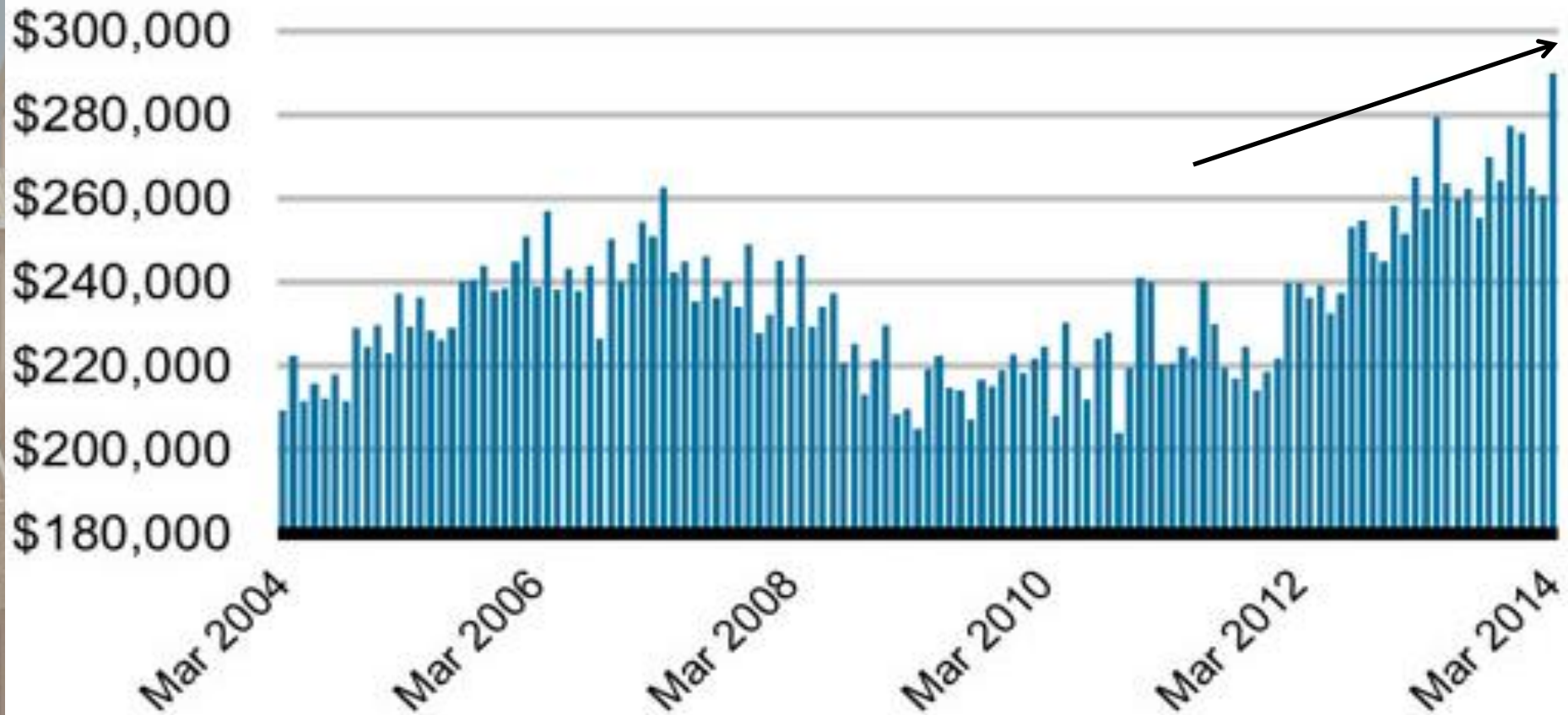
New Single-Family Home Sales



United States Housing

Pushing Prices

Median sales price of new homes sold

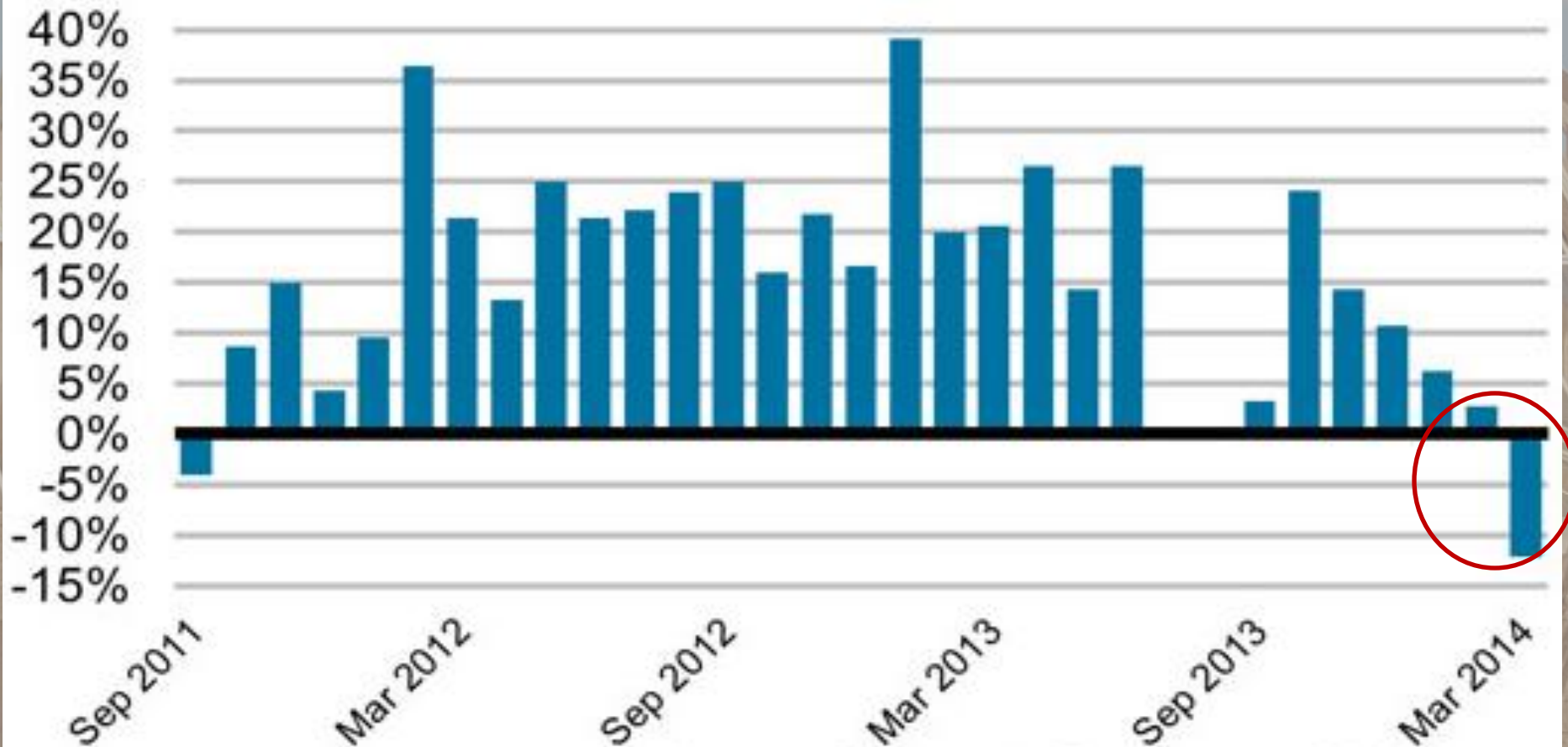


Source: Commerce Department | WSJ.com

United States Housing

Spring Swoon

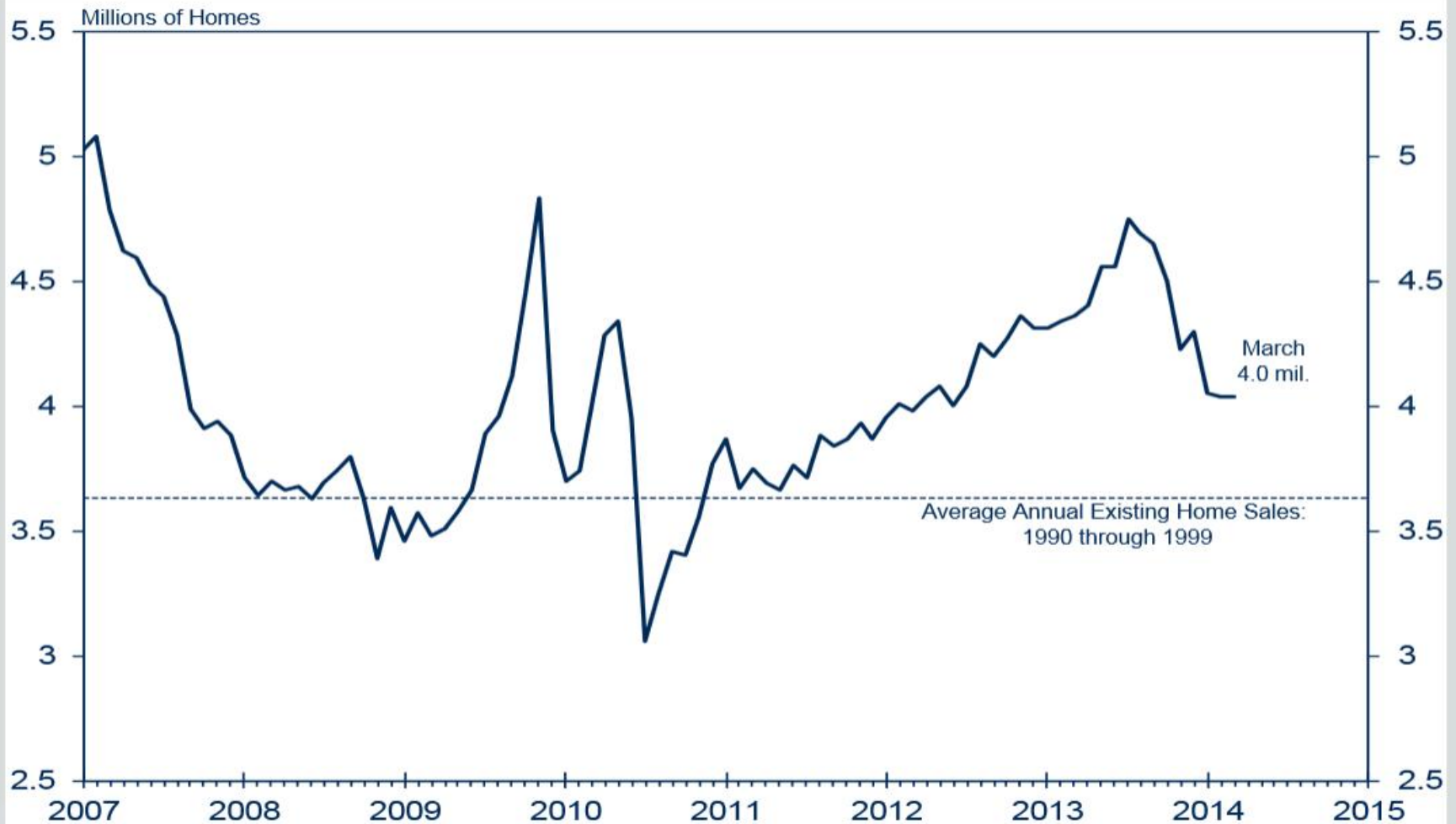
New homes sold, change from a year earlier



