

# Housing Market Opportunities and Economic Challenges

*Low and Moderate Income Housing Act  
and Land Use Commissions*

*May 10, 2022*

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NAHB Chief Economist*



RI BUILDERS  
ASSOCIATION  
BUILDING PROFESSIONALS | SINCE 1945



# A Race is On....



**Nation is short about 1 million housing units**



**Housing affordability levels reaching 10+ year lows**  
**Increasing rental burdens and putting homeownership out of reach**



**Solution accepted by almost all economists:**  
**Build more housing**



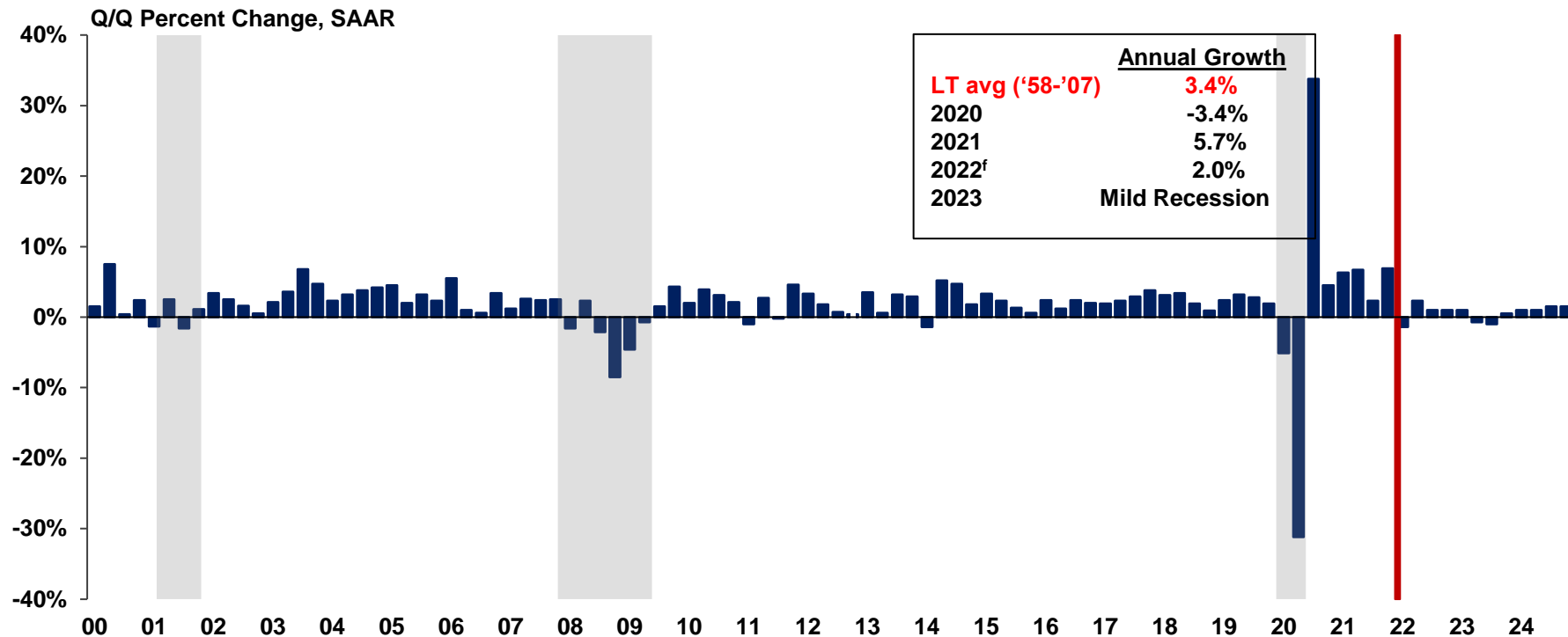
**Identify some of the economic challenges faced by builders**  
**Detail policies that work and those that don't**



**This is a moment to seize as the economy evolves post-covid**  
**Demand has shifted to markets outside the largest metros**

# GDP Growth – Recession Risks Rising

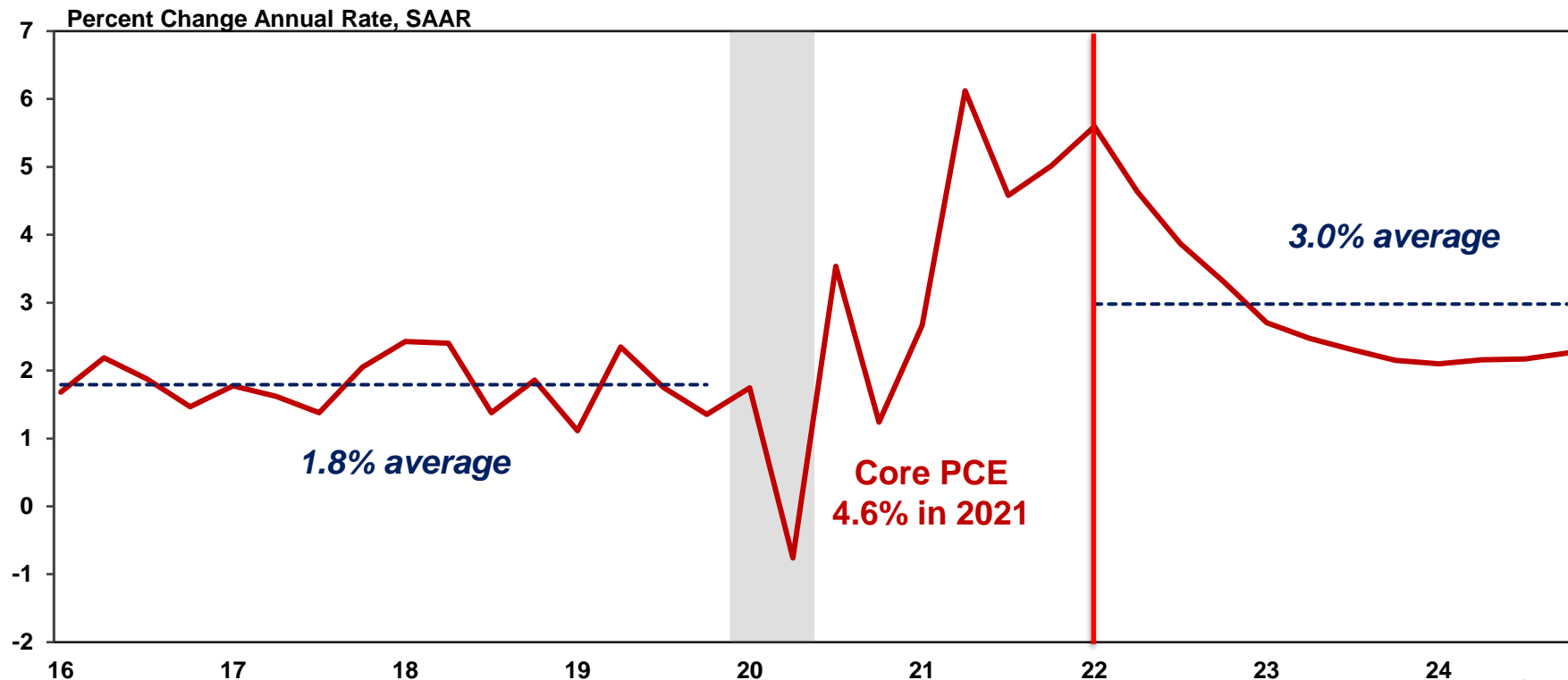
*Weak first quarter of 2022 as Fed tightens credit conditions*



Source: U.S. Bureau of Economic Analysis (BEA) and NAHB forecast.

