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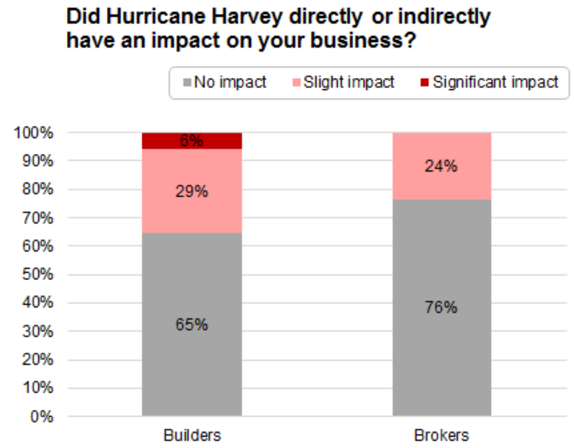
Did Harvey Influence the Housing Market?

The August housing and construction data are starting to trickle in. So far, the data tell us that residential investment could be a drag on third-quarter gross domestic product growth. They also tell us that U.S. existing home sales were down slightly (-1.65 percent) from the month-earlier level but flat to slightly up (0.19 percent) from the year-ago level. Housing starts tell a similar story: total starts were down slightly (-0.84 percent) from one month earlier but up slightly (1.37 percent) from one year earlier. Year over year, new residential sales were down 1.2 percent.

The Atlanta Fed conducts a monthly survey of residential brokers and homebuilders in the Southeast to detect emerging real estate trends before the release of official statistics. In the most recent Construction and Real Estate Survey, many builders said they expect home sales to be flat over the next three months relative to the same period last year, while most brokers continued to anticipate slightly higher sales. A large share of builders expect construction activity over the next three months to hold steady or increase slightly.

The survey included a handful of special questions to give better insight into current market conditions and pressure points. The first question asked whether Hurricane Harvey had an impact (directly or indirectly) on their business. Most respondents said that Harvey did not.



Source: Atlanta Fed's Construction and Real Estate Survey

Those who said they experienced some effects from Harvey (35 percent of homebuilders and 24 percent of residential brokers) were asked to provide more details. Some respondents said they have seen upward pressure on fuel costs, extended lead time on deliveries, and additional pressure on already tight labor markets. Several respondents cautioned, however, that it was too soon to assess the full extent of the impact.

We should note that Hurricane Irma passed directly through the region toward the end of the polling period. As a result, disentangling which storm the comments referred to was sometimes difficult. We will follow up on the impact of Irma in next month's poll. We hope that affected builders and brokers will be able to respond.

In the second set of special questions, we asked residential brokers and homebuilders to look ahead over the next 12 months and rank risks to their housing market outlook. Declining affordability emerged as the top risk facing the housing market, followed by supply-chain constraints and lack of for-sale inventory.

Looking ahead over the next 12 months, please rank order the following risks to your housing market.	Average Rank Order Score	Builder Rank Order Score	Broker Rank Order Score
Declining affordability	57	56	57
Supply chain constraints	51	64	38
Lack of available for-sale inventory	41	28	54
Waning consumer confidence	35	32	38
Other	21	27	15
Credit availability challenges	11	17	6

Note: Respondents were asked to rank order the factors. A rank of one scored 7 points, two scored 5 points, three scored 3 points, and four scored 1 point. No scores were assigned to ranks greater than 4.

Separating broker and builder responses shifts the top risks a bit. Considering broker-only responses, the top risks were declining affordability and lack of for-sale inventory. For the builder-only responses, the top risks were supply-chain constraints and declining affordability.

Anticipating that supply-chain constraints would, in fact, be one of the top risks to builders' housing market outlook, we also asked builders to complete the same exercise with supply-chain constraints. Builders said rising costs (of vacant developed lots, or VDLs, materials, and land) along with labor shortages topped the list of supply-chain constraints.

Looking ahead over the next 12 months, please rank order the following risks to your housing market.	Rank Order Score
Rising cost of vacant developed lots (VDLs)	43
Upward pressure on material costs	30
Labor shortages	23
Rising cost of land	22
Other	21
Dwindling lot inventories	19
Costly land titling process	17
Upward pressure on labor costs	14
Construction financing challenges	11
Burdensome/costly local ordinances	11
A&D financing challenges	7
Burdensome/costly federal regulations	3
Burdensome/costly state regulations	3

Note: Respondents were asked to rank order the factors. A rank of one scored 7 points, two scored 5 points, three scored 3 points, and four scored 1 point. No scores were assigned to ranks greater than 4.

The responses to these special questions confirm some of the anecdotes we've heard through other channels—that is, builders are worried about declining affordability and tight inventory levels. Also, importantly, supply-chain constraints remain a barrier to any acceleration in bringing new inventory to market. Interestingly, ADC (or acquisition, development, and construction) credit challenges appear to be less pressing now than in years past, while concerns about construction costs appear to have become more elevated. Views on labor shortages remain unchanged—they have been and continue to be a top concern.

We conducted this poll September 5–13, 2017. It reflects the views of 17 homebuilders and 18 residential brokers across the Southeast. View the Southeast Construction and Real Estate Survey results in more detail on the Atlanta Fed website.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