Source: Commerce Department | WSJ.com

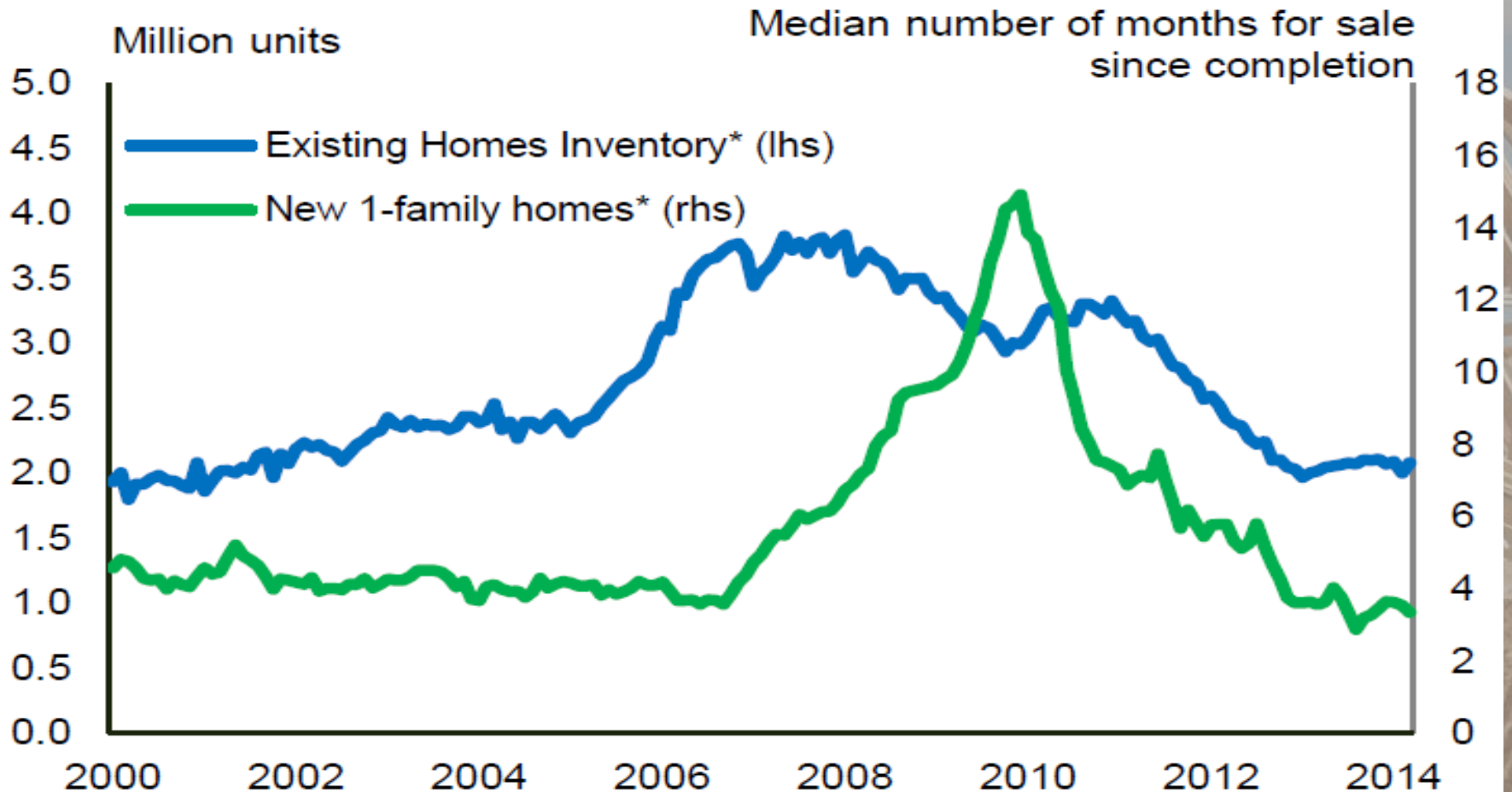
United States Housing Sales

Existing Single-Family Home Sales



United States Housing Market

HOUSING MARKET REMAINS TIGHT

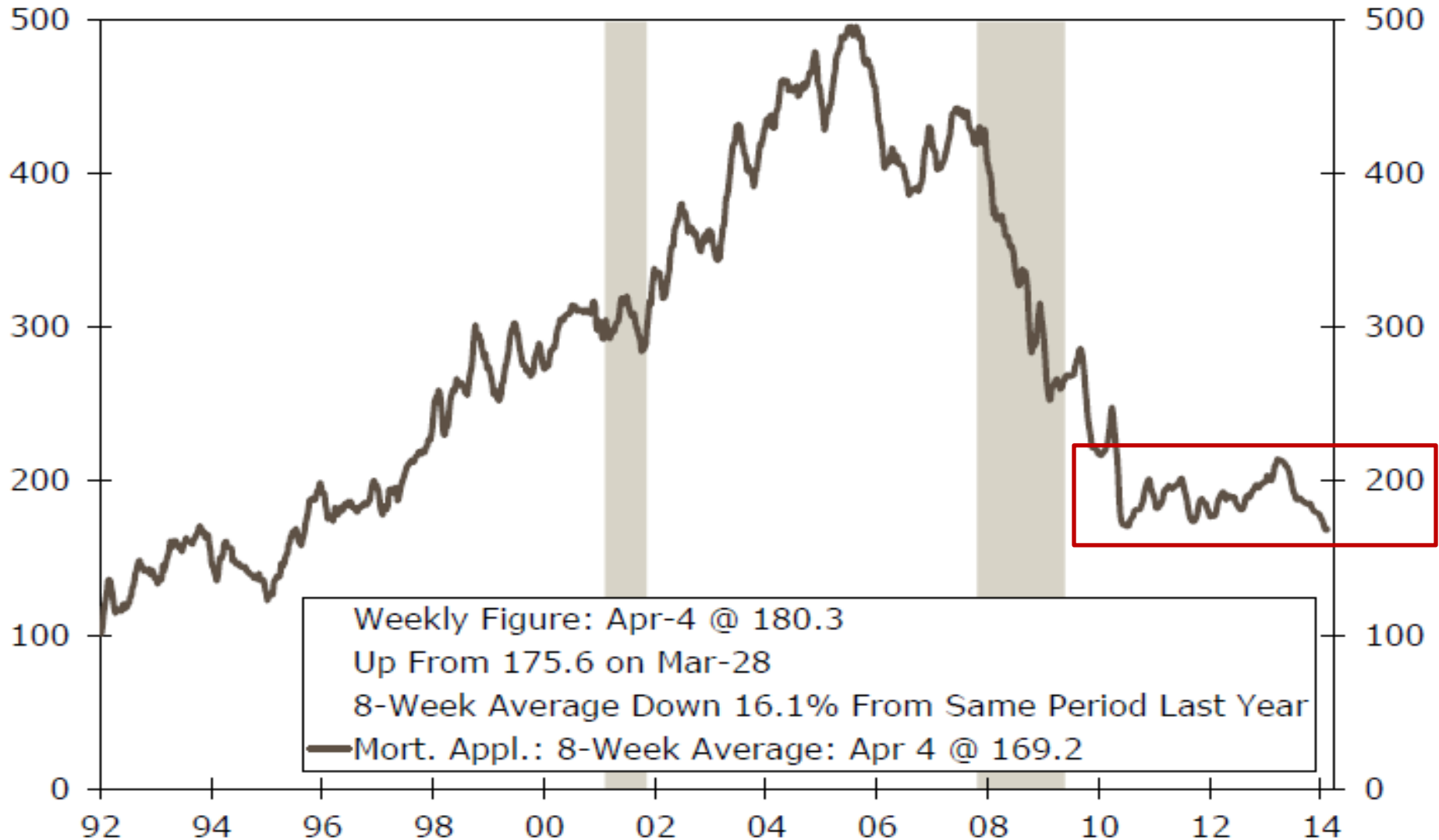


Source: U.S. DOC National Association of Realtors. *seasonally adjusted by TD Economics

United States Housing

Mortgage Applications for Purchase

Seasonally Adjusted Index, 1990=100

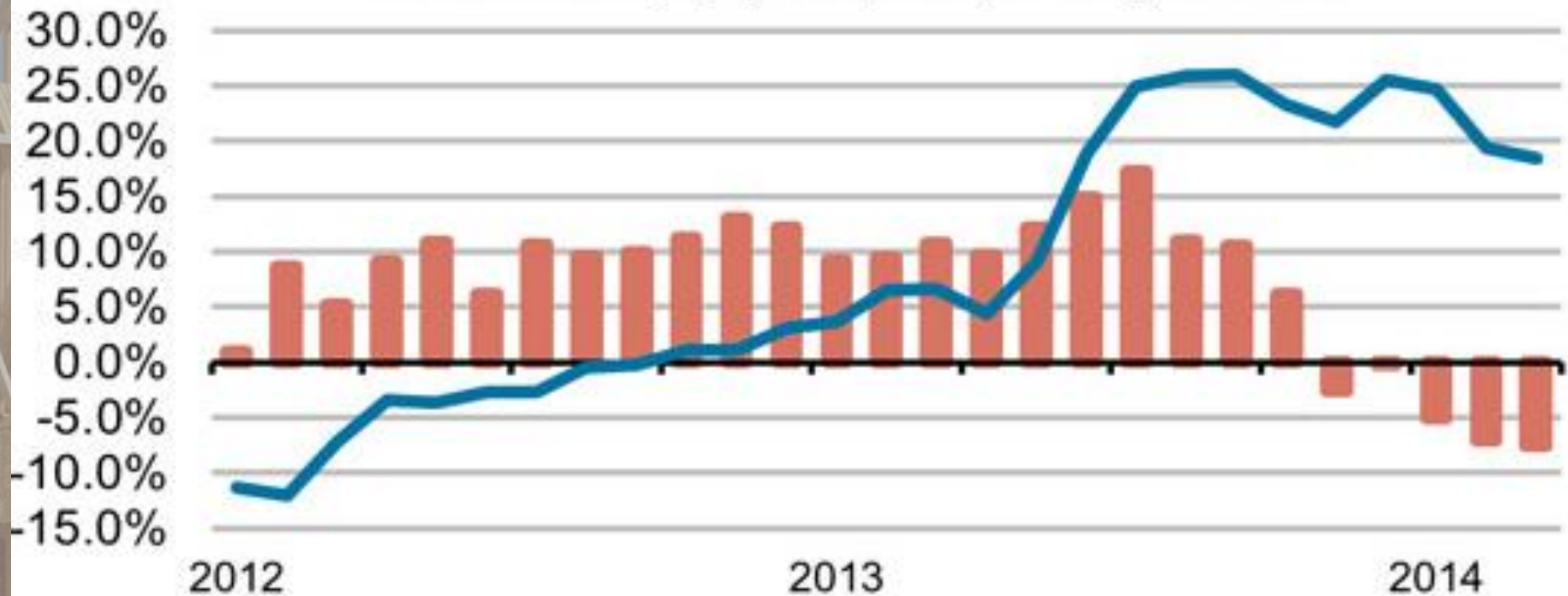


United States Housing

Payment Shock

Home sales slumped after mortgage rates rose

■ Home sales, change from year earlier
— Median monthly payment, change from year earlier*



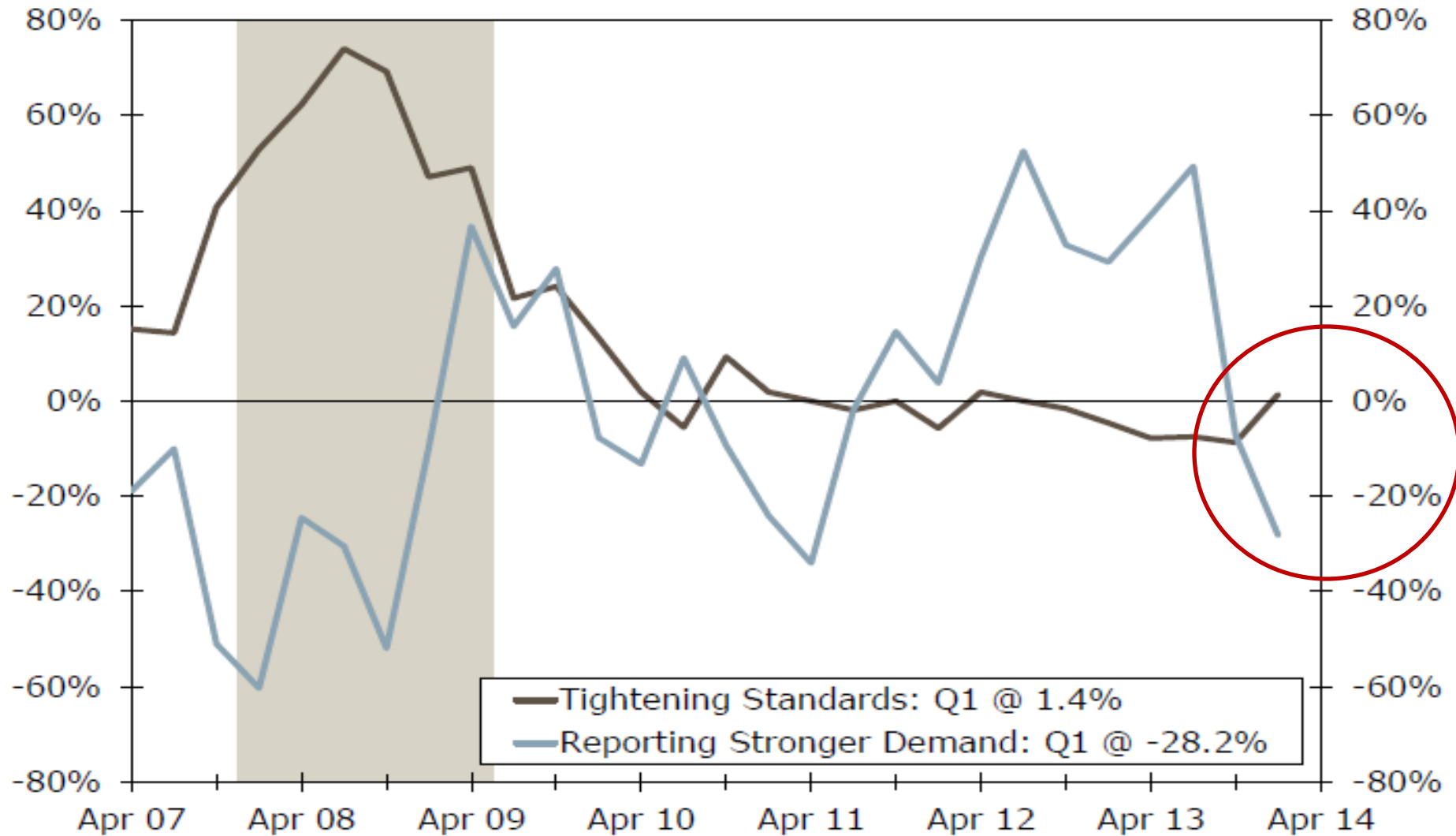
*Assumes 20% down payment on median priced home

Source: National Association of Realtors, Freddie Mac | WSJ.com

United States Housing

Residential Loan Standards and Demand

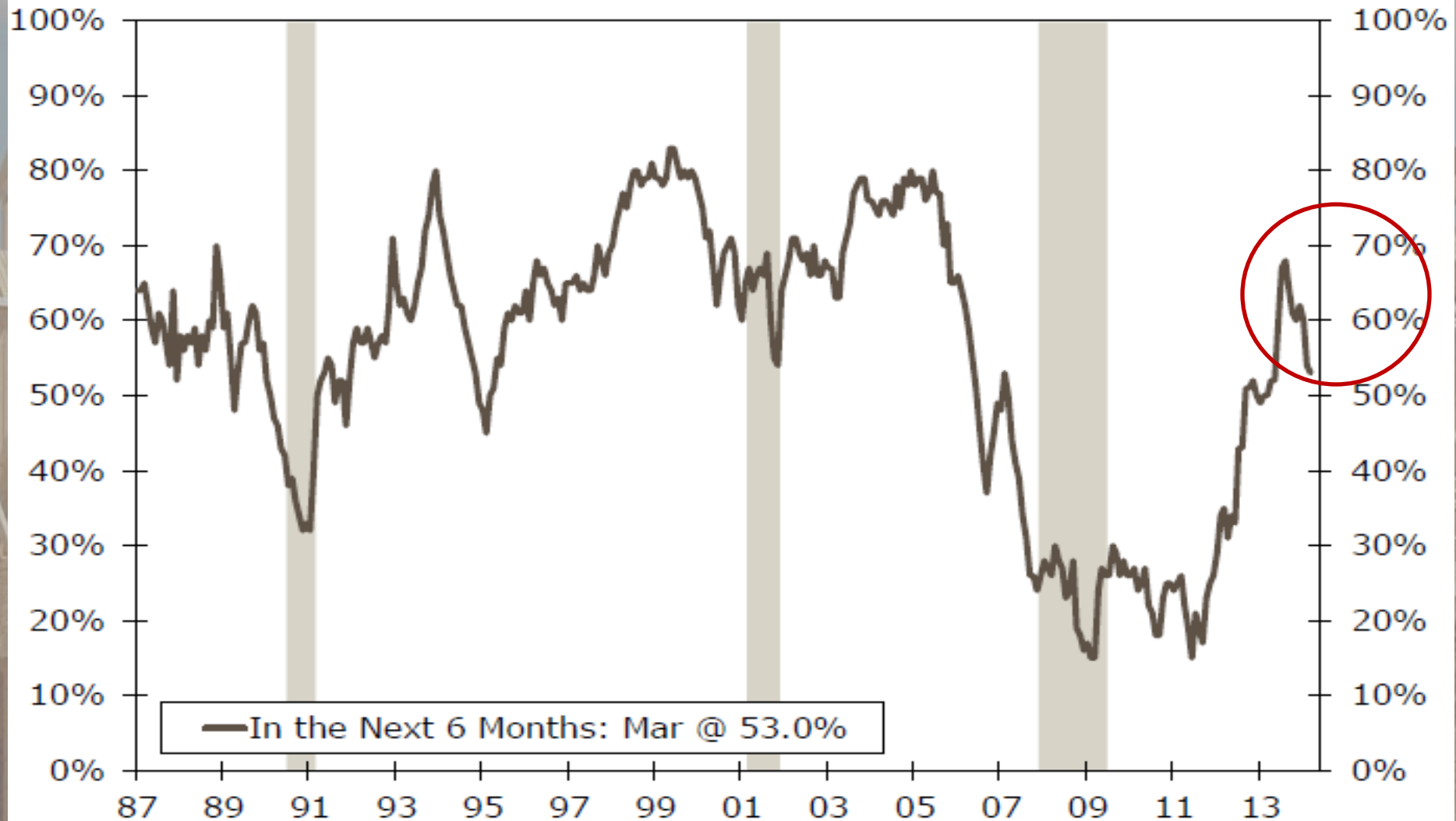
Prime Mortgages, Net Percent of Banks Reporting Change