# / Core Inflation

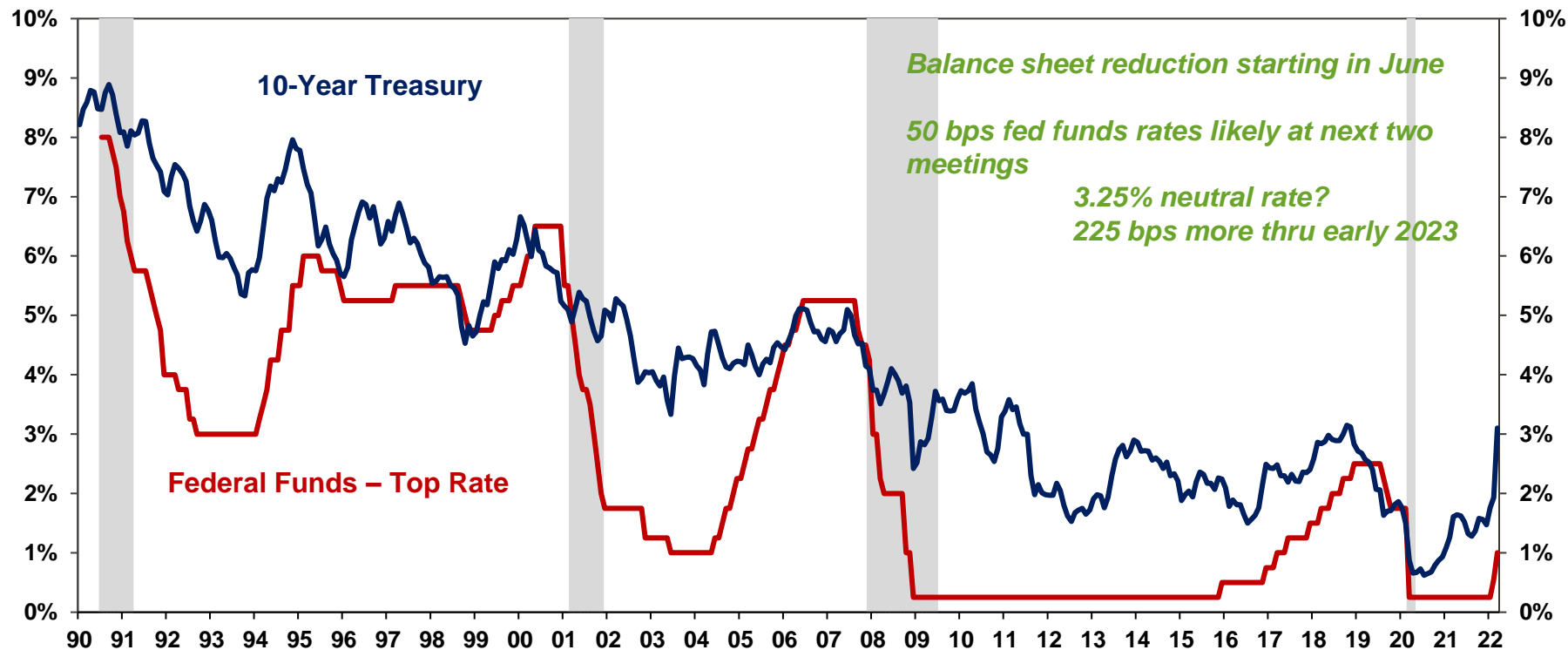
*Inflation remained at a 40-year high in March*



Source: U.S. Bureau of Economic Analysis (BEA) and NAHB forecast

# Monetary Policy Tightening in Response to Inflation

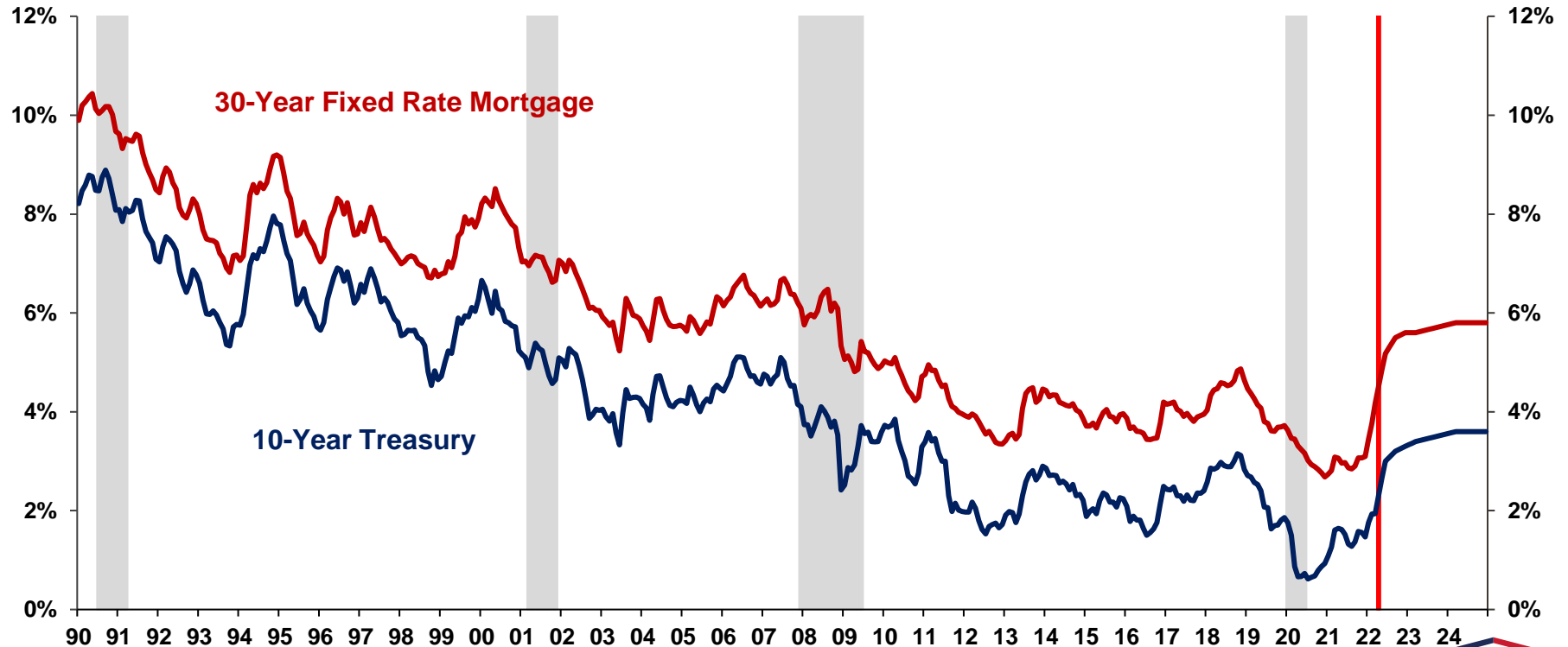
*Rising federal funds rate in 2022*



Source: U.S. Board of Governors of the Federal Reserve System (FRB).

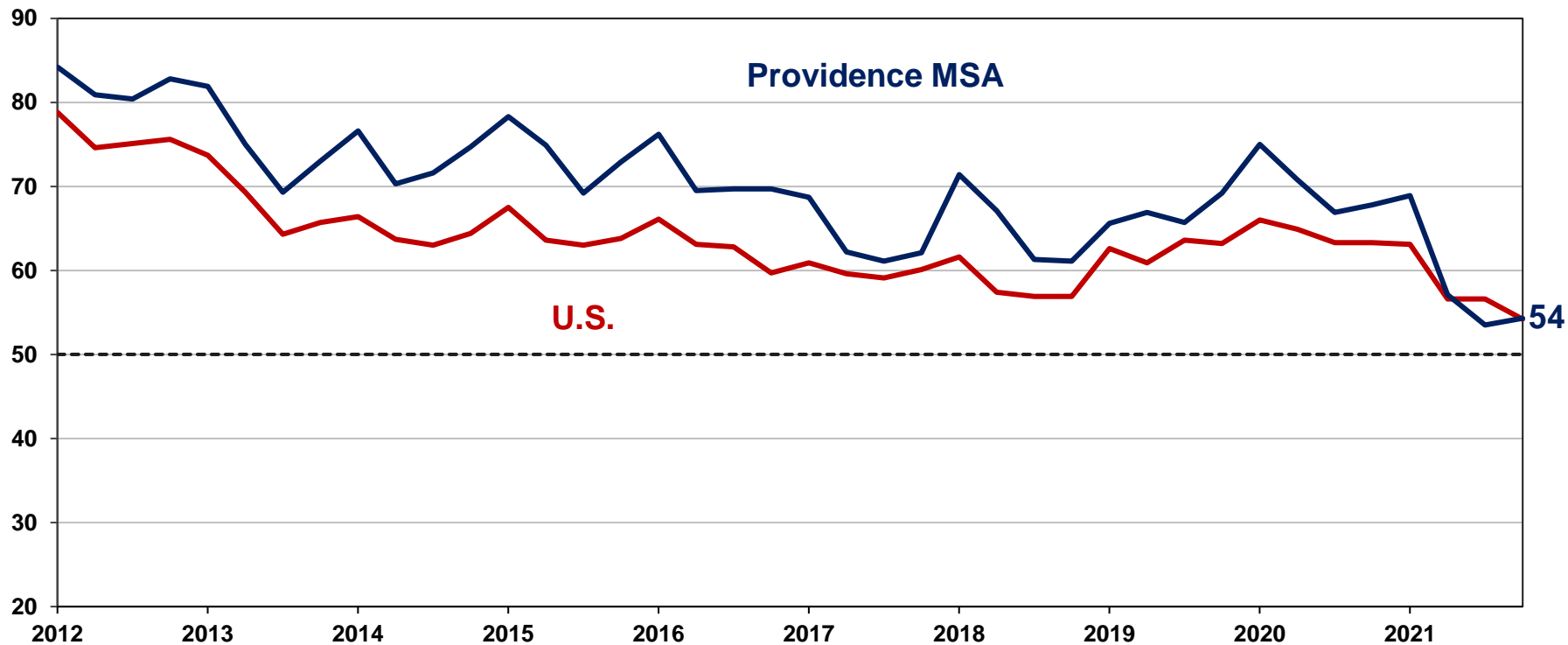
# Interest Rates Trending Higher

*Federal Reserve is tightening monetary policy*



Source: Federal Reserve and Freddie Mac data and NAHB forecast.

