

University of St Thomas / Builders Association of the Twin Cities Home Builders Survey June 2016

According to a new survey of home builders conducted in June by the Shenehon Center for Real Estate at the University St. Thomas and Builders Association of Twin Cities, the coming year is expected to be a good yet challenging year for home builders. This survey, our second in a series of semi-annual surveys, is a forward looking sentiment survey that measures homebuilders expectations of what the new single family homebuilding market will be like a year from now. We poll a panel of the industry leading home builders in the Twin Cities region regarding their expectations of near term market conditions for single family home construction. In each survey the panel is asked to answer the same series of six questions. The results are based on participant's expectations of what market conditions will be like one year from today.

We compute an index for each of the six questions individually as well as a composite index that is a combination of all six questions. The June 2016 survey composite index came in at a slightly less pessimistic 46 compared to 45 that was recorded in the December 2015 survey. Index values greater than 50 represent a more optimistic view of the market over the next year, with values of less than 50 indicating a more pessimistic view. At 46 the composite index shows a slightly less than neutral outlook. Although the composite index did not change a great deal from the previous survey the individual indexes showed some definite differences. This time there was certainly a mixed bag of optimism in some areas and pessimism in others.

The survey questions are listed below.

Question 1

Compared to today, what do you think that the number of housing starts will be in 2017?

Significantly Lower	Somewhat Lower	The Same	Somewhat Higher	Significantly Higher
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Question 2

Compared to today, what do you think that the sale price per SF will be in 2017?

Significantly Lower	Somewhat Lower	The Same	Somewhat Higher	Significantly Higher
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Question 3

Compared to today, what do you think that land prices will be in 2017?

Significantly Lower	Somewhat Lower	The Same	Somewhat Higher	Significantly Higher
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Question 4

Compared to today, what do you think that the availability of finished lots will be in 2017?

Significantly Lower	Somewhat Lower	The Same	Somewhat Higher	Significantly Higher
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Question 5

Compared to today, what do you think that the price of building materials will be in 2017?

Significantly Lower	Somewhat Lower	The Same	Somewhat Higher	Significantly Higher
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Question 6

Compared to today, what do you think that mortgage rates will be in 2017?

Significantly Lower <i>More than 1%</i>	Somewhat Lower <i>.5% - 1%</i>	The Same <i>0 +/- .5%</i>	Somewhat Higher <i>.5% - 1%</i>	Significantly Higher <i>More than 1%</i>
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The index reflecting the panel's expectation of the number of new single family housing starts was recorded at 63 up from 60 in December. This reflects an increasingly optimistic expectation by the panel that the number of single family housing starts will increase in the coming year. In terms of single family housing starts 2016 has gotten off to a better start than the previous several years. Our panel expects that trend to continue for the next 12 months. The index for the expected change in the sale price per square foot was remained the same as the previous survey at a highly optimistic 69. That reaffirms the group's continued expectation that home prices will continue to increase. The net result is the expectation that when compared to previous years 2016 will be a much better year for single family homebuilders

The index for the availability of finished lots increased from 50 last December 2015 to 56 this June. This score indicates an increasing optimism by the panel that there will be more finished lots available over the next 12 months. Having more finished lots available is a generally a good thing for the housing market since it helps to moderate land prices and encourages increased construction activity.

The index for land prices was essentially unchanged from last December moving from 30 to 31. These levels remain well into the pessimistic range. Indications are that the rate of increase land prices is going to be greater than the rate of increase of home prices in general. Expectations are that while there may be more finished lots available land prices will continue increase at a brisk pace. The outlook for expected cost of building materials was slightly less pessimistic moving from 34 to 36. As with land prices builders are expecting to see the price of building materials continue to increase over the next 12 months. These scores show a concern by our panelists that some of the gains from increased sale prices and more building starts could be

offset by higher costs. These expected increases in building costs would squeeze profitability and could reduce the number of new homes built.

The index for the expected change in mortgage rates over the next year was recorded at 32 up from 30 in December's survey. This low index score indicates that our panel expects mortgage rates to increase in the next 12 months. Most respondents are expecting an increase of 1/2% to 1%. Higher mortgage rates increase borrowing costs and make it more difficult for potential buyers to qualify for higher loan amounts. The affordability issues created by higher rates could put a damper on home building activity.

In summary, the participants were strongly optimistic in their expectation of increasing sale prices per square foot and the number of single family housing starts and they were moderately optimistic about an increase in availability of finished lots in the coming year. However, the expectation of increasing land prices and an expectation that the cost of building materials will increase over the next year was a cause for concern that tempered the composite index. Increasing prices of land and building materials increase total building costs creates a drag on single family housing construction and is reflected in the survey as a pessimistic score. There is also an expectation that mortgage rates are going to increase moderately over the next year. This is also reflected pessimistically in the survey as it adds to the total cost of purchasing a home. This initial survey last December gave us a baseline to compare with future surveys. Now we can start that comparison as we accumulate more survey results over the next few years. The results will begin to reveal market trends that will be useful as a forecasting tool.

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