United States Housing

Expected Single-Family Home Sales

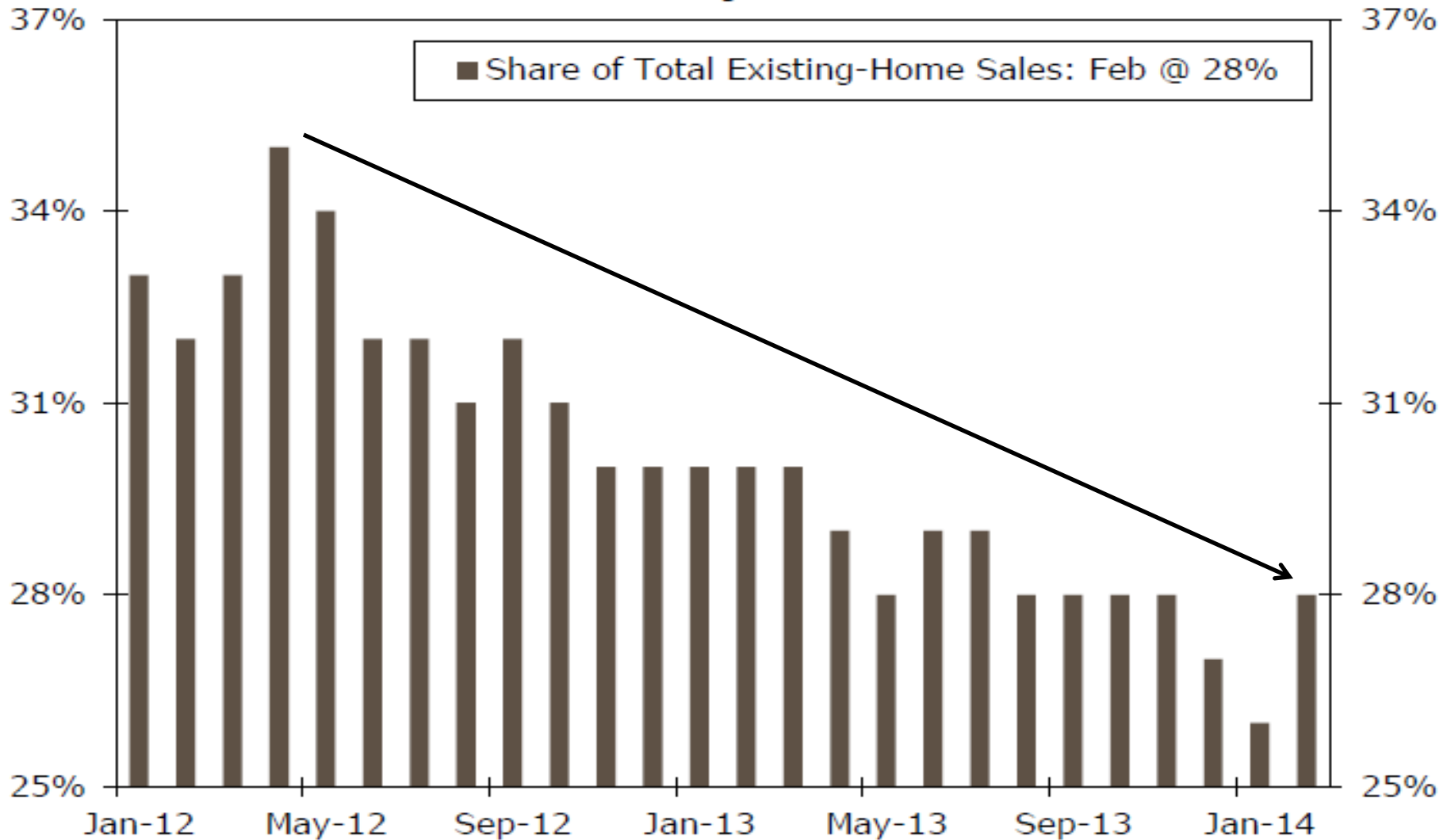
Percent, NAHB Housing Market Index



United States Housing

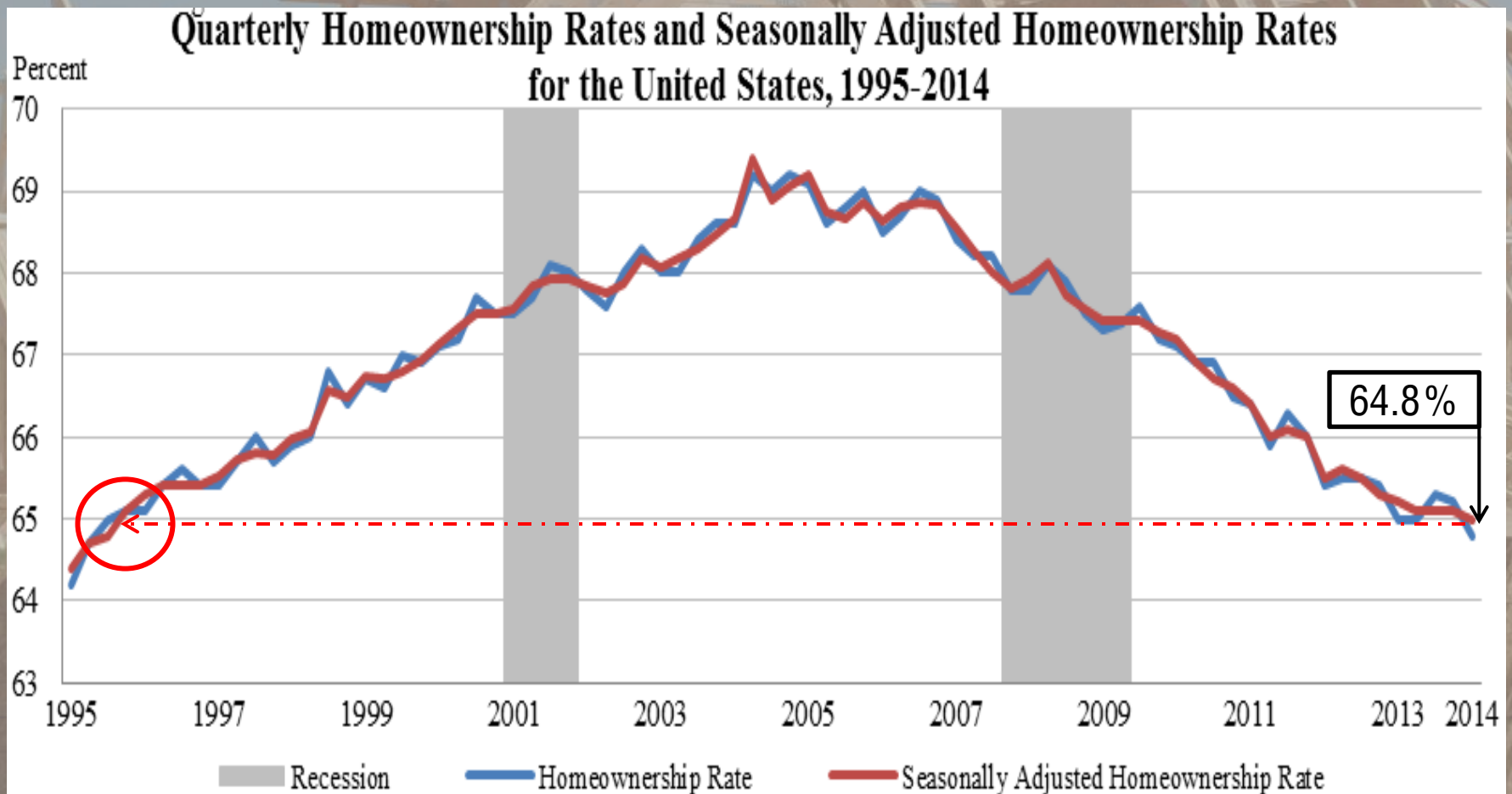
First-Time Home Buyers

Share of Existing-Home Sales



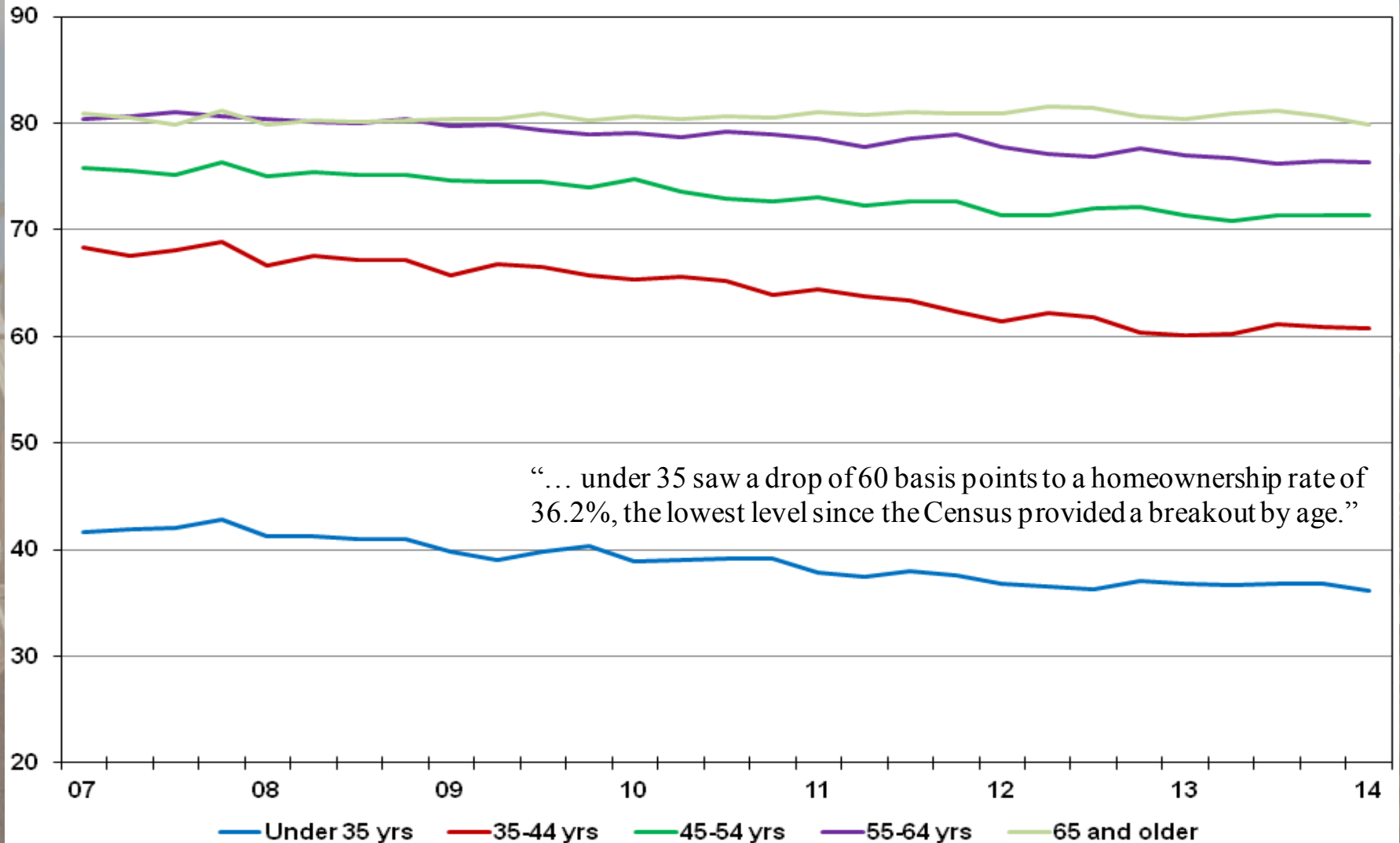
United States Housing

Home ownership rate: 64.8% was 0.2% less than the first quarter 2013 rate (65.0%)



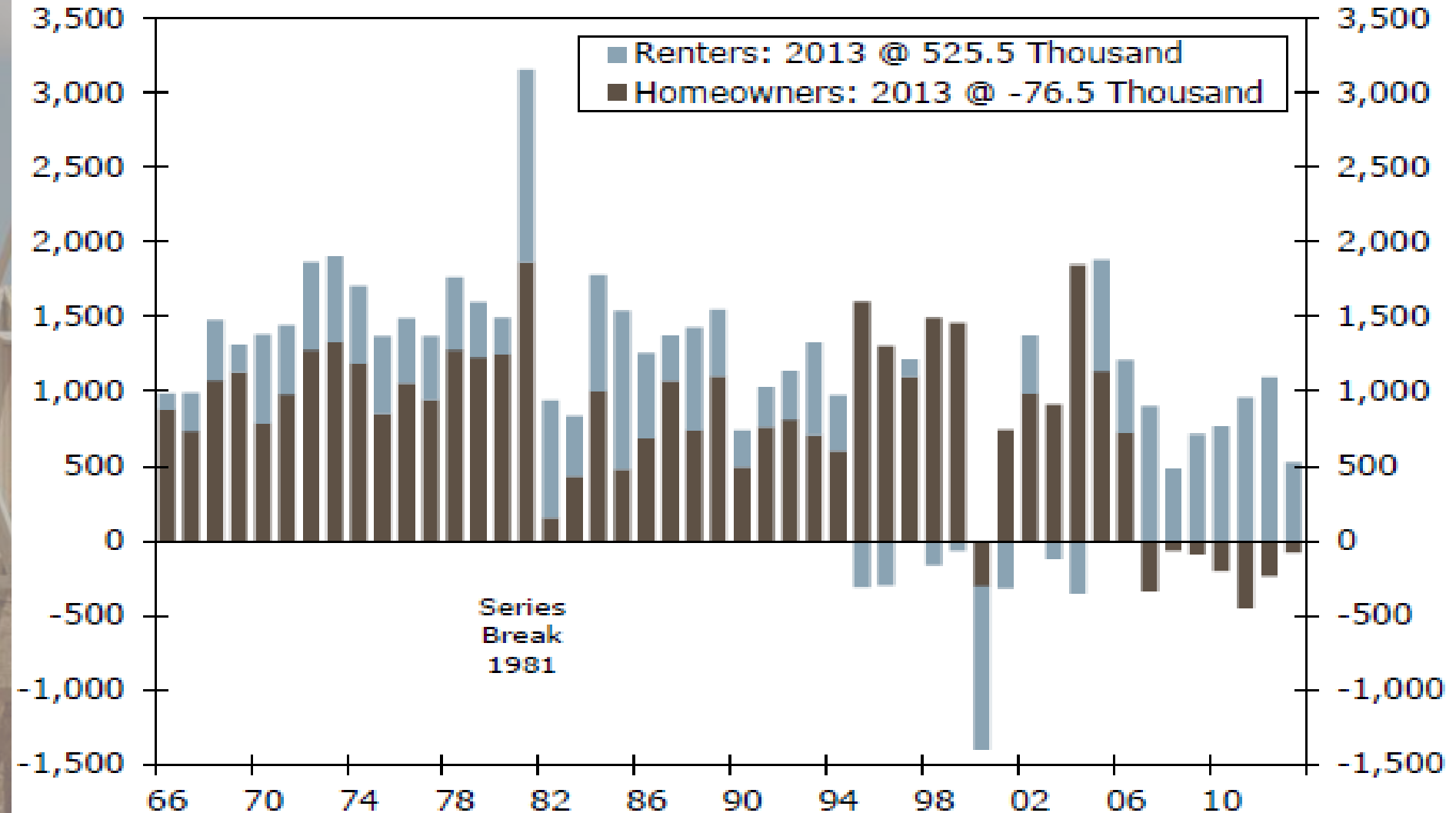
United States Housing

Homeownership Rate by Householder Age Group



United States Home Owners vs. Renters

Annual Change in Occupied Units, In Thousands



Source: U.S. DOC and Wells Fargo Securities, LLC

Source: <https://wellsfargo.mworld.com/econ/alerts.asp>; 4/8/14

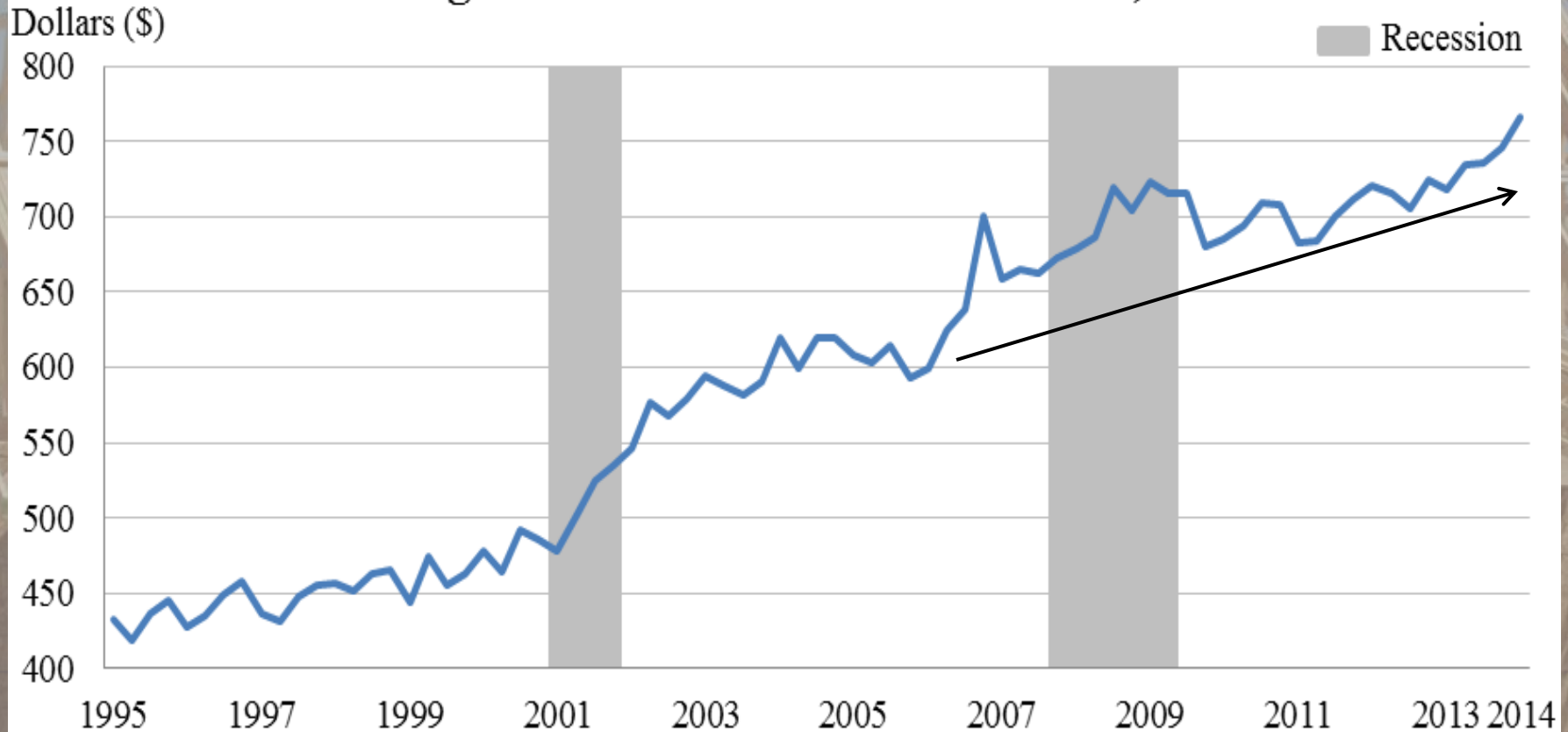
[Return TOC](#)

