

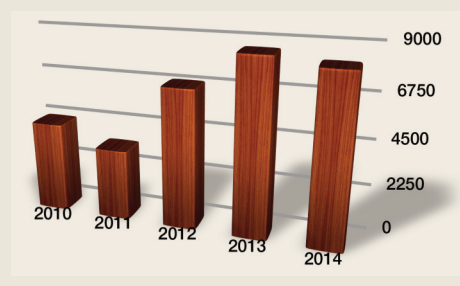
# HOT SHEET

Market Indicators for the Twin Cities Home Building Industry

## IN THIS ISSUE:

- **NAHB: Housing Affordability Index; 2015 Forecast**
- **UST Minneapolis St. Paul Residential Real Estate Index – September 2014**

### Twin Cities Building Activity – Year-to-Date Units Authorized October 2010-2014



Source: Keystone Report

## Market Chatter

*"Despite the slight drop in the index, multifamily developers remain positive about where the market is headed. Current growth in employment is strong enough to fuel demand for multifamily housing."*

W. Dean Henry, CEO of Legacy Partners Residential in Foster City, Calif., and chairman of NAHB's Multifamily Leadership Board

*"The increase in single-family starts shows that the housing market continues to recover at a steady, gradual pace. On the multifamily side, production is stabilizing above historic levels as demand for rental housing increases."*

David Crowe, chief economist of the National Association of Home Builders

December 2, 2014 | Volume 10, Issue 11

## NAHB: Single-Family Starts Up 4.2 Percent While Overall Production Drops Slightly in October

Single-family housing production in October reached its highest level since November 2013 while the more volatile multifamily sector brought combined nationwide starts activity down 2.8 percent to a seasonally adjusted annual rate of 1.009 million units, according to newly released figures from the U.S. Department of Housing and Urban Development and the U.S. Census Bureau.

"The rise in single-family starts is more proof that the economy is firming and consumer confidence is growing," said Kevin Kelly, chairman of the National Association of Home Builders (NAHB) and a home builder and developer from Wilmington, Del. "We expect continued upward momentum into next year."

"The increase in single-family starts shows that the housing market continues to recover at a steady, gradual pace," said NAHB Chief Economist David Crowe. "On the multifamily side, production is stabilizing above historic levels as demand for rental housing increases."

The 2.8 percent decline in overall starts in October was due primarily to a 15.4 percent decline on the multifamily side, which brought that sector's annual production pace to 313,000 units on a seasonally adjusted annual basis. Meanwhile,

single-family starts posted a 4.6 percent gain to 696,000 units.

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Kevin Kelly, Chairman of NAHB and a home builder and developer from Wilmington, Del.

Regionally in October, combined housing production dropped in Northeast, Midwest and West, with respective losses of 16.4 percent, 18.5 percent and 10.9 percent. Total production rose in the South by 10.1 percent.

Issuance of building permits registered a 4.8 percent gain to a seasonally adjusted annual rate of 1.08 million units in October. Multifamily permits rose 10 percent to 440,000 units while single-family permits increased 1.4 percent to 640,000 units.

Regionally, the Northeast and Midwest registered overall permit losses of 21.5 percent and 11.4 percent, respectively. The South and West posted respective gains of 8.8 percent and 21.6 percent.

## Twin Cities Residential Construction During October 2014 Remained Lackluster

While year-to-date residential permit statistics remain behind 2013, an 18 percent increase in planned units in October (over October 2013) helped reduce the year-to-date decline. Total year-to-date units permitted at the end of October are down 4.4 percent over the same time period in 2013, an improvement over year-to-date numbers at the end of September (down by eight percent).

According to data compiled by the Keystone Report for the Builders Association of the Twin Cities (BATC), there were 397 permits issued for a total of 1,210 units during four comparable weeks in the month of October, 2014. Year-to-date, there were 4,153 permits issued for a total of 8,241 units.