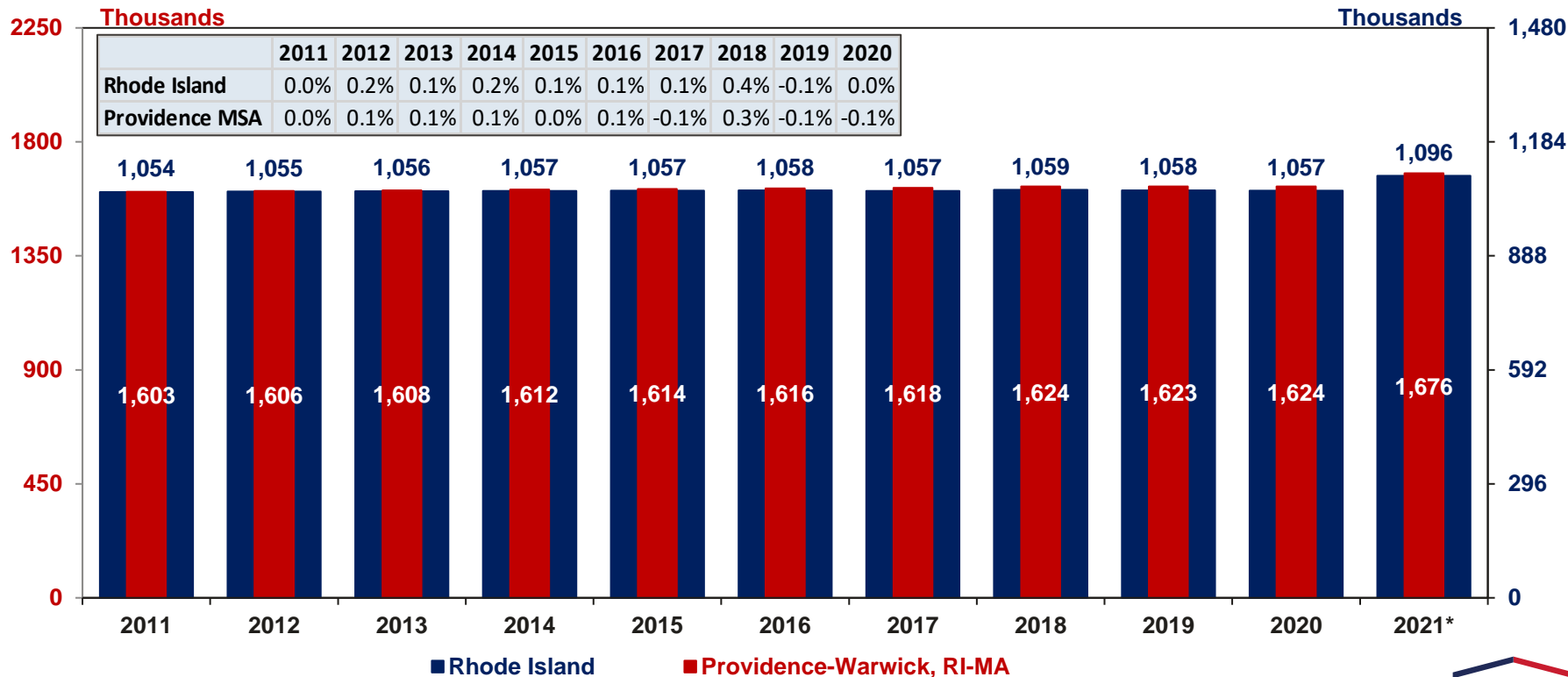
# Housing Affordability Declines? NAHB/Wells Fargo HOI Lower



Source: NAHB/Wells Fargo Housing Opportunity Index (HOI).

# Population Growth

*Providence MSA population declining*



Source: U.S. Census Bureau (BOC)

Note: The Vintage 2021 population estimates reflect several methodological changes since the release of the Vintage 2020 estimates, so comparisons of 2021 estimates to previous years were not recommended by Census.



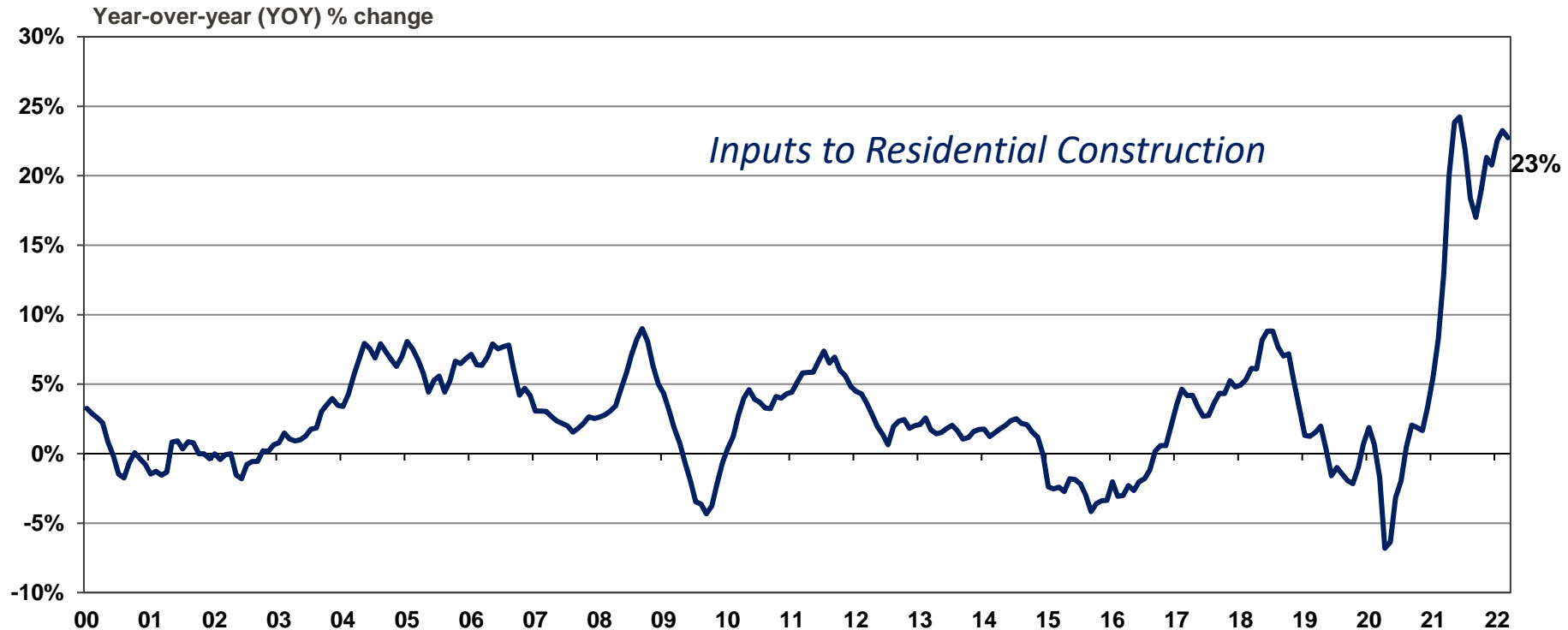


# Supply-Side Challenges And Distortions





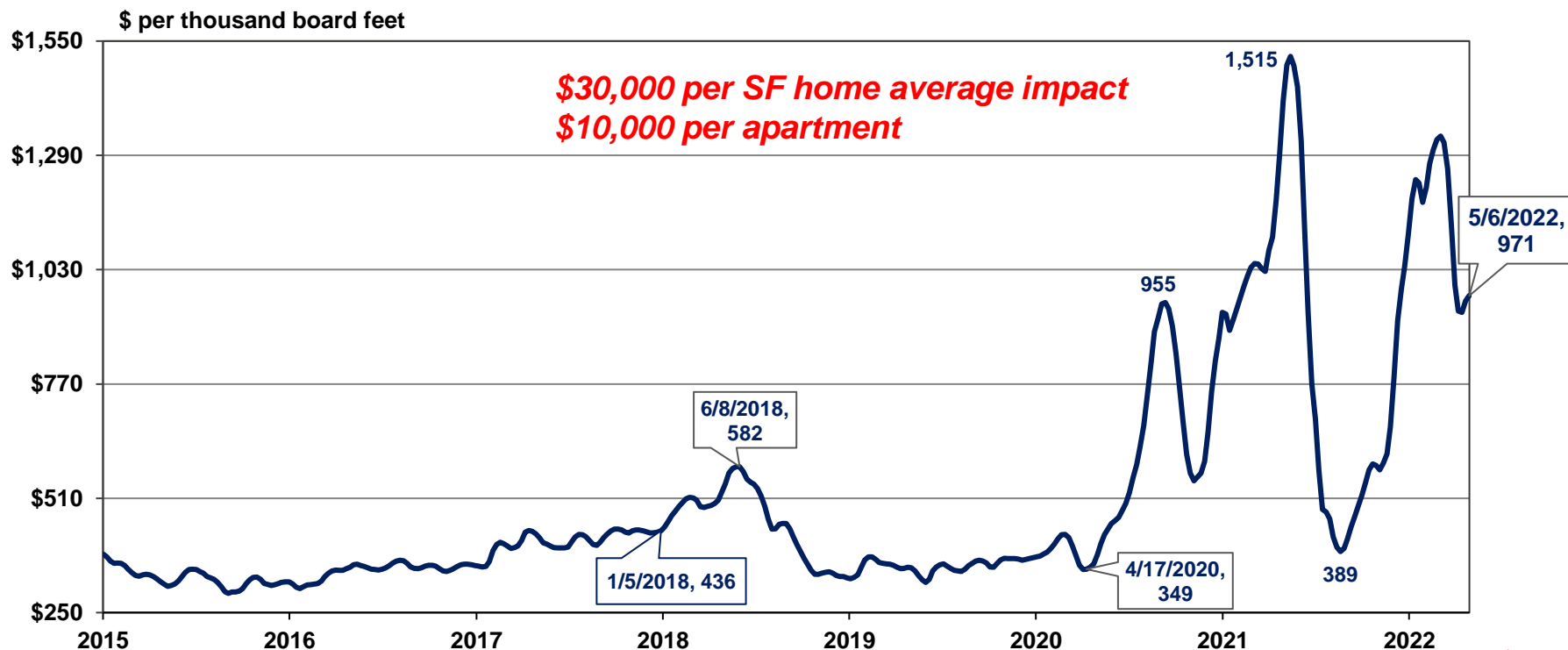
# Building Materials - Residential Construction Cost