United States Housing

First quarter 2014:

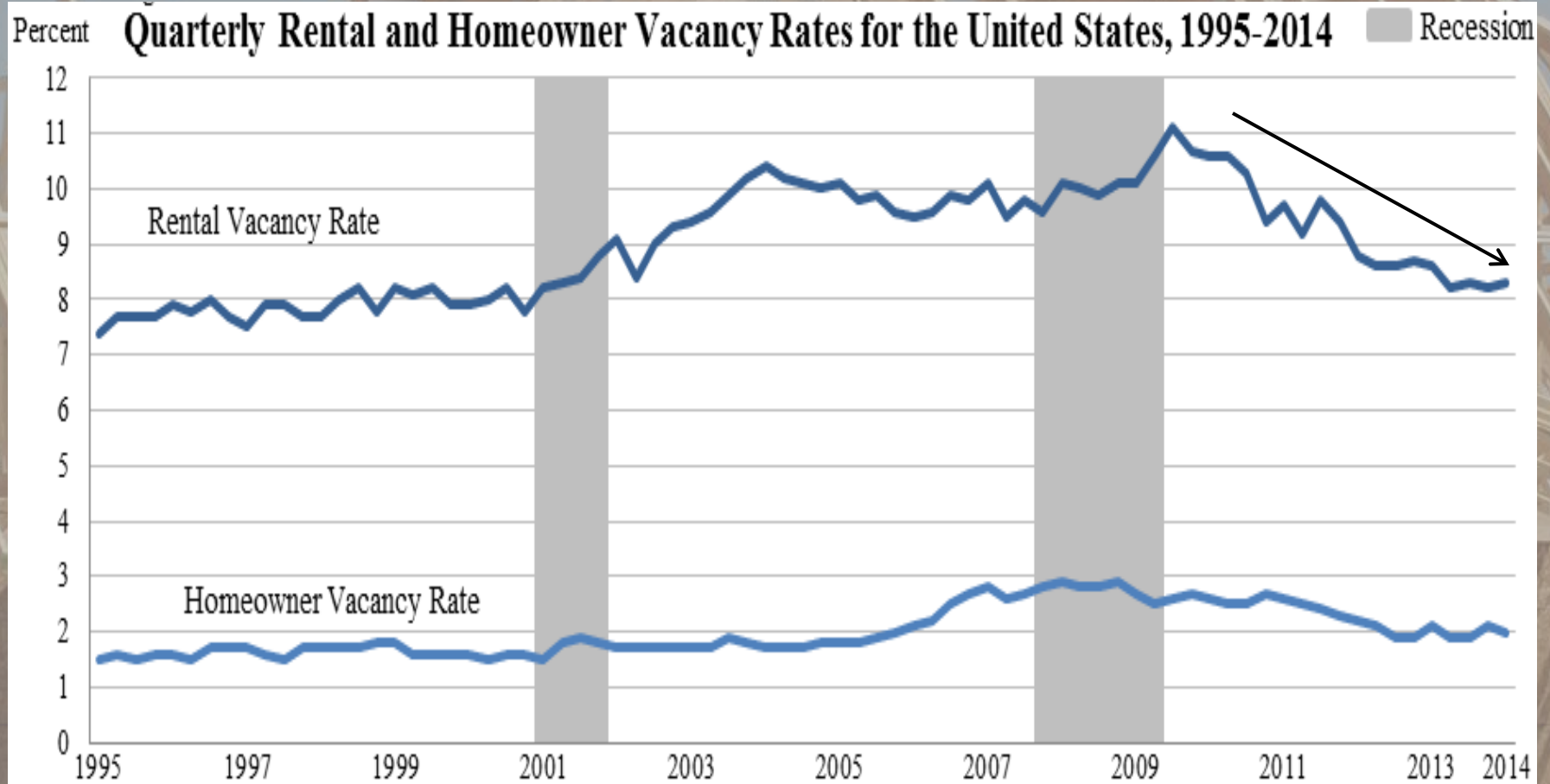
median asking rent of vacant for rent units → \$766

Median Asking Rent for Vacant for Rent Units, 1995-2014

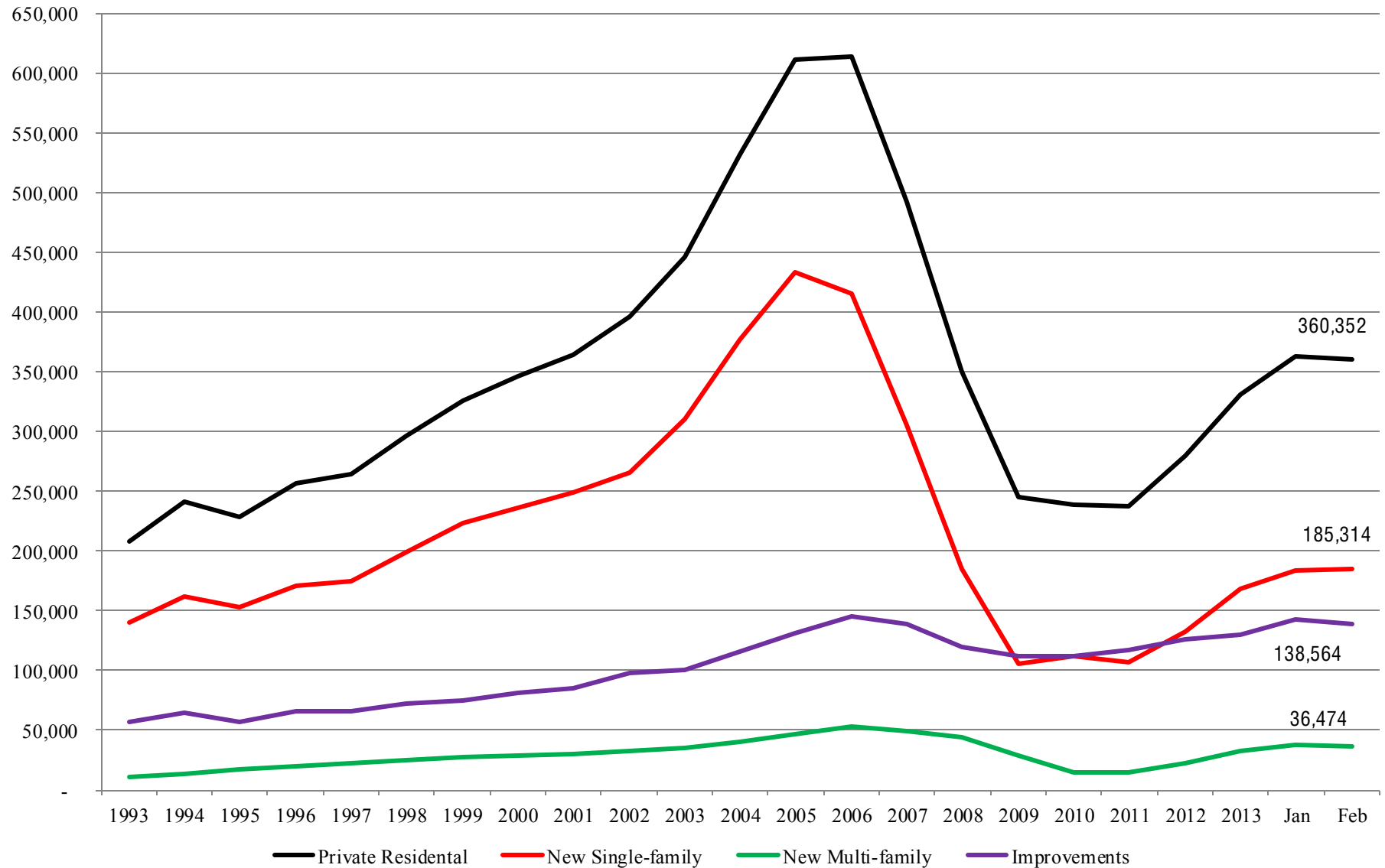


United States Housing

Rental vacancy rate: 8.3% was 0.3% less than the first quarter 2013 rate (8.6%)



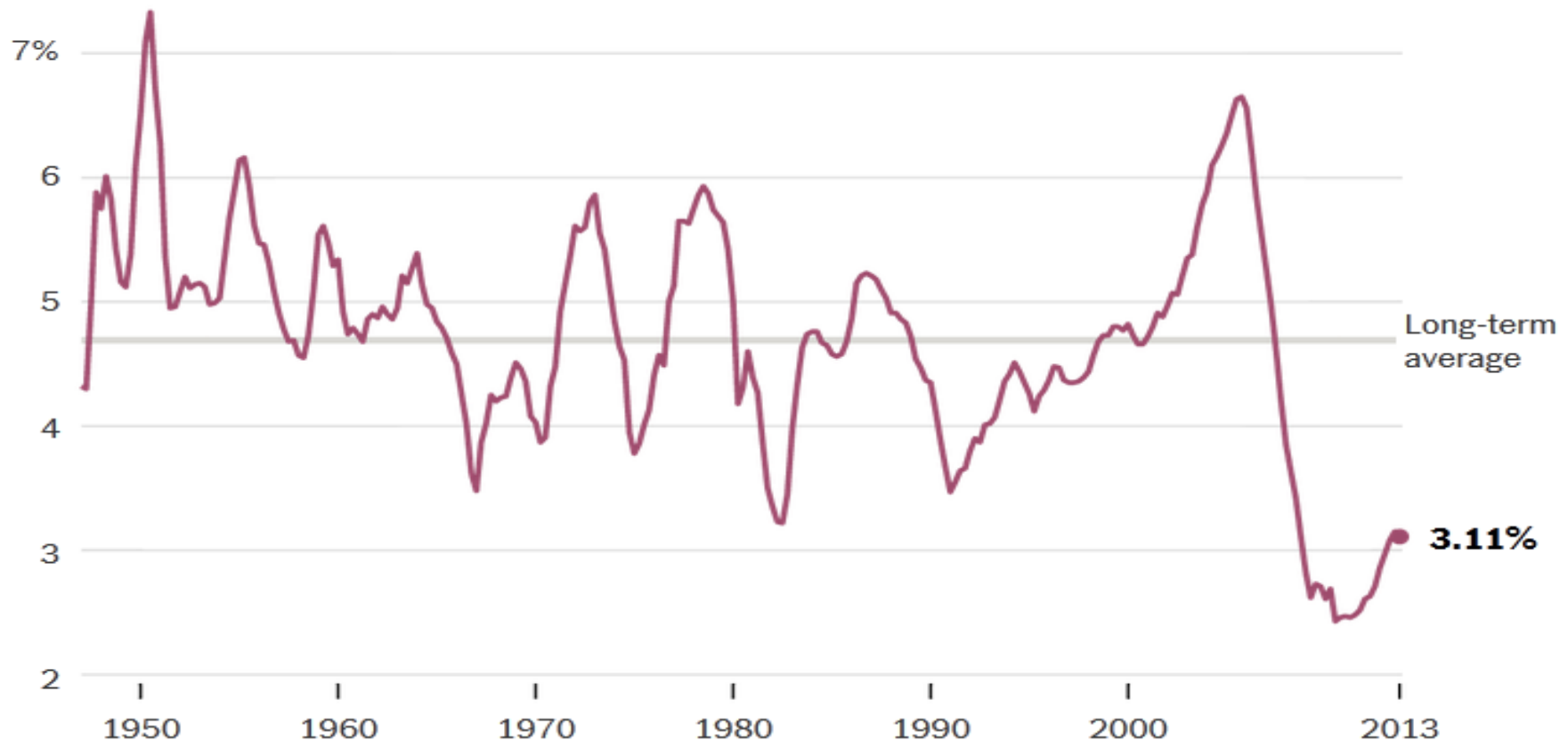
United States Construction Spending



United States: Housing and GDP

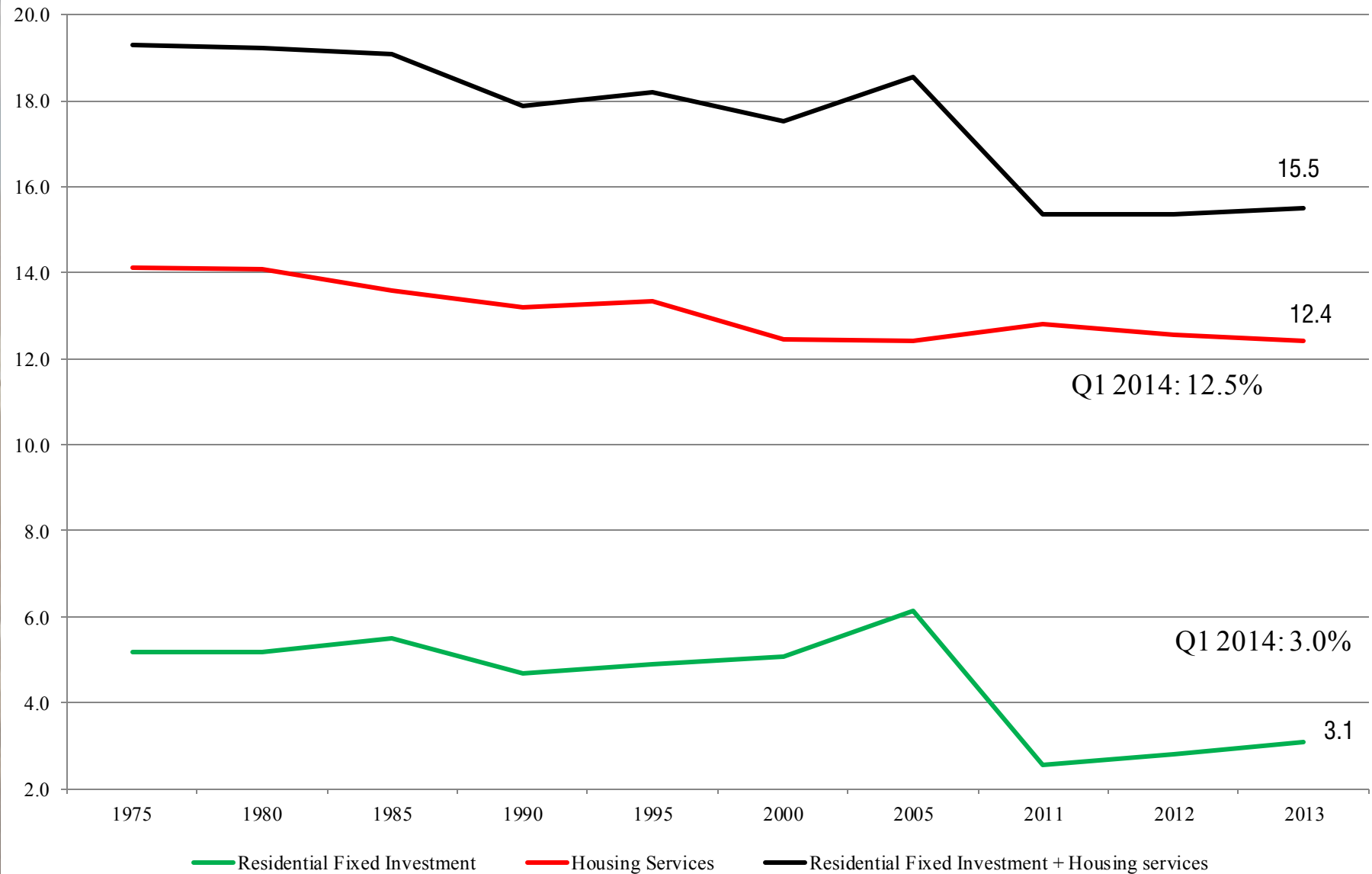
Residential Investment as a Share of the Economy

Despite an uptick the last two years, housing activity remains a smaller share of GDP than it was in even the worst of the post-World War II era recessions.



