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Where Is the Housing Sector Headed?

One element that has distinguished the expansion following the Great Recession from expansions following prior recessions is the slow recovery of the housing sector. Recent data releases relating to home sales activity and new construction point to a housing market that continues to grow at a slow but steady pace. Single-family starts are increasing but remain low by historical norms. According to the U.S. Census Bureau, the 12-month moving average of multifamily starts has peaked after increasing steadily over the last several years. The data releases since the initial fourth-quarter GDPNow nowcast on October 30 have, on net, brightened the outlook for residential investment.

These numbers tell us where we are but not what lies ahead.

To supplement official data releases, the Atlanta Fed collects anecdotal information from market participants. This information helps us detect shifts in trends and concerns that may influence the future direction of housing. Results from our recent industry forums and surveys indicate that (1) we should expect more of the same slow, steady growth, and (2) there are downside risks to the outlook.

On December 1, in conjunction with the Georgia State University Department of Real Estate, the Atlanta Fed held a Real Estate Industry Forum to discuss current trends and challenges facing the real estate industry. The good news from the panel of chief economists was that demographics—especially with millennials entering the age of household formation and house purchasing—and other underlying fundamentals, such as employment growth and tight inventory, continue to support an optimistic outlook for housing demand. The supply of housing is where most of the concerns sit.

The industry forum panelists noted that some geographies face supply constraints that will hinder the delivery of housing sufficient to match increased fundamental demand. Such observations are consistent with responses we received in our November 2017 Construction and Real Estate Survey. In the poll, most builders reported labor cost increases from the year-ago level; nearly two-thirds of respondents said labor costs had increased more than 3 percent. All builders said material costs had increased over the same period. Many continued to note that the amount of available credit for construction and development remained insufficient to meet demand. Builders said they expect construction activity over the next three months to be flat to down.

When asked if they would be able to meet a sudden spike in demand for homes, Southeast builders' responses were split: 46 percent said they would not be able to handle the spike in the demand, while 38 percent said they would. Most builders indicated they faced challenges with hiring and that it was affecting their ability to grow their businesses. Of those experiencing difficulty hiring, more than half attributed it to the homebuilding industry—that is, too much demand for construction laborers or too few workers. One-fifth attributed the labor shortage to workers lacking the necessary skills set. The responses to open-ended, follow-up questions reiterated these findings; respondents cited lack of skills and poor work ethic as the top challenges to finding quality workers.

One interpretation of builders' inability to grow their business or respond to a spike in demand is that the market is near equilibrium. That is, production is at a point such that increasing the scale of operations is not profitable, and scaling back production does not improve profitability either. Improving the supply of labor can be done, but will take time in terms of training and skill acquisition. The timing and extent to which the access to financing can be improved is less known. While underlying fundamentals support an optimistic outlook for the housing sector, supply chain constraints imply only measured near-term residential investment growth.

ABOUT

Real Estate Research provided analysis of topical research and current issues in the fields of housing and real estate economics. Authors for the blog included the Atlanta Fed's Jessica Dill, Kristopher Gerardi, Carl Hudson, and analysts, as well as the Boston Fed's Christopher Foote and Paul Willen.

In December 2020, content from *Real Estate Research* became part of *Policy Hub*. Future articles will be released in *Policy Hub: Macroblog*.

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By Jessica Dill, economic policy analyst in the Research Department and

Carl Hudson, director of the Center for Real Estate Analytics

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