Source: U.S. Bureau of Labor Statistics (BLS): Producer Price Index (PPI)

# Lumber Prices Edged Up

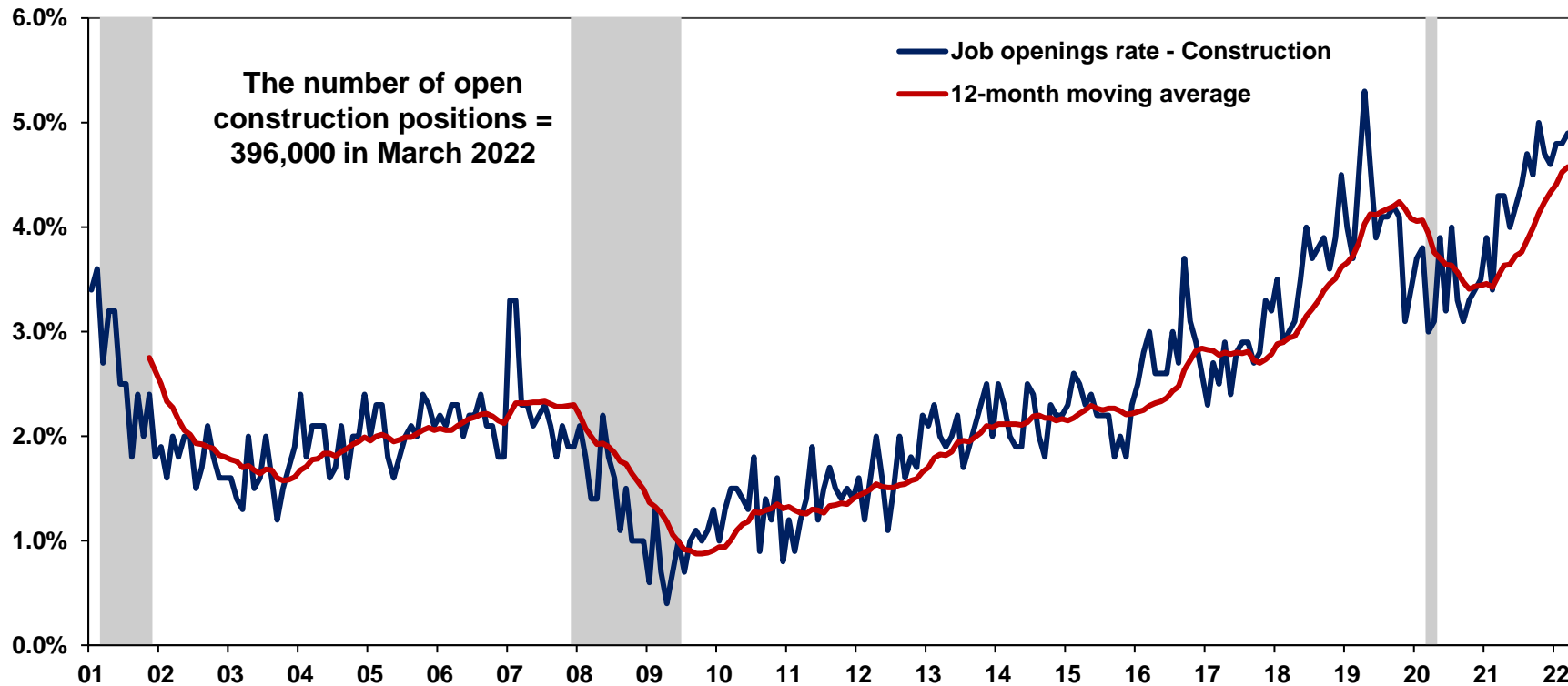
*Current May price is \$971; up 4% in the past two weeks*



Source: NAHB Analysis; Random Lengths Composite Index

# Labor – Construction Job Openings Surging

*Skilled labor shortage persists; 198,400 net gain for residential construction since Jan 2020*



Source: U.S. Bureau of Labor Statistics (BLS).

# Construction Labor Market Projections/Needs



**7.6 million workers in construction**  
**3.1 million in residential construction**



**740,000 occupational openings per year**  
**Based on industry growth and permanent worker exits**



**Keep in mind: 22% of workforce is self-employed**  
**Immigrant share now 24%**



**Median age of construction worker is 41**



**Workers aged 25 to 54 make up 69% of sector in 2019**  
**Down from 72.2% in 2015**

# Regulatory Costs \$93,870 Per New Home (11% Gain 2016 to 2021)

*Total effect of building codes, land use, environmental and other rules*

**23.8% of price**



Source: NAHB/Wells Fargo Housing Market Index (HMI)

# Harmful Regulatory Policies – You Get What You Plan For



## Exclusionary zoning



New England has, by far, the largest lots in the nation  
0.9 acre average vs. less than 0.2 national average



## Inclusionary zoning



Mandating building housing that fails economic tests  
Requires subsidies OR acts as a tax on housing supply