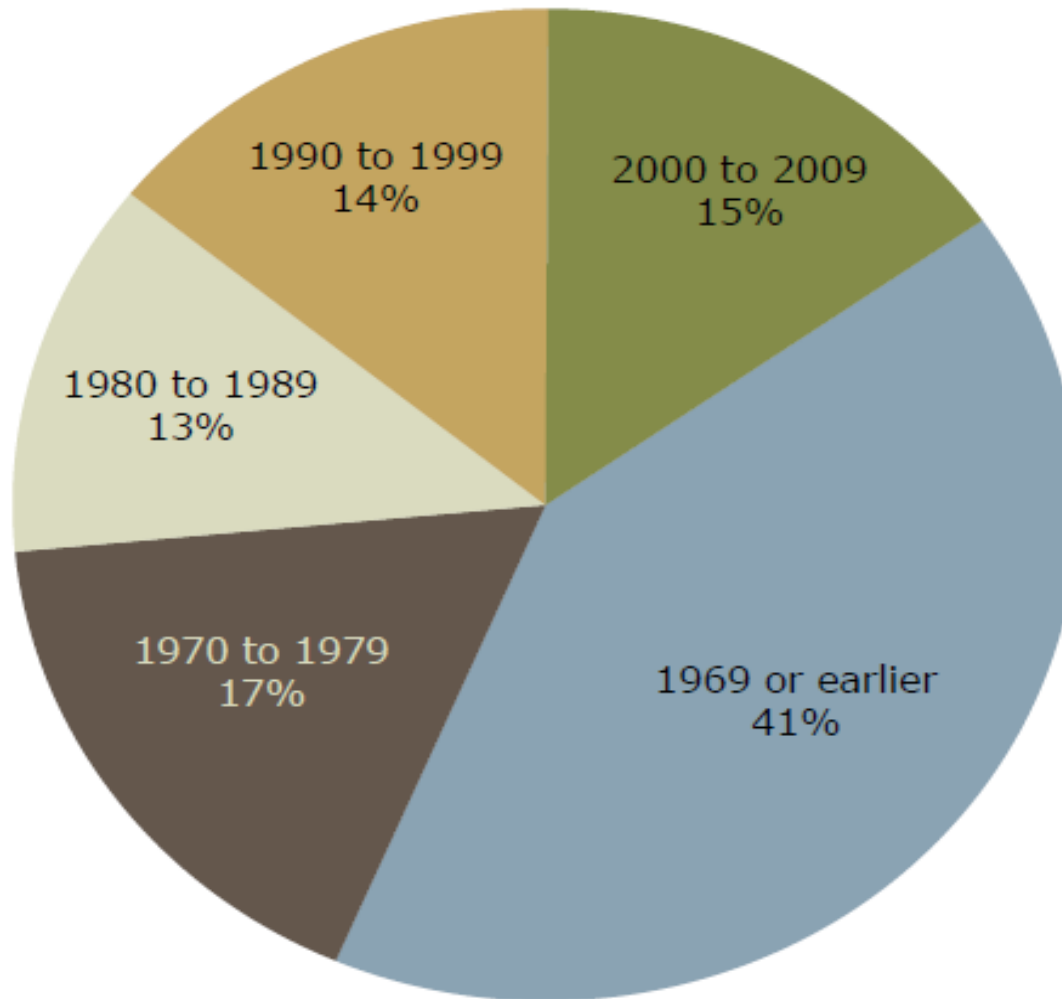
Source: Bureau of Economic Analysis

United States: Housing and GDP



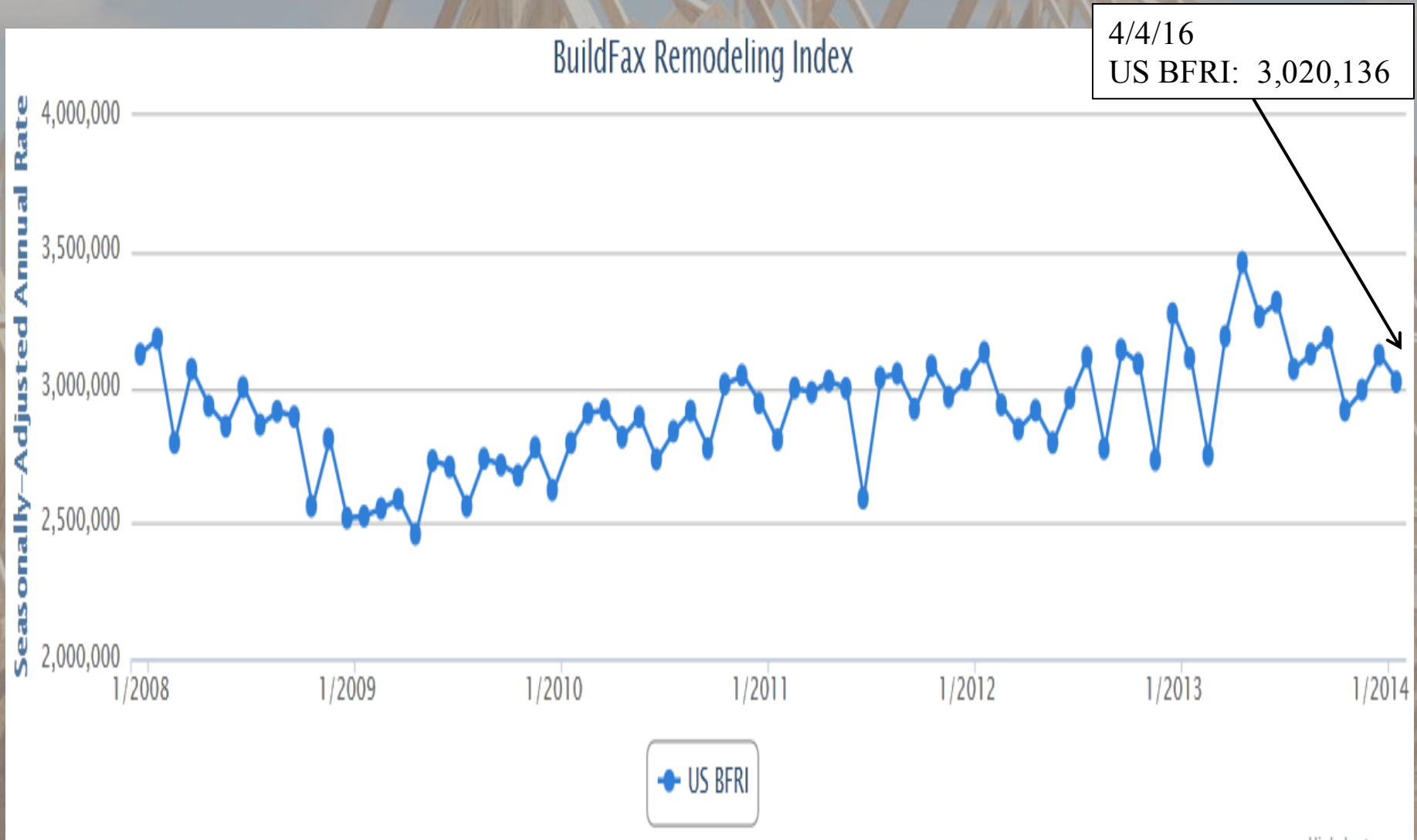
United States Construction Spending

Share of Owner-Occupied Housing
Year Structure Built - 2011



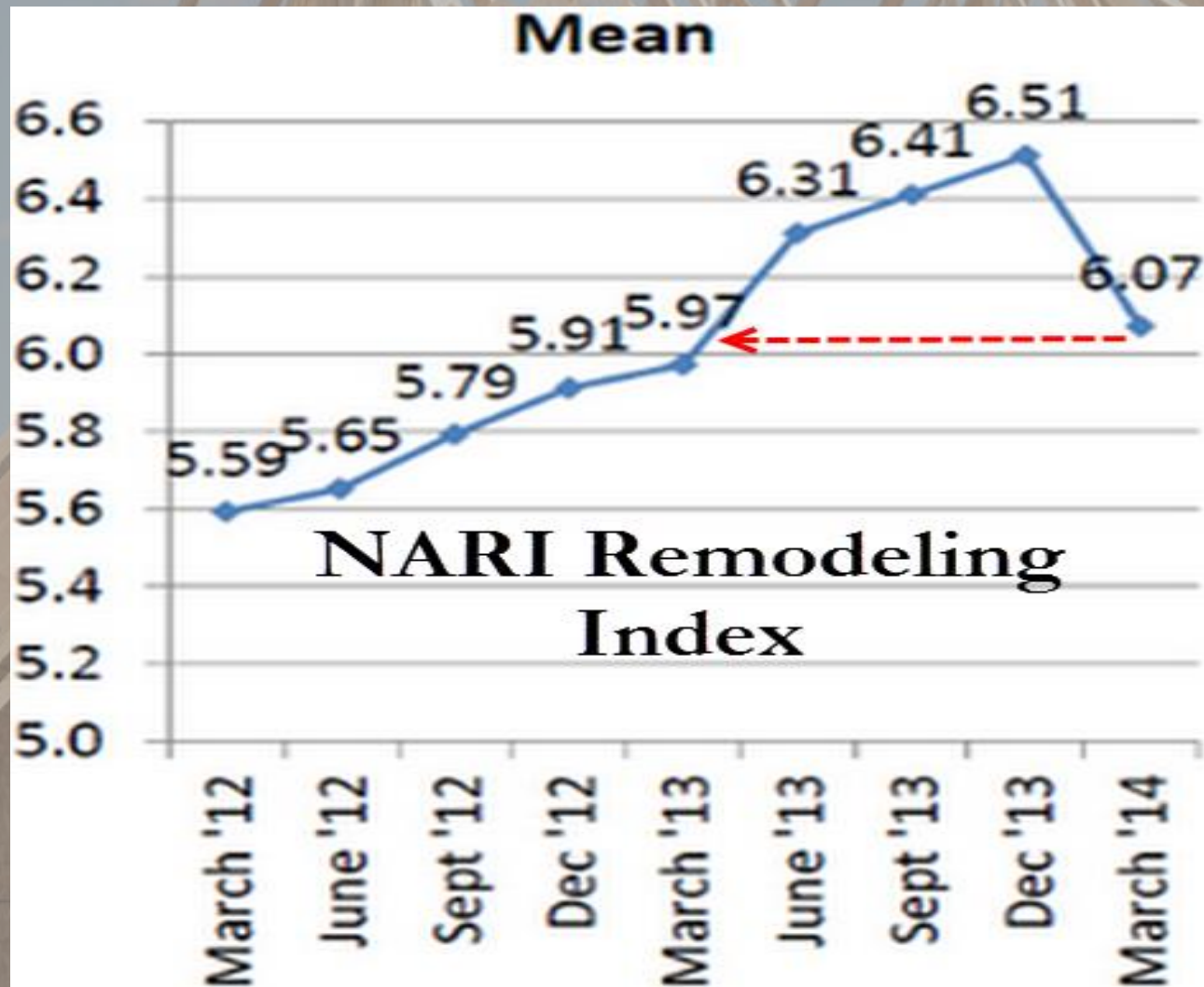
United States Remodeling

BuildFax February 2014 Remodeling Index



United States Remodeling

National Association of the Remodeling Industry
First-quarter 2014 Remodeling Business Pulse Index

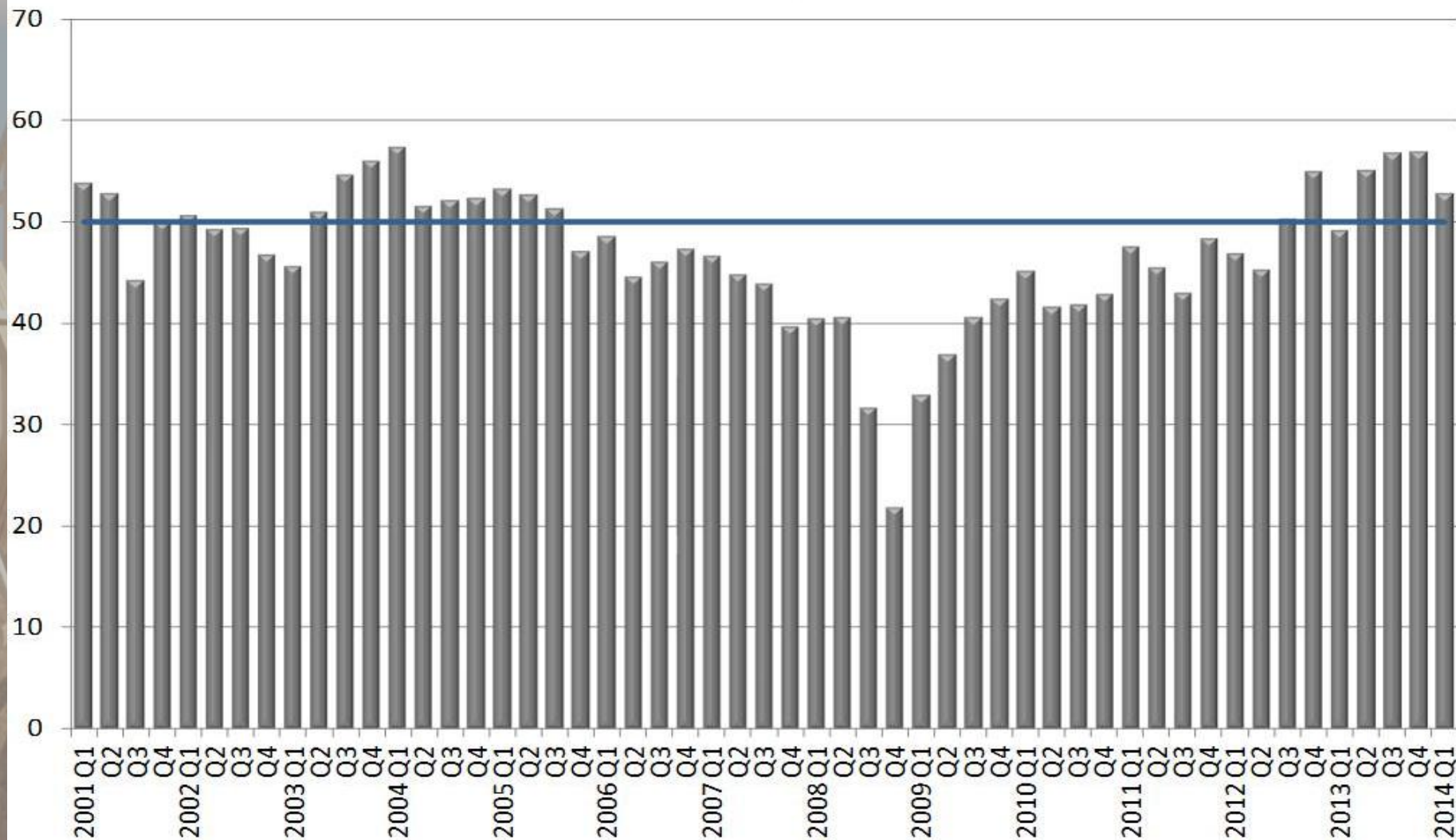


United States Remodeling



Remodeling Market Index (RMI)