"The home building industry remains concerned about the lack of activity since spring of

2014," said Shawn Nelson, Builders Association of the Twin Cities 2014 president and president of New Spaces. "Interest in our Fall Parade of Homes remained relatively consistent with last Fall, but our builders reported that families just weren't ready to sign contracts."

"We're very disappointed to see the Twin Cities lag other parts of the nation in home buying, and worried that 2015 code changes and resultant price increases will only exacerbate the problem," Nelson said.

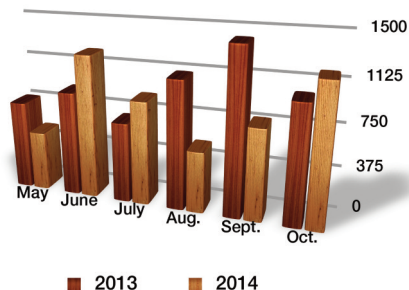
Multi-family construction pushed October numbers up as Savage took the top spot for permit activity with 292 units. Minneapolis ranked second with 279 units permitted, followed by Fridley with 102 units. Blaine with 90 and Lakeville with 35 units completed the top five.

## TWIN CITIES STATISTICS

### TC Housing Units Authorized

Date	Total	Y-Y Change
Sept. 13	1,424	
Sept. 14	791	-44.5%
Oct. 13	1,029	
Oct. 14	1,210	+17.6%

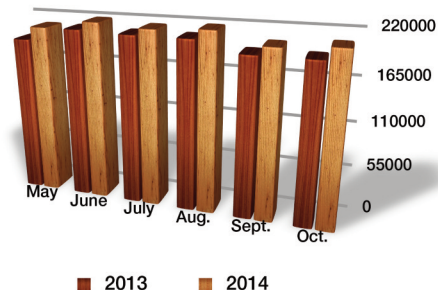
Source: Keystone Report



### Twin Cities Median Home Price

Date	Total	Y-Y Change
Sept. 13	\$195,000	
Sept. 14	\$205,000	+5.1%
Oct. 13	\$195,000	
Oct. 14	\$209,000	+7.2%

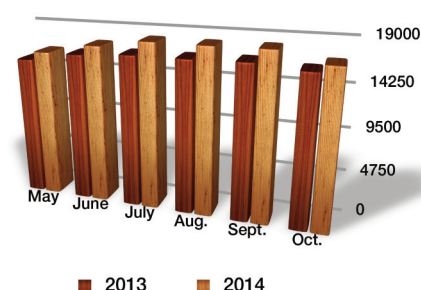
Source: MPLS Area Association of REALTORS



### Twin Cities Total Active Listings

Date	Total	Months of Inventory
Sept. 13	16,862	
Sept. 14	18,250	4.4
Oct. 13	16,418	
Oct. 14	17,132	4.1

Source: MPLS Area Association of REALTORS



## EMPLOYMENT

### Twin Cities Unemployment Rate

\*Editor's note-MN DEED began presenting NON-seasonally adjusted #'s starting February 2010

June 14	4.5%
July 14	4.2%
August 14	3.8%
September 14	3.6%
October 14	3.2%

Source: MN DEED

### Twin Cities Construction Employment

0.3% of Workforce

June 14	7,001
July 14	7,122
August 14	7,207
September 14	7,130
October 14	7,239

Source: MN DEED

### Construction Weekly Wage

Production Worker, Averaged

June 14	1,256.08
July 14	1,327.63
August 14	1,292.03
September 14	1,245.75
October 14	1,201.05

Source: MN DEED

### MN Seasonally Adjusted Unemployment Rate

U.S. Seasonally Adjusted Average 5.8%

June 14	4.5%
July 14	4.5%
August 14	4.3%
September 14	4.1%
October 14	3.9%

Source: MN DEED

### MN Construction Employment

0.4% of Workforce

June 14	11,758
July 14	12,082
August 14	11,810
September 14	11,534
October 14	11,768

Source: MN DEED

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## worth Quoting

"The rise in single-family starts is more proof that the economy is firming and consumer confidence is growing. We expect continued upward momentum into next year."