## Other regulatory challenges:

Housing as revenue source, parking requirements, green space rules, etc

# Helpful Policies to Build Housing



**Enable construction of medium or light-touch density  
Townhouses, duplexes, etc.**



**Reduce development fees and taxes  
Shift impact fees to bond financing**



**Accelerate the permitting and approval process  
Workforce development**



**Goal: More starter homes  
Build more entry-level homes at price of \$250K and \$400K**



**Homes priced under \$300,000 were 34% of sales a year ago  
Just 14% of sales nationally today**



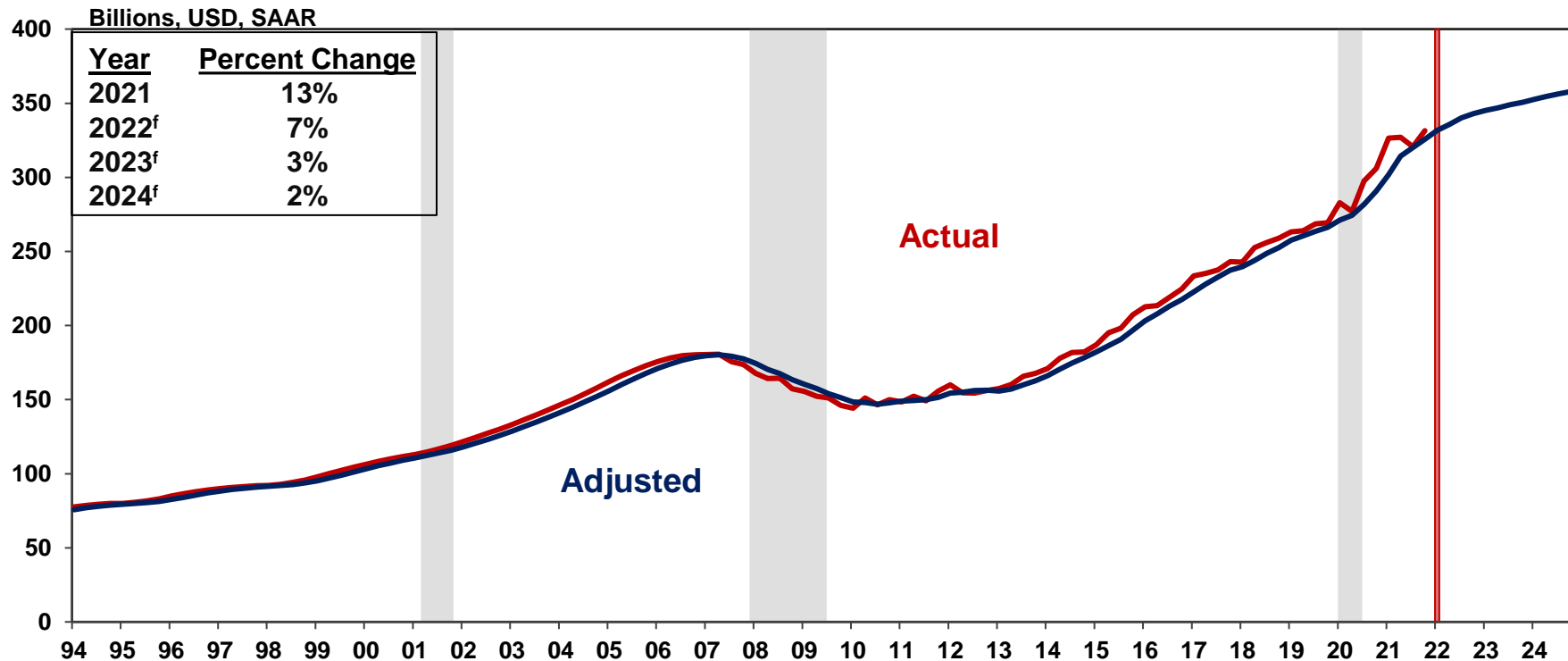


# Construction Outlook



# Residential Remodeling

*Remodeling growth boosted by home equity gains*

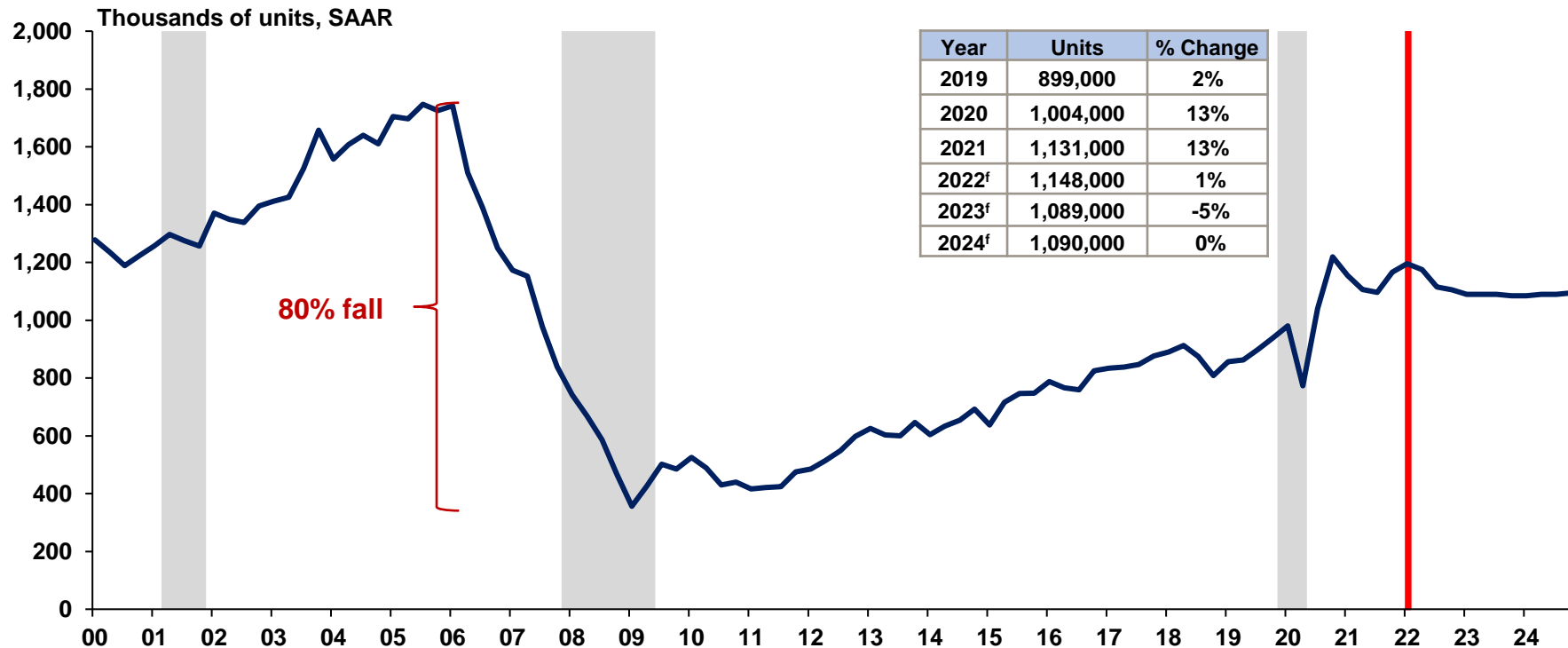


Source: U.S. Bureau of Economic Analysis (BEA): National Income and Product Accounts (NIPA) and NAHB forecast.

Note: In the analysis, 1-year moving average is used for adjusted data to smooth the trend.

# Single-Family Starts

*Growth slows in 2022 and 2023, returning to long-run trend but 26% higher than 2019*



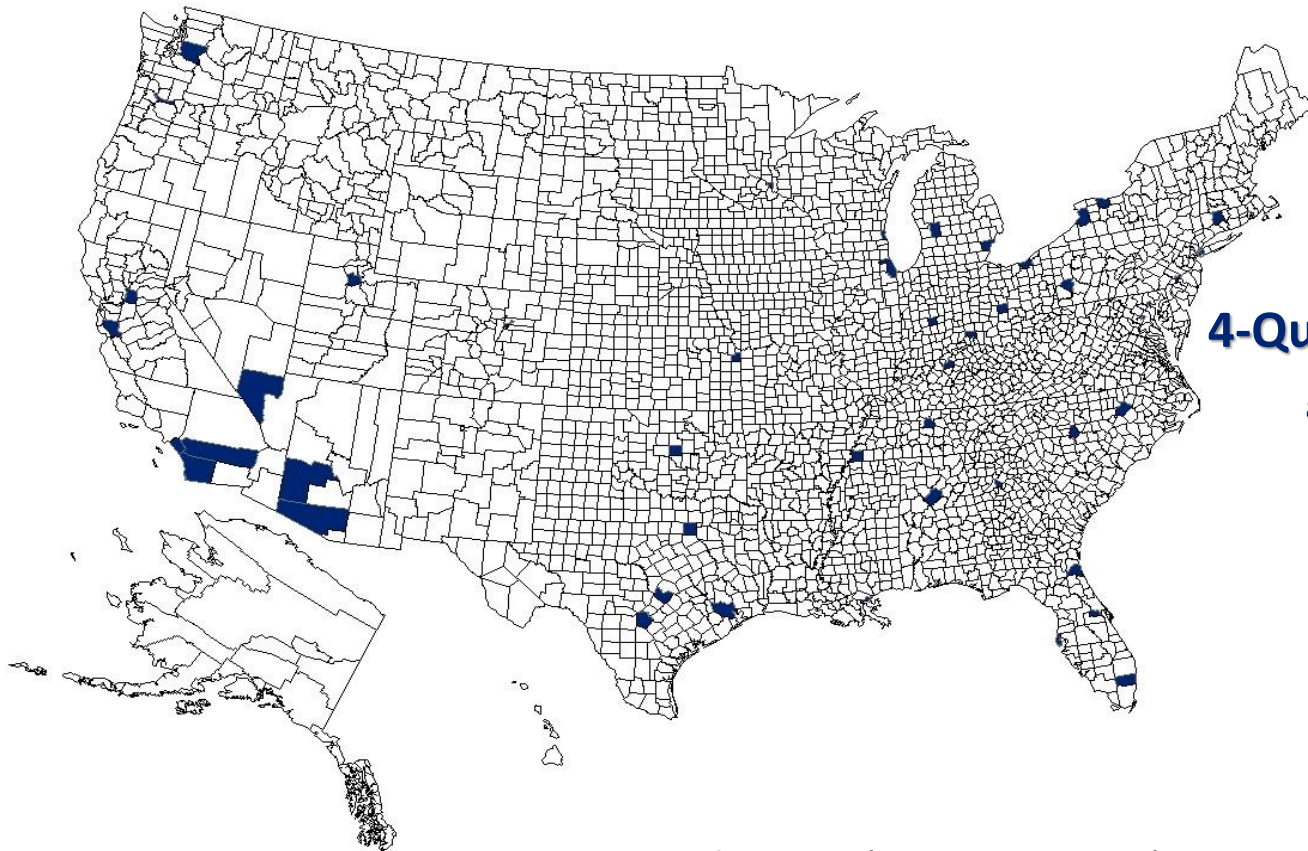
Source: U.S. Census Bureau (BOC) and NAHB forecast