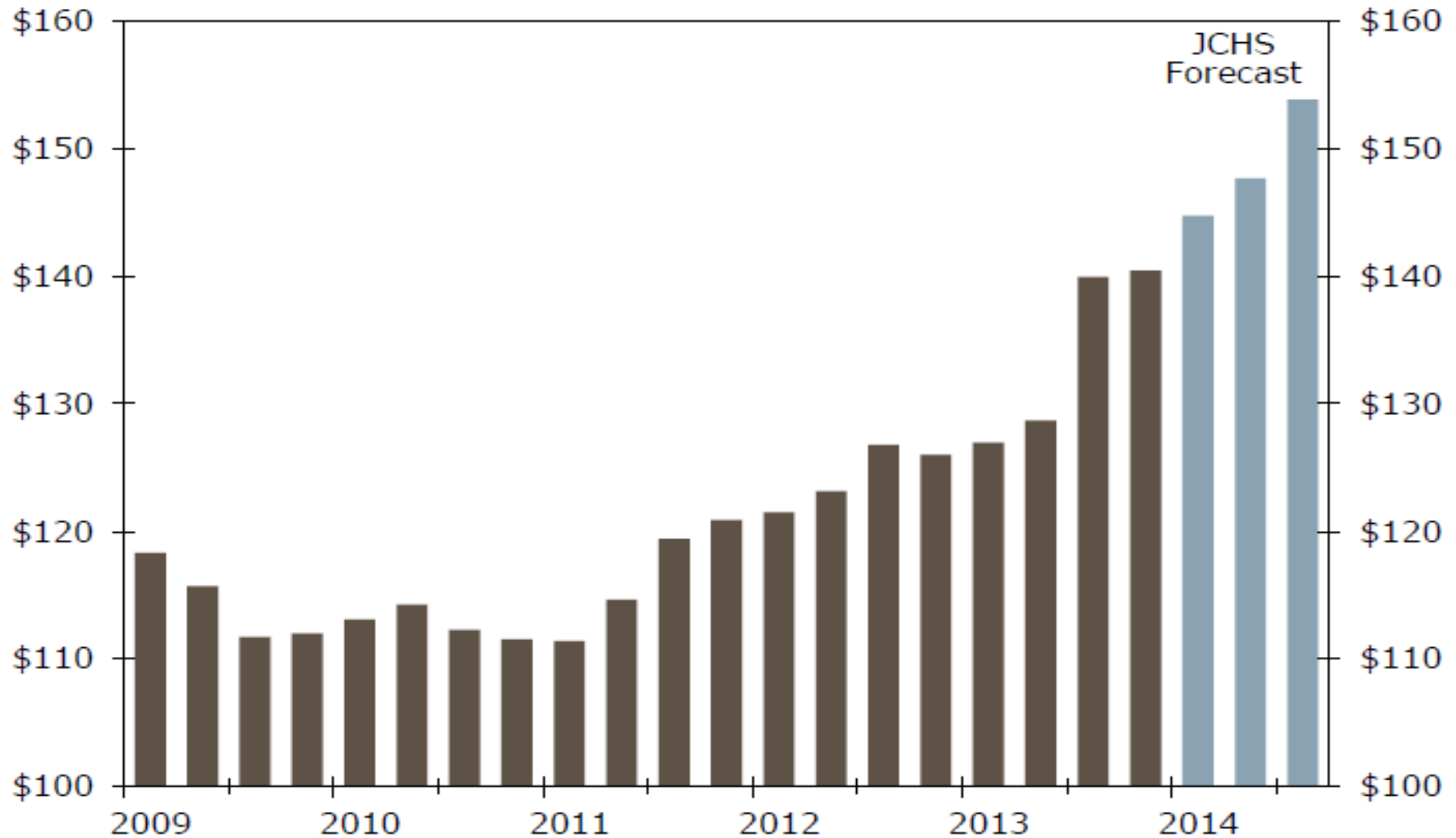
Overall RMI



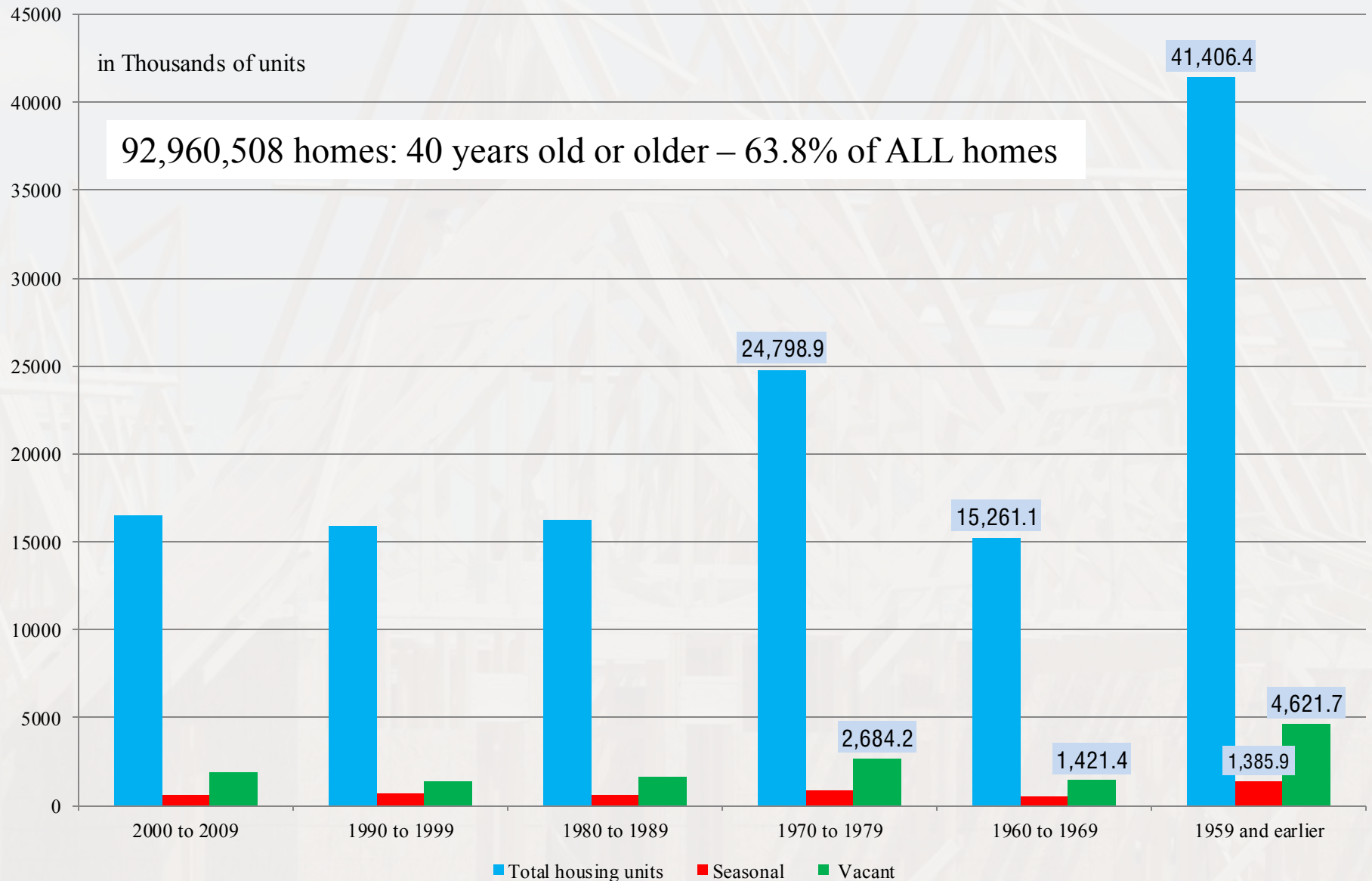
United States Remodeling

Leading Indicator of Remodeling Activity

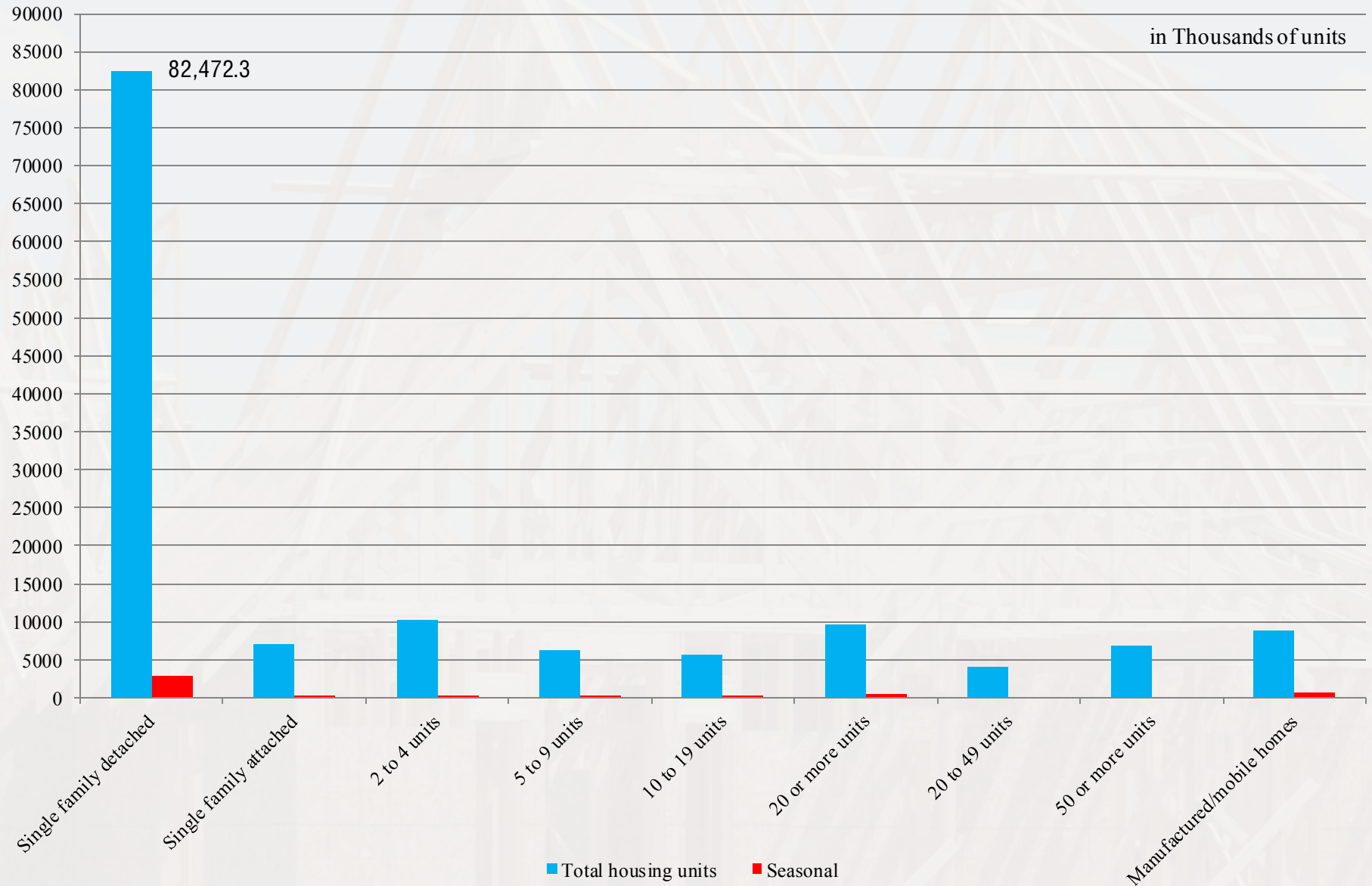
In Billions, 4-Q Moving Total, Harvard Joint Center for Housing Studies



United States Remodeling – Opportunity?

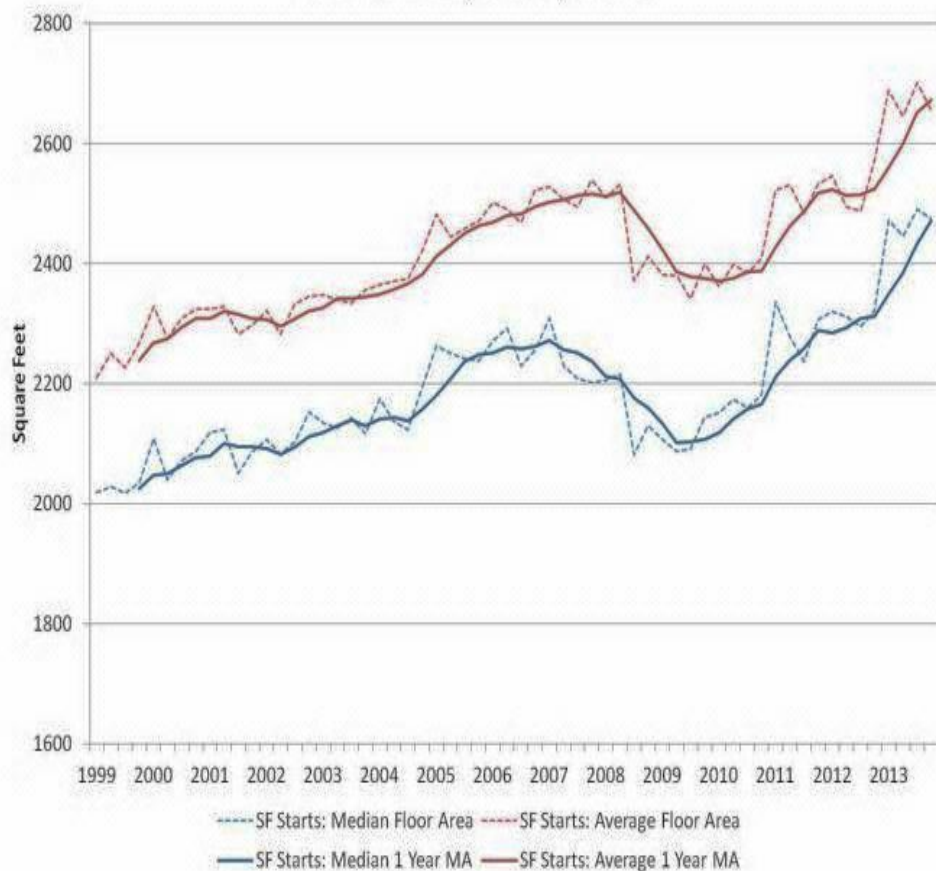


United States Remodeling – Opportunity?