- Kevin Kelly, chairman of the National Association of Home Builders (NAHB) and a home builder and developer from Wilmington, Del.

## REGIONAL/NATIONAL STATISTICS

### MN Housing Units Authorized

Date	Total	Y-Y Change
Sept. 13	2,012	
Sept. 14	2,042	+1.5%
Oct. 13	1,561	
Oct. 14	1,876	+20.2%
	2014 YTD	14,549

Source: US Census Bureau

### US Housing Units Authorized

Date	Total	Y-Y Change
Sept. 13	81,336	
Sept. 14	90,696	+11.5%
Oct. 13	90,341	
Oct. 14	96,364	+6.7%
	2014 YTD	880,493

Source: US Census Bureau

### Remodeling Market Indices

Date	Current	Futures
3Q 13	57	56
4Q 13	57	58
1Q 14	53	52
2Q 14	54	56
<b>3Q 14</b>	<b>57</b>	<b>58</b>

Source: NAHB

	Framing Lumber	
	Random Lengths	CME Futures
August 1	\$385	\$328.5
August 29	\$409	\$342.7
Sept. 19	\$394	\$329.9
Oct. 31	\$377	\$323
Nov. 28	\$364	\$330

Source: NAHB

Mortgage Rates	
From 12/1/2014	
30 Year	3.915%
30 Year Fixed FHA	5.279%
15 Year	3.339%
5 Year ARM	3.932%
30 Year Jumbo	3.891%

Source: Wells Fargo

MN Monthly Retail Gasoline Prices	
per gallon - all grades	
July 14	\$3.381
August 14	\$3.392
September 14	\$3.271
October 14	\$3.148
November 14	\$2.765

Source: Energy Information Administration



## NAHB: Builder Confidence Rises Four Points in November

Builder confidence in the market for newly built single-family homes rose four points to a level of 58 on the National Association of Home Builders/Wells Fargo Housing Market Index (HMI), recently released.

“Growing confidence among consumers is what’s fueling this optimism among builders,” said NAHB Chairman Kevin Kelly, a home builder and developer from Wilmington, Del. “Members in many areas of the country continue to see increasing buyer traffic and signed contracts.”

“Low interest rates, affordable home prices and solid job creation are contributing to a steady housing recovery,” said NAHB Chief Economist David Crowe. “After a slow start to the year, the HMI has remained above the 50-point benchmark for five consecutive months, and we expect the momentum to continue into 2015.”

Derived from a monthly survey that NAHB has been conducting for 30 years, the NAHB/Wells Fargo Housing Market Index gauges builder perceptions of current single-family home sales and sales expectations for the next six months as “good,” “fair” or “poor.” The survey also asks builders to rate traffic of prospective buyers as “high to very high,” “average” or “low to very low.” Scores from each component are then used to calculate a seasonally adjusted index where any number over 50 indicates that more builders view conditions as good than poor.

All three HMI components increased in November. The index gauging current sales conditions rose five points to 62, while the index measuring expectations for future sales moved up two points to 66 and the index gauging traffic of prospective buyers increased four points to 45.

Looking at the three-month moving averages for regional HMI scores, the Northeast rose three points to 44, the South posted a four-point gain to 62, and the West edged up one point to 58. The Midwest registered a two-point loss to 57.

*Editor’s Note: The NAHB/Wells Fargo Housing Market Index is strictly the product of NAHB Economics, and is not seen or influenced by any outside party prior to being released to the public. HMI tables can be found at [nahb.org/hmi](http://nahb.org/hmi). More information on housing statistics is also available at [housingeconomics.com](http://housingeconomics.com).*



## worth NOTING

**Parade of Homes/Remodelers Showcase Entry Deadline**  
December 3  
[www.ParadeofHomes.org](http://www.ParadeofHomes.org)