# Top 10 Largest Single-Family Markets by Permits

Top 10 Largest SF Markets	December 2021 (# of units YTD, NSA)	YTD % Change (compared to 2020)
Houston-The Woodlands-Sugar Land, TX	52,399	9%
Dallas-Fort Worth-Arlington, TX	49,931	14%
Phoenix-Mesa-Scottsdale, AZ	35,188	11%
Atlanta-Sandy Springs-Roswell, GA	31,766	13%
Austin-Round Rock, TX	24,438	13%
Tampa-St. Petersburg-Clearwater, FL	19,300	20%
Charlotte-Concord-Gastonia, NC-SC	18,997	7%
Orlando-Kissimmee-Sanford, FL	17,705	14%
Jacksonville, FL	16,521	27%
Nashville-Davidson-Murfreesboro-Franklin, TN	16,351	15%

# / NAHB Home Building Geography Index

*16.6% of single-family construction takes place in Large Metro – Core County*



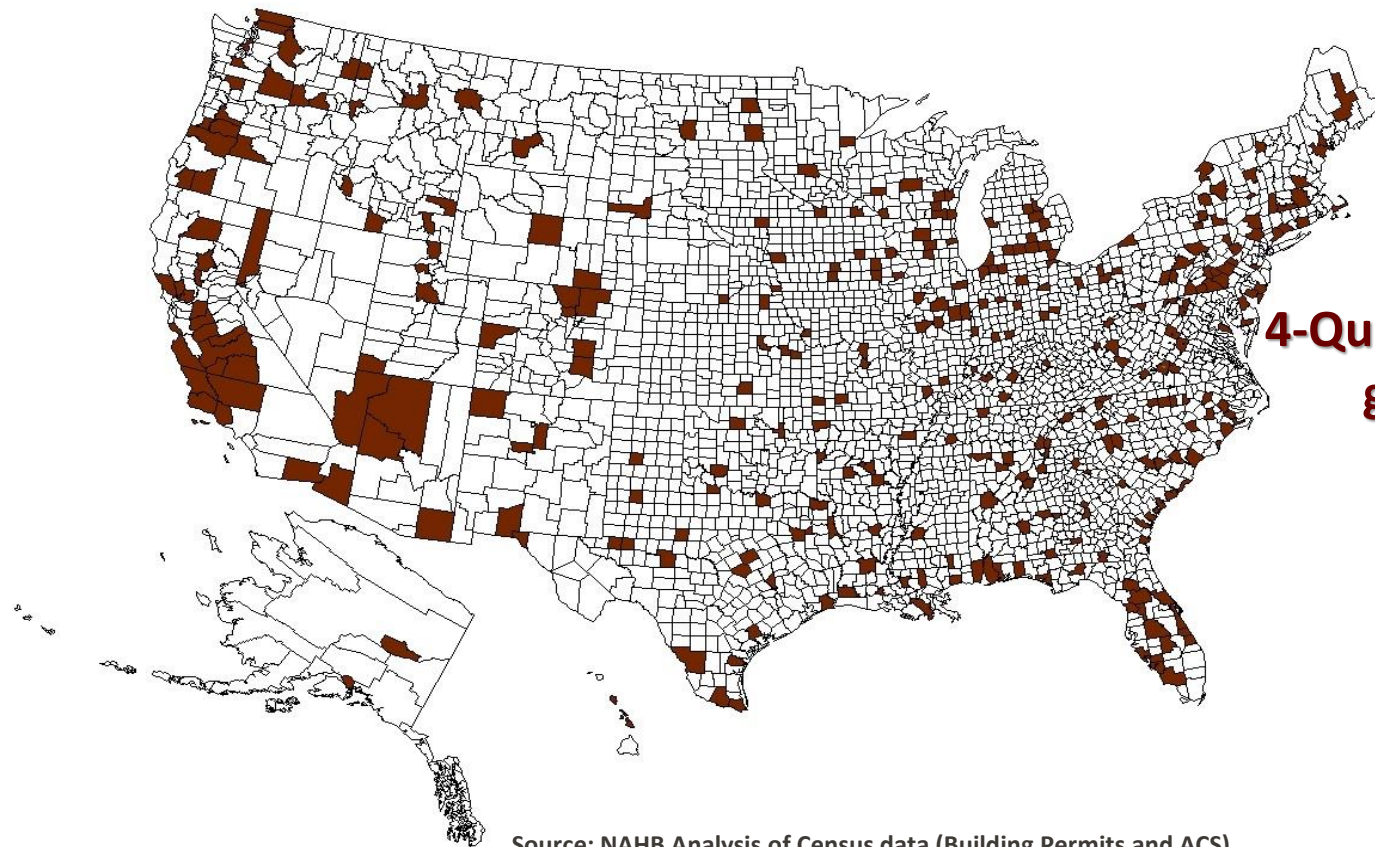
**Q1 2022**

**4-Quarter MA of YoY  
growth rate:  
8.8%**

Source: NAHB Analysis of Census data (Building Permits and ACS)

# / NAHB Home Building Geography Index

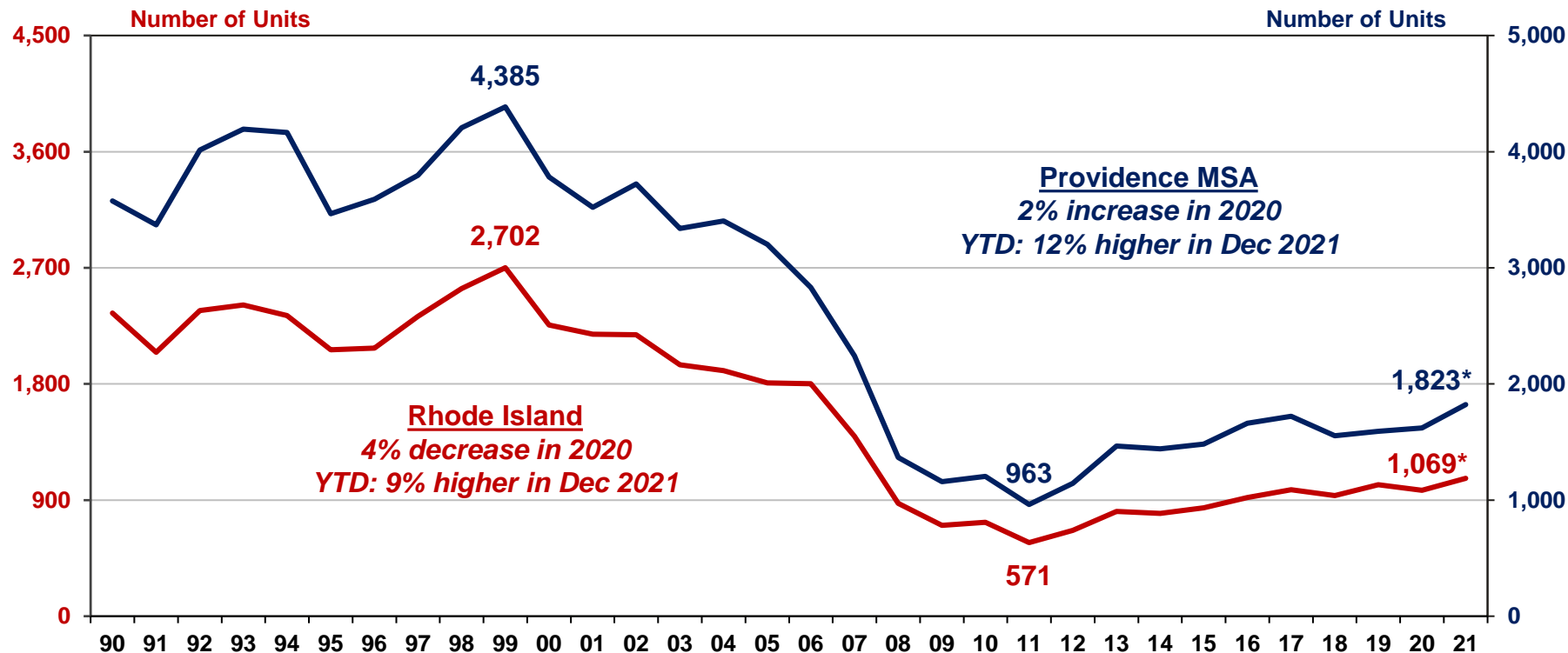
*29.2% of single-family construction takes place in **Smaller Metro – Core County***



**Q1 2022**  
**4-Quarter MA of YoY**  
**growth rate:**  
**10.7%**

Source: NAHB Analysis of Census data (Building Permits and ACS)