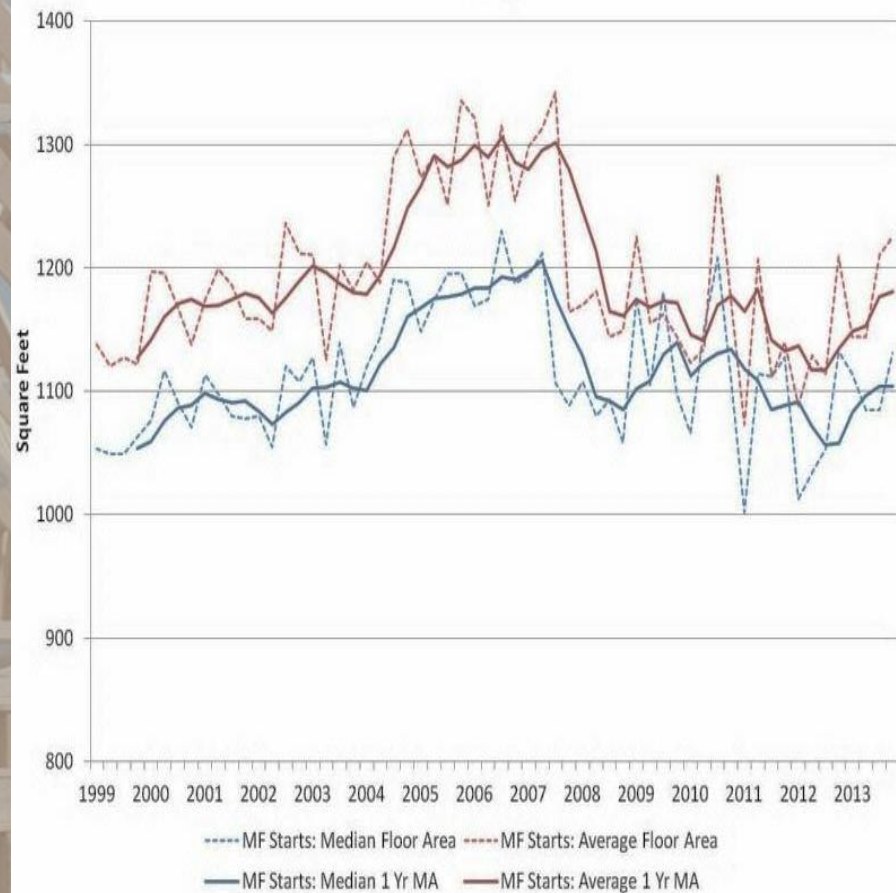


United State Housing Size

Size of New Single-Family Homes



MF Starts: Average Size



United States Mortgages

Average Price (in 000s) of New Homes Purchased with Conventional Mortgages

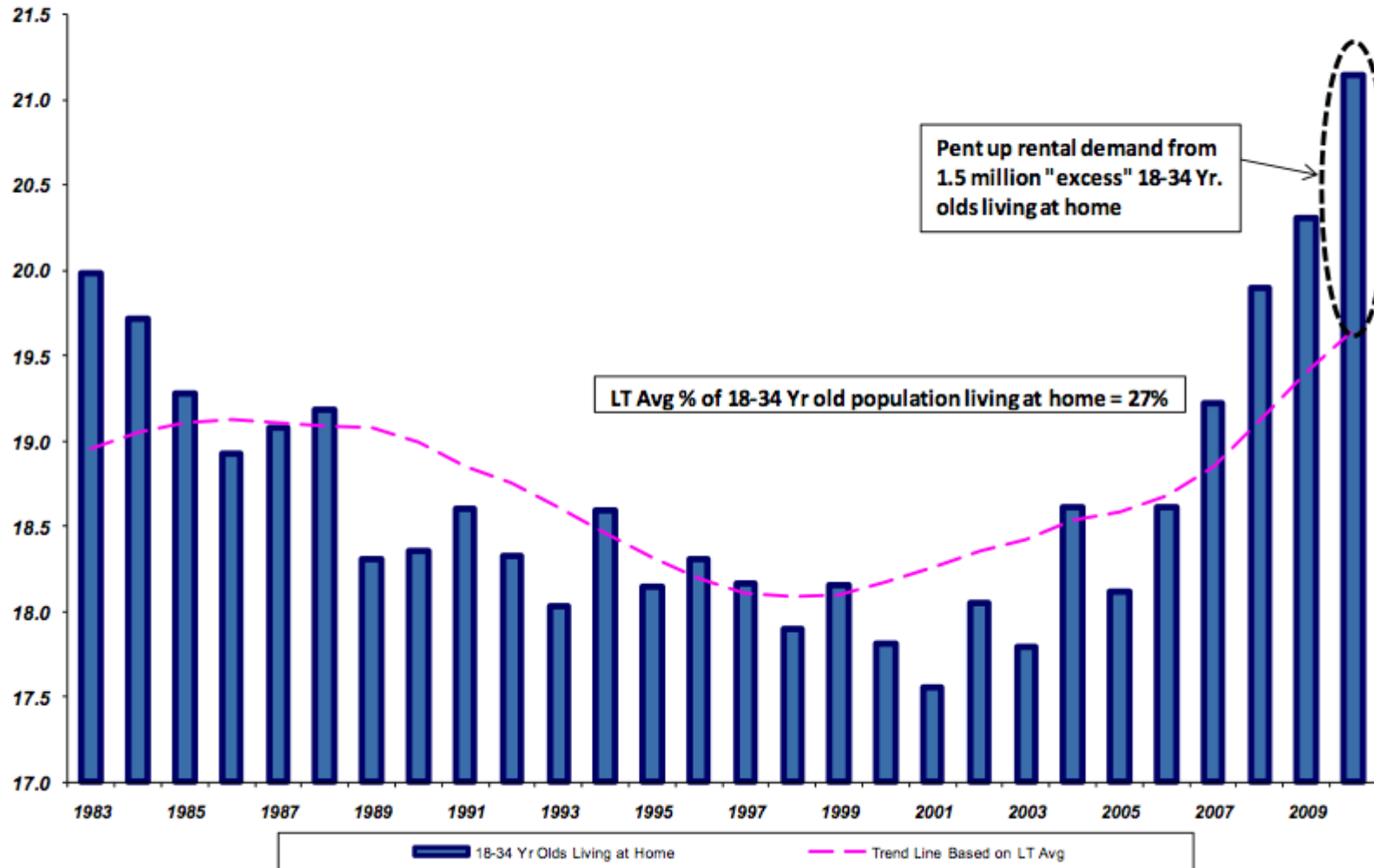


Future U.S. Housing Demand

Deferred Renters/Owners Will Drive Demand

HARVEST
CAPITAL STRATEGIES

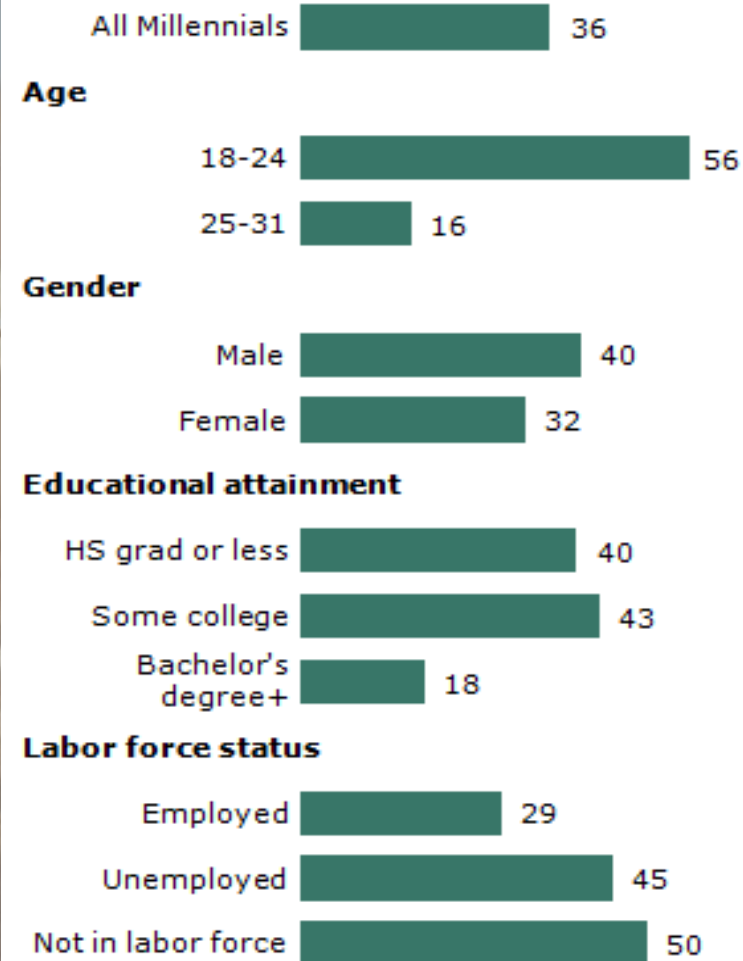
18-34 Year Olds, in millions



Future U.S. Housing Demand

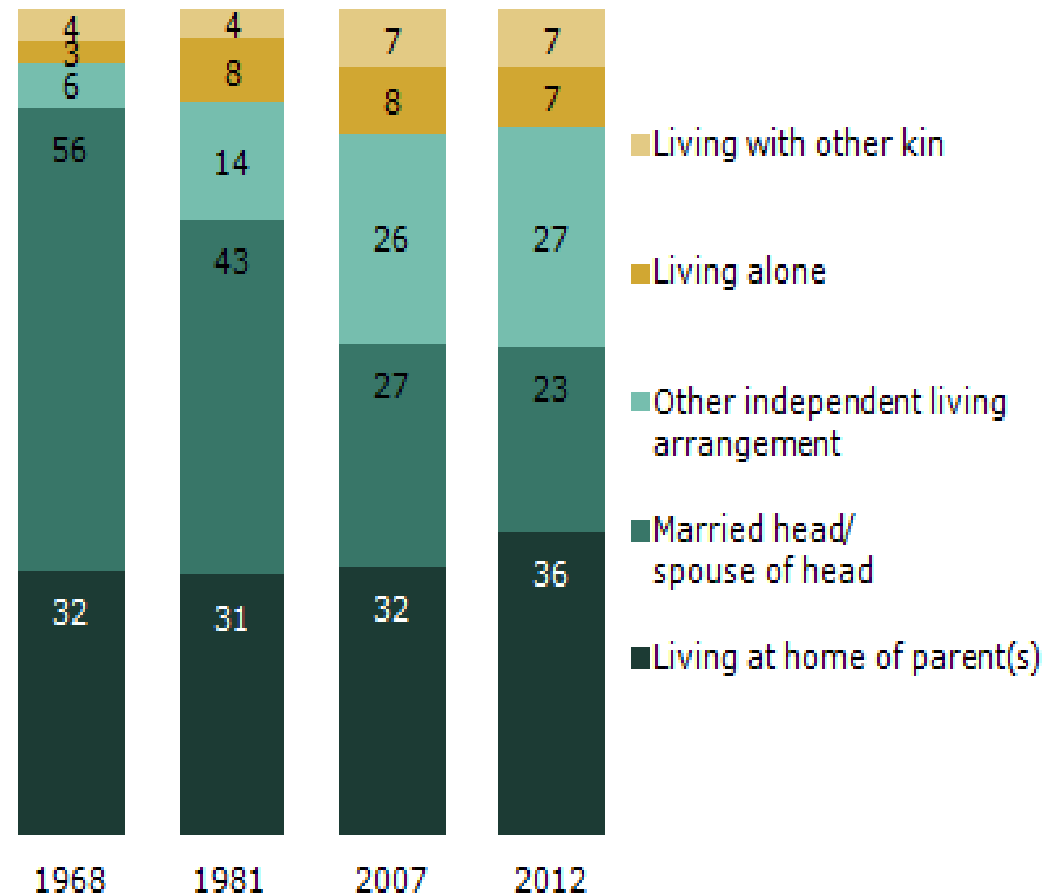
Millennials Living at Home, 2012

% of adults ages 18 to 31 living at the home of their parent(s)

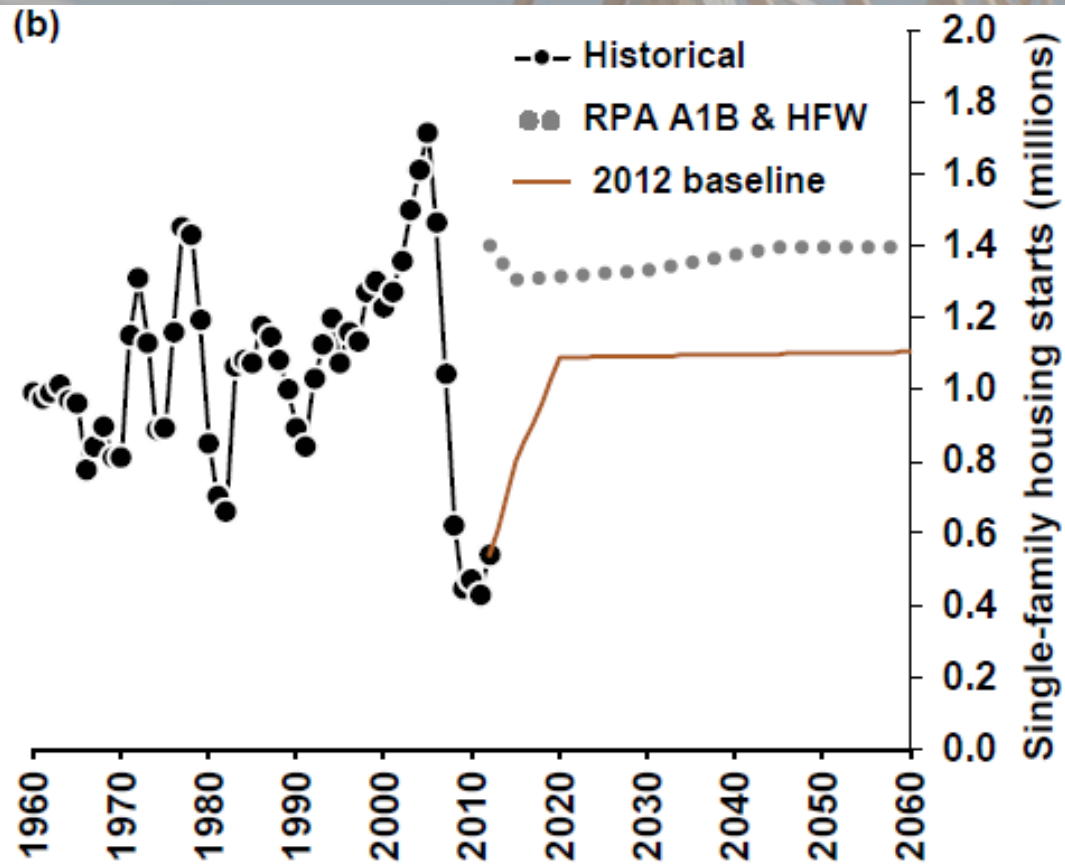


Living Arrangements of Young Adults, 1968-2012

% of adults ages 18 to 31 in each arrangement



Projected U.S. Single-Family Starts



“... a gradual rebound in single-family housing starts, reaching the logarithmic trend line by 2020:

± 1.1 million

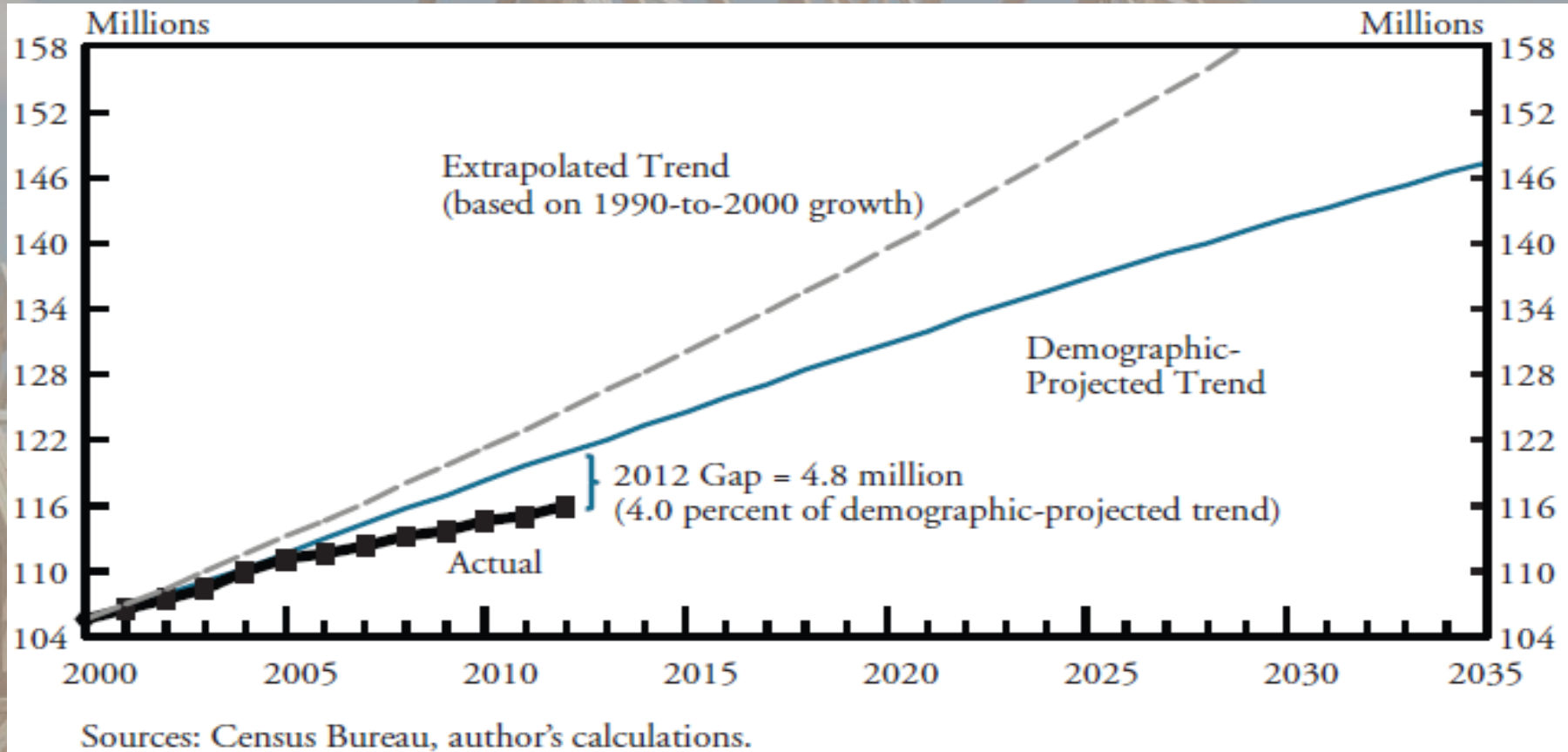
close to the long-run historical norm and within the range of current housing expectations

but much lower than recent RPA scenarios with similar or higher population growth.”

Structural change in the housing market include:

- a dramatic correction in median wealth of U.S. households as home values declined
- declining home ownership rates.