**BATC U: New MN Building & Energy Code Course**  
December 3 & 9 at 8:00am  
BATC Office

**BATC U: EPA Lead Renovator Refresher Course**  
December 10 at 8:00am  
BATC Office

**BATC U: New MN Building & Energy Code Course**  
January 6 at 8:00am  
BATC Office

**BATC U: EPA Lead Renovator Refresher Course**  
January 7 at 8:00am  
BATC Office

**Complete information at:**  
[batconline.org](http://batconline.org)

## market BRIEFS



### Single-Family Production Poised to Take Off in 2015

A growing economy, rising household formations, low mortgage rates and pent-up demand will help single-family housing production to rev up in 2015 while a growth in renters will keep the multifamily market at cruising altitude or higher, according to economists who participated in yesterday's National Association of Home Builders (NAHB) 2014 Fall Construction Forecast Webinar.

"Single-family builders are feeling good. They are not overly confident, but confident enough to keep moving forward," said NAHB Chief Economist David Crowe. He added that the single-family sector will finish out the year much stronger than it began and set the stage for a robust 2015.

"This is mostly due to significant pent-up demand and steady job and economic growth that will allow trade-up buyers who have delayed home purchases due to job insecurity to enter the marketplace," said Crowe.

#### A Bright Outlook

NAHB is forecasting 991,000 total housing starts in 2014, up 6.6 percent from 930,000 units last year. Single-family production is expected to rise 2.5 percent this year to 637,000 units, increase an additional 26 percent next year to 802,000 and reach 1.1 million in 2016. Setting the 2000-2003 period as a benchmark for normal housing activity when single-family production averaged 1.3 million units annually, single-family starts are expected to steadily rise from 48 percent of what is considered a typical market in the third quarter of 2014 to 90 percent of normal by the fourth quarter of 2016. Multifamily starts, which Crowe said are now at a normal level of production, are projected to increase 15 percent in 2014 to 356,000 units and hold steady next year.

Meanwhile, the NAHB Remodeling Market Index, which averages ratings of current remodeling activity with indicators of future activity, matched its all-time high of 57 in the third quarter of 2014 and has been above 50 for six consecutive quarters. A reading above 50 indicates that more remodelers report market activity is higher (compared to the prior quarter) than report it is lower.

NAHB is forecasting that residential remodeling will post a 3.4 percent decline in 2014 over last year, due in large part to slow activity in the first quarter caused by an unusual harsh winter throughout much of the nation. Residential remodeling activity is expected to rise 2.7 percent in 2015 and an additional 1.3 percent in 2016.

#### Housing Will Soon Be Undersupplied

Taking an even more bullish outlook, Mark Zandi, chief economist at Moody's Analytics, said that prospects are good for continued gains in overall economic and housing activity.

"The reason is that job growth is quite strong," said Zandi. "Currently, we are creating about 225,000 jobs per month, or 2.75 million per year. That is double the pace necessary to reduce unemployment and under employment, which augers very, very well for housing demand and the housing market more broadly."

With the current supply of housing running just over 1 million units on annualized basis, Zandi said that this figure is well below what is needed for the longer run.

In the aftermath of the Great Recession, new household formations were depressed as the number of Millennials living with their parents or doubling or tripling up in apartments soared to about 3 to 4 million above normal, according to Zandi. As the economy continues to improve and these 18-to-34 year-olds begin to form their own households, this will boost overall demand for new housing construction.

"In a normal year, there should be demand for 1.7 million units," he said, adding that each single-family home generates about 3.5 jobs over the course of a year and every multifamily unit produces 1.5 jobs over the same period.

Taking this one step further, Zandi said that increasing the housing stock by 700,000 units to meet this unmet demand would create 2.1 million jobs, which "would reduce unemployment by 1.5 percentage points."

By the end of 2017, Zandi expects mortgage rates to rise from their current rate of about 4 percent back to their "equilibrium" of 6 percent, which he noted would be very consistent with a solid job market and solid housing market.

"The housing market will be fine because of better employment, higher wages and solid economic growth, which will trump the effect of higher mortgage rates," he said.

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