# Single-Family Building Permits — RI and Providence MSA



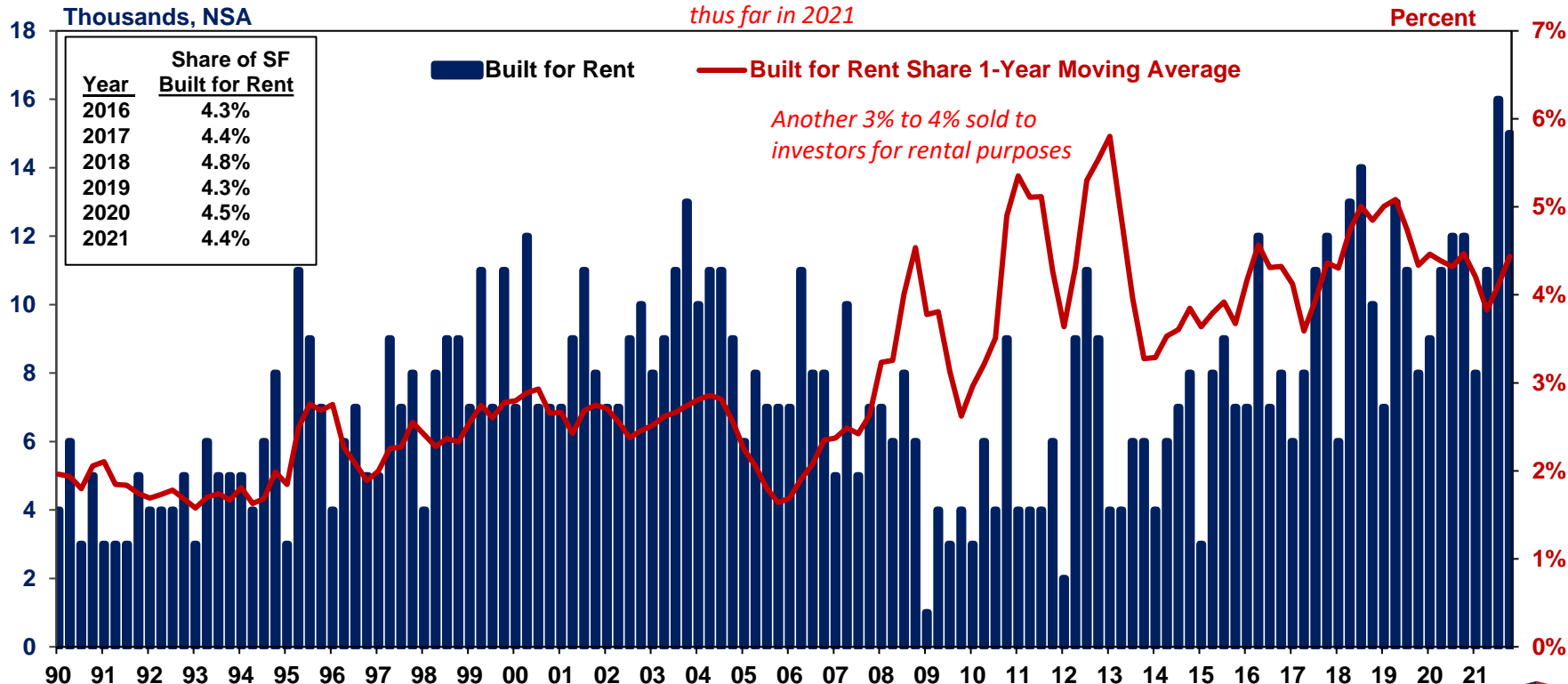
Source: Census Bureau.

Note: \* 2021 permits are estimated based on the December 2021 YTD growth rate, as 2021 annual data are not available yet.

# Single-Family Built-for-Rent Construction

*A window of opportunity*

*25% of builders have seen an uptick of investor buyers thus far in 2021*

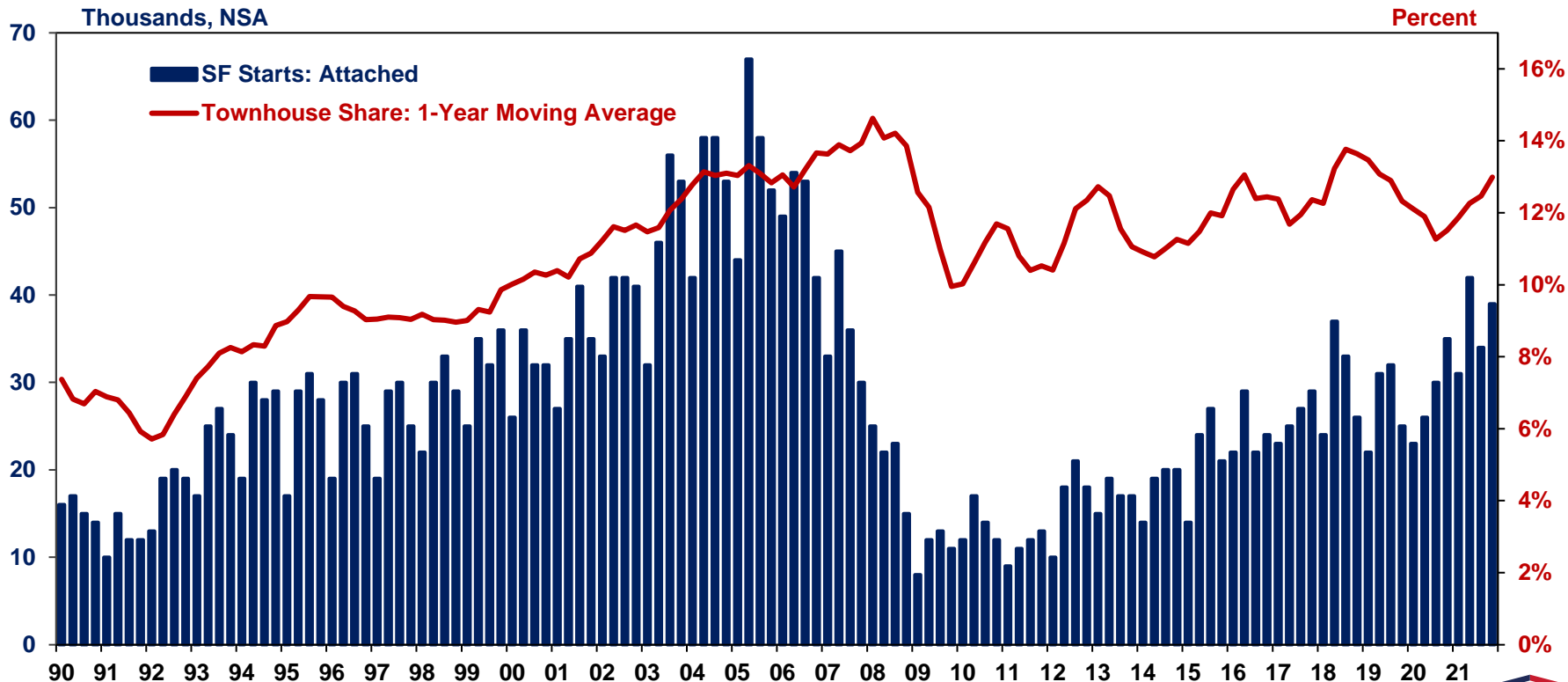


Source: U.S. Census Bureau (BOC)



# Townhouse Construction Surged in 2021

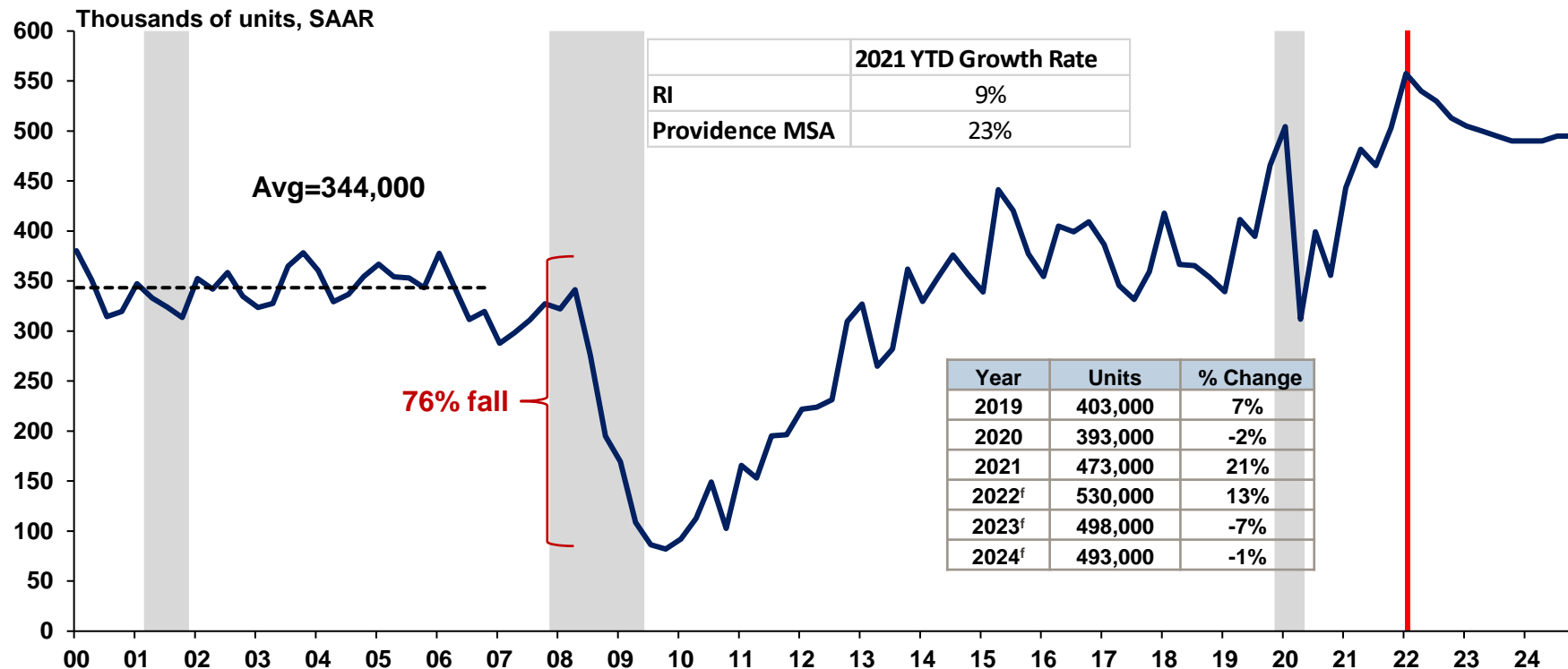
*Market share of new townhouse rebounded after recent declines*