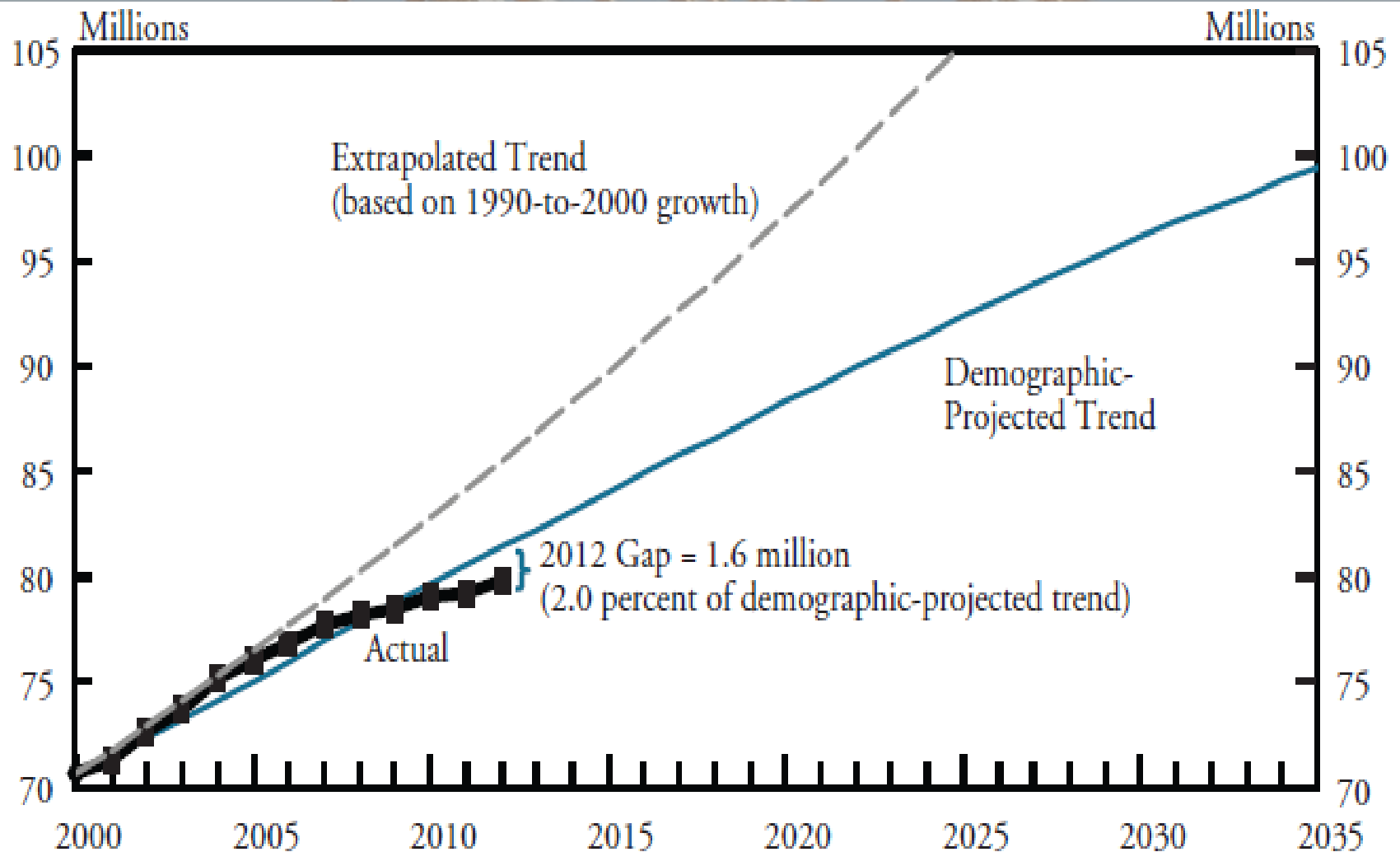
Projected U.S. Households



Structural change in the housing market include:

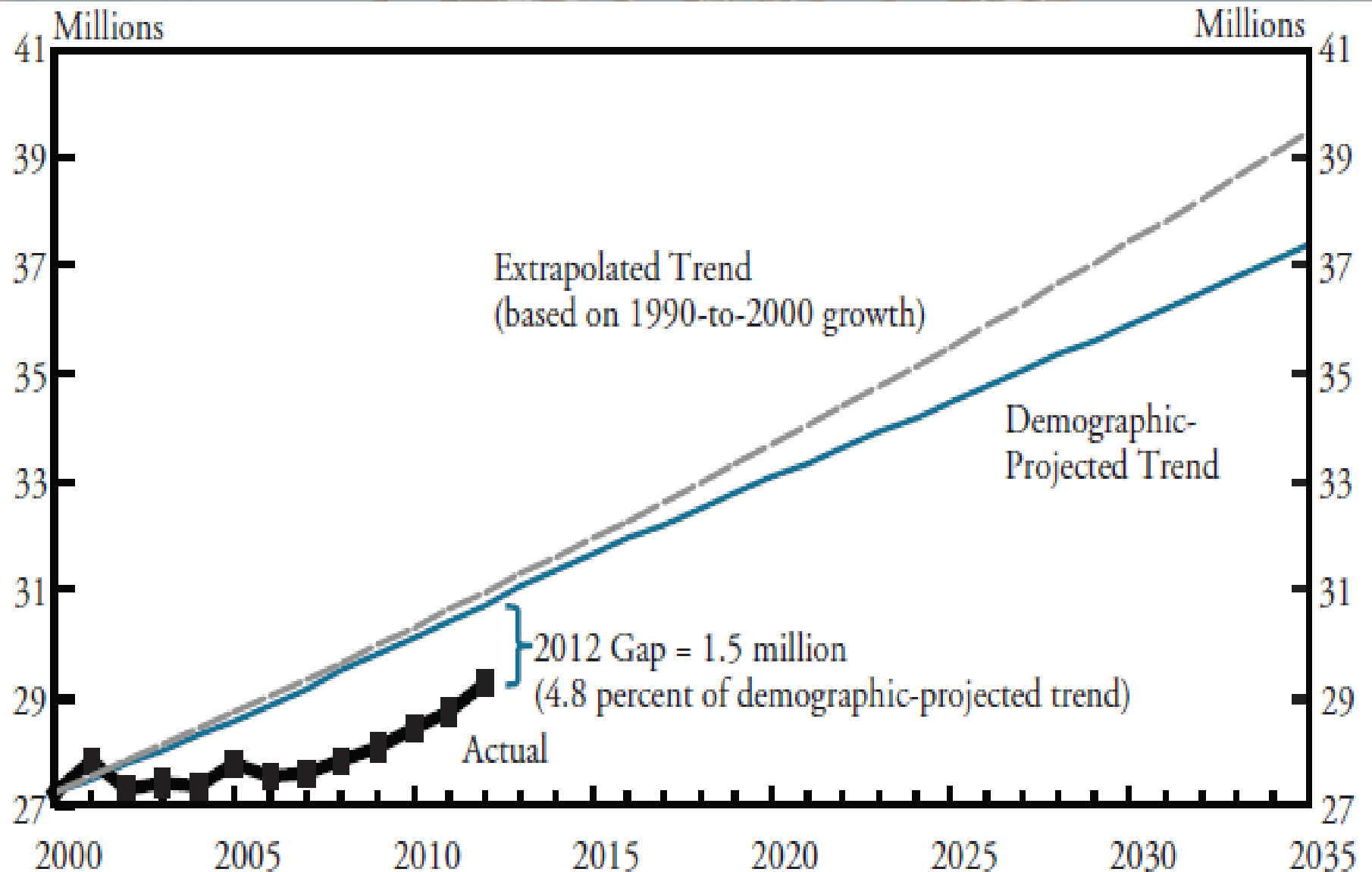
- a dramatic correction in median wealth of U.S. households as home values declined
- declining home ownership rates.

Occupied U.S. Single-Family Housing Units

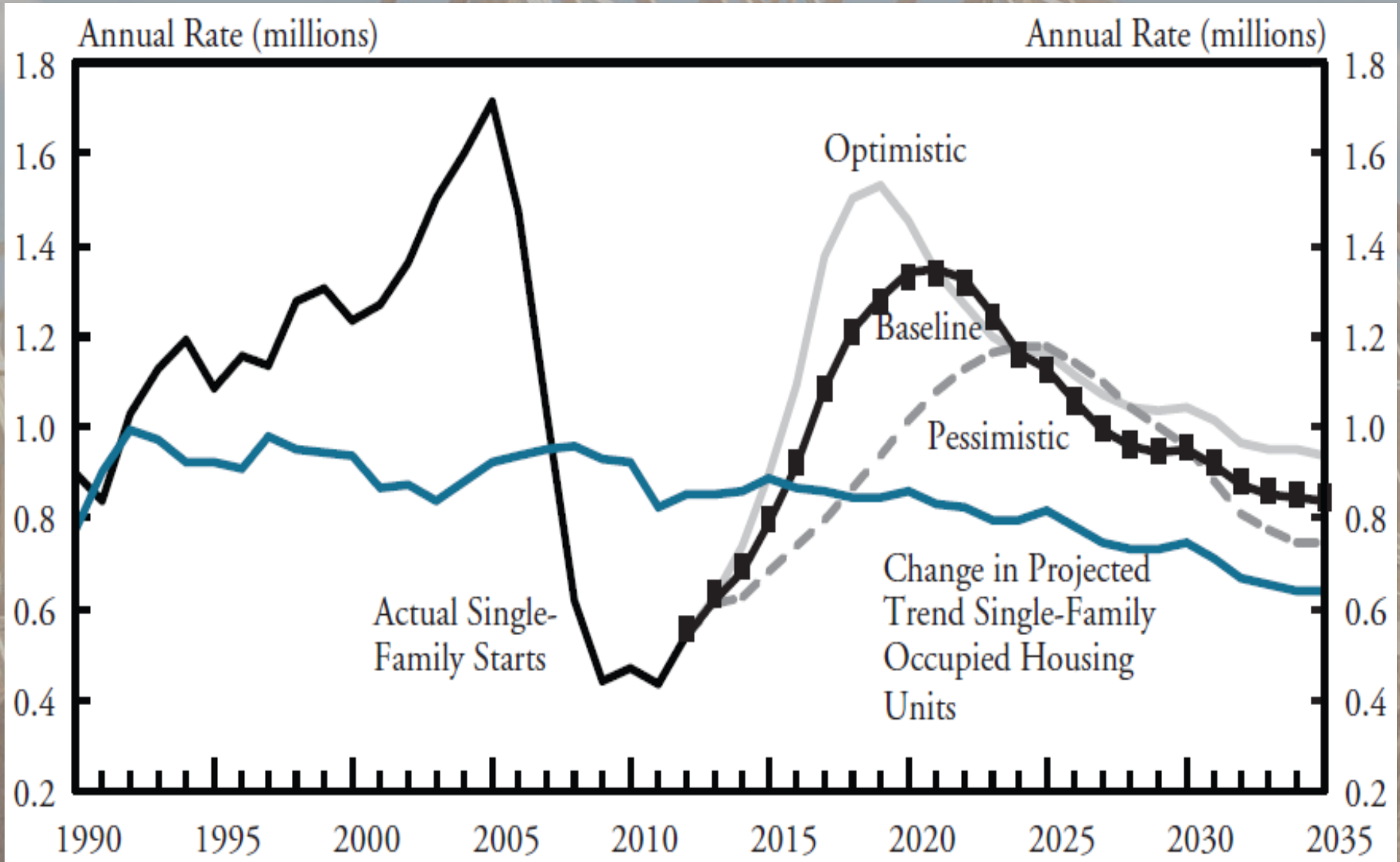


Sources: Census Bureau, author's calculations.

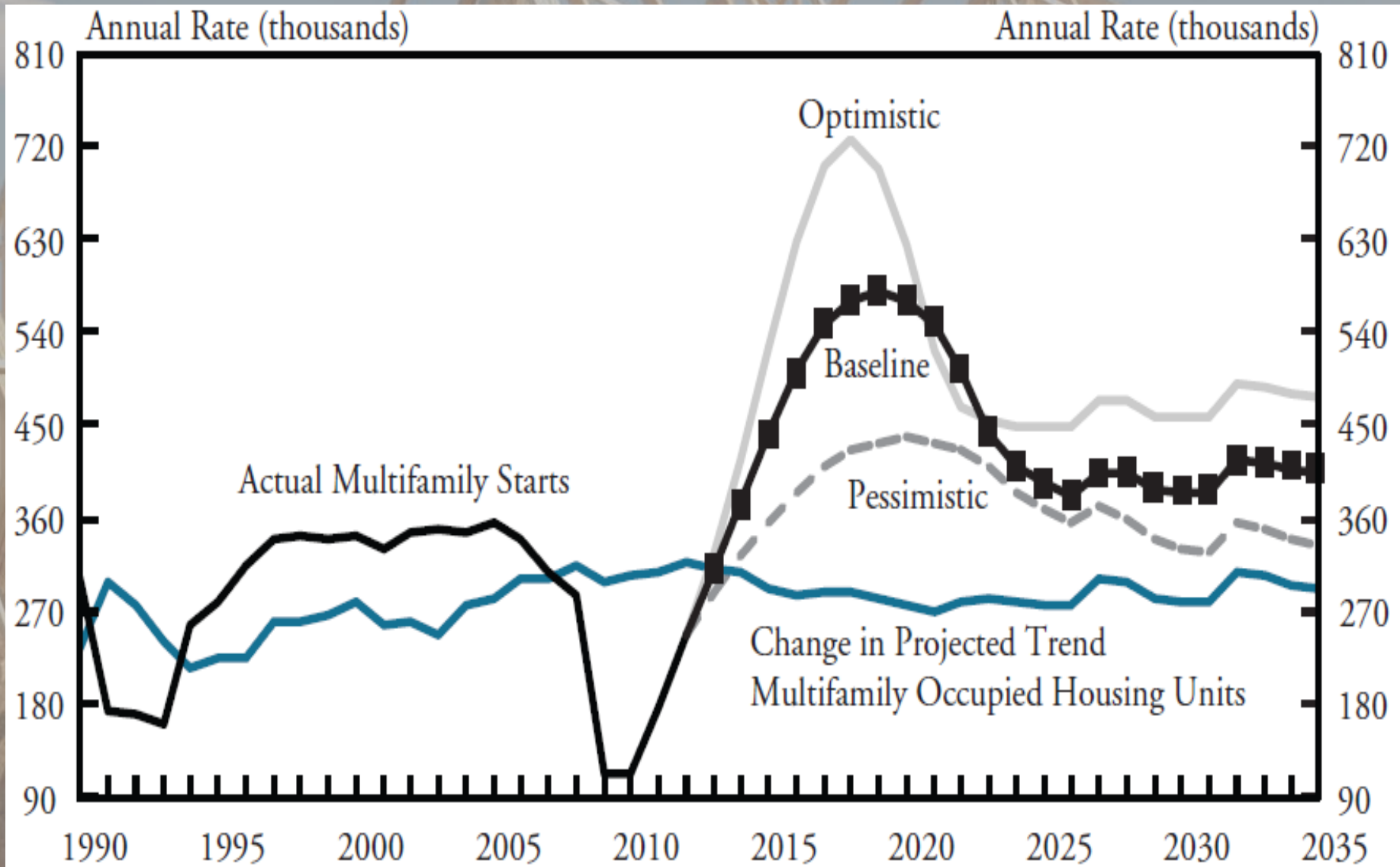
Occupied U.S. Multi-Family Housing Units



Projected U.S. Single-Family Starts



Projected U.S. Multi-Family Starts



Future Wood Markets – New Products

Cross-Laminated Timber



Future Wood Markets – New Products

High-Rise Timber Structures



Threats to Housing

World Debt or “Leverage”

China – hard or soft landing?

U.S. economy stalls or heads lower?

- No recovery in real medium income
- Burdensome and increased costs due to new lending regulations

What if there is “no” Eurozone recovery?

Other world events?

Opportunities

Bigger homes for those who can afford them

We may see smaller homes – why?

Affordability for the average American
Stock houses with limited amenities?

If this occurs – how will producers position their products?

What products will be offered?

Manufactured housing could possibly make a comeback

Conclusions

For the U.S. housing market to improve – the overall economy needs to improve in conjunction with real median incomes increasing

Headwinds:

- New and existing regulations
- Rising energy and raw material prices
- Economic uncertainty
- Continued consumer “blahs”
- Decline in “real” median incomes

The BIG question? Will the U.S. housing market continue its sluggish increase

“While there are positive trends in the housing market, Administration officials caution that the economy is still healing from the Great Recession. While there is good news in the March Scorecard, it's clear the housing market is still in the recovery phase of the cycle.”³

-- Kurt Usowski, Deputy Assistant Secretary for Economic Affairs,
U.S. Department of Housing and Urban Development

Questions?

Thank You



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