

Latest Survey of Twin Cities Home Builders Finds Them Optimistic For 2018, But With Some Concerns

St. Thomas' fourth semiannual survey of 35 industry leaders measures sentiment and is designed to be a forecasting tool.

Leaders in the Twin Cities single-family home-construction industry are generally optimistic about market conditions for the coming year although they have concerns about increasing mortgage rates and higher costs of land and building materials.

That's according to a new survey conducted by the University of St. Thomas Shenhon Center for Real Estate in partnership with the Builders Association of the Twin Cities.

The Twin Cities Home Builders Survey is patterned after St. Thomas' Minnesota Commercial Real Estate Survey that began in 2010. The Home Builders Survey polls the same panel of 35 industry leaders annually in June and again in December about their expectations for the upcoming year in six key areas of the housing market.

These experts are asked to assign a number of zero to 100 for each of the six questions. A midpoint score of 50 is neutral; scores higher than 50 indicate a more favorable outlook and scores lower than 50 indicate a more pessimistic outlook.

"The industry leaders we poll every six months are actively engaged in studying both the demand and supply side of the housing market," said Herb Tousley, director of real estate programs at the university. "Since they are involved in creating new housing units and adjusting supply-to-demand conditions, these individuals are close to the actual changes taking place in the market."

"These results align closely with what we are hearing from the market and our members." Said David Siegel, Executive Director of the Builders Association of the Twin Cities. "While there is a great need for residential construction in the Twin Cities, there are still several factors holding it back including land prices, the regulatory burden and a shortage of labor."

Here are the scores for each of the six questions that were asked in December 2016:

Housing Starts: 65

This score increased from 61 in December 2016 to 65, it indicates a high expectation that the number of single-family housing starts will show a marked increase in 2018. Last year was one of the best in recent years with about 5,300 permits issued.

Square-foot sale price: 74

This score is even more optimistic than last December's score of 72. It reinforces the panel's continued expectations that home prices will continue to increase. The net result is the belief that sale prices will increase at a rate that will more than offset the expected increases in project costs.

Land prices: 23

At 23 this index has decreased sharply from last December's score of 31 moving even deeper into the pessimistic range. Indications are that the rate of increased land prices will accelerate in 2018. While there may be enough finished lots available, the higher land prices will squeeze profitability.

Availability of finished lots: 60

This index increased from 51 last December to 60 in June reflecting builders increased optimism that there will be an increase in the availability of finished lots in 2018. An adequate supply of well-located finished lots is crucial to the health of the home building industry.

Cost of building materials: 24

The outlook for the expected increases in the costs of building materials continues to persist. This index moved from 29 in December 2016 to an even more pessimistic score of 24 in June 2016. This score is an indication of increased concern by our panelists that much of the gain from increased sale prices and more building starts will be offset by higher costs. These expected increases in costs could depress profitability and could reduce the number of new homes built.

Mortgage rates: 28

This index remains unchanged at 28. It is an indication that the panel continues to expect mortgage rates to increase in the next 12 months. Although mortgage rates increased during the fourth quarter of 2016, most panelists are expecting an additional increase of $\frac{1}{4}\%$ to $\frac{1}{2}\%$ half a percent within the next year. The affordability issues created by higher rates could put a damper on home-building activity.

More Information

Additional details can be found on the Shenehon Center's website:
<http://www.stthomas.edu/business/centers/shenehon/research/default.html>.

UST / BATC Home Builders Sentiment Survey 50 = Neutral