Source: U.S. Census Bureau (BOC)

# / Multifamily Construction Growing

*Multifamily growth rising on low vacancies and rising rents*



Source: U.S. Census Bureau (BOC) and NAHB forecast

# Moment of Opportunity for Housing Policy Leadership



Changing geography of housing demand has provided  
buyers, renters and businesses more options



Markets can provide housing supply when allowed to operate



Subsidies play a role at the very-low end (LIHTC as an example)  
Workforce and middle-class supply needed as well



Not just the South that is growing  
Pockets of Midwest, central New Jersey, Mountain states



A home is where a job goes at night  
Housing = Jobs

# Thank you

*Questions?*

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Economic Leadership Sponsor

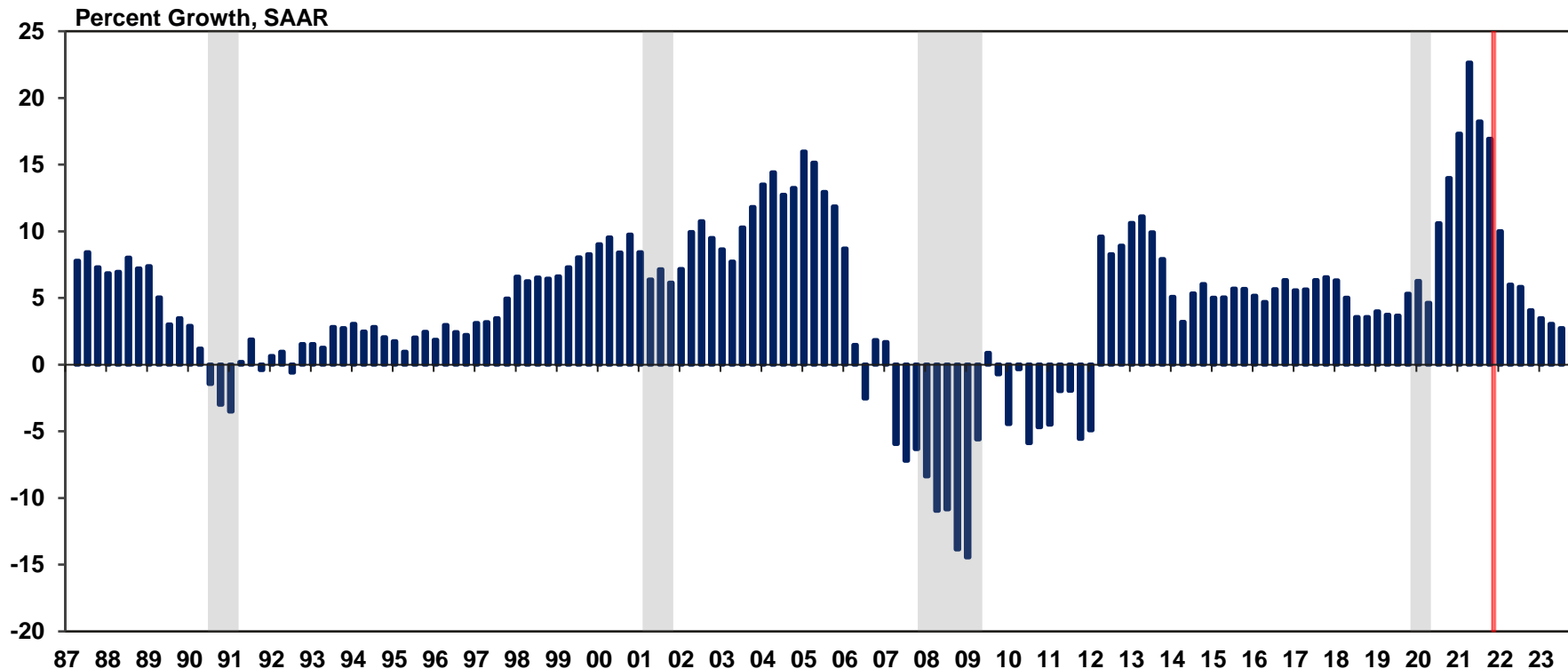


Home Mortgage

*eyeonhousing.org*  
*housingeconomics.com*

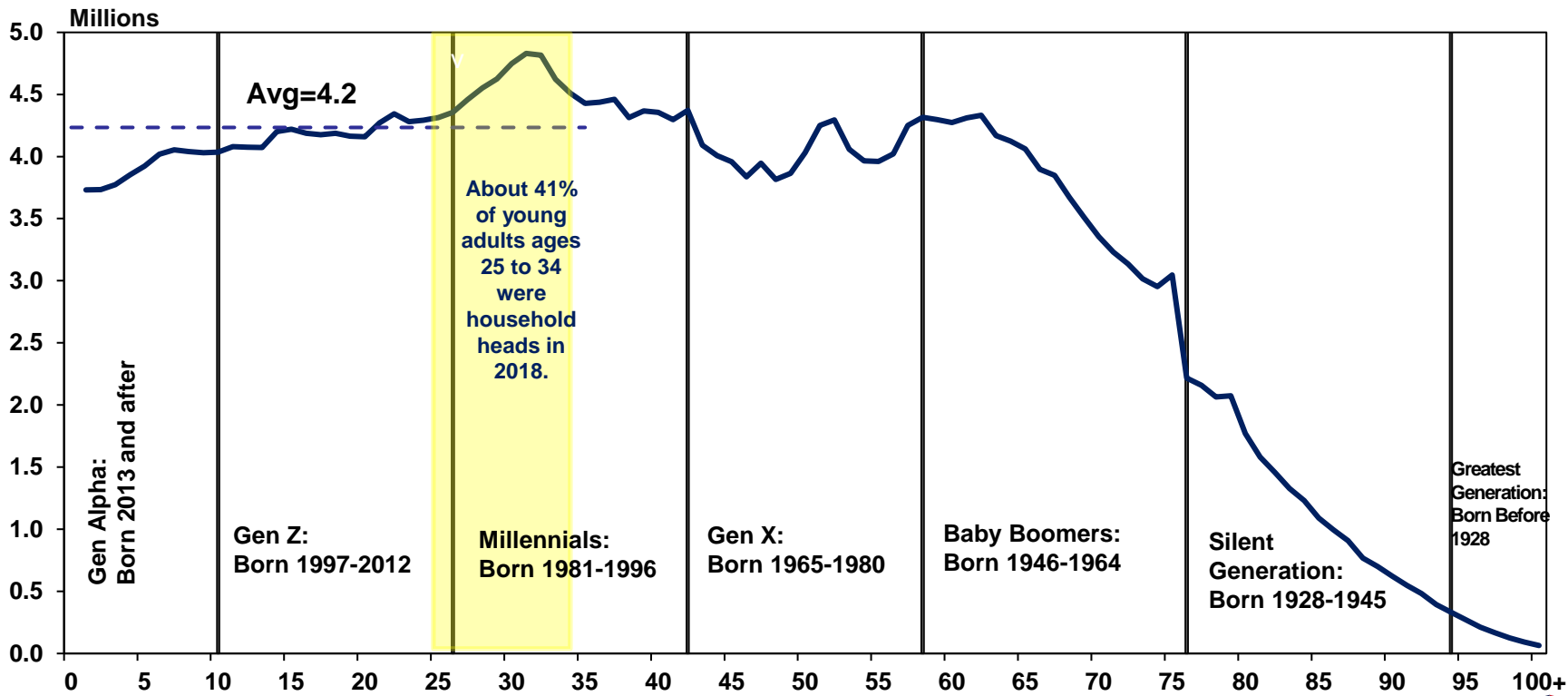


# Slowing Prices as Homeownership Moves out of Reach



# Rising Population Entering Housing Demand Years: 2022

*Gen X the majority of new construction home buyers*



Source: U.S. Census Bureau (BOC).