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03/25/2014

Southeast Housing Update: Whether It's the Weather

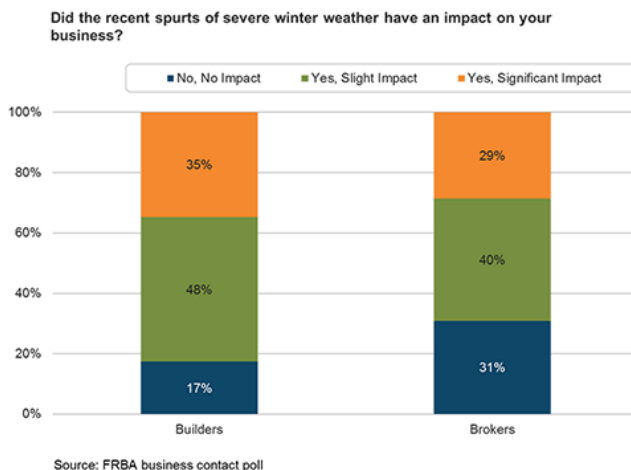
Since the beginning of the year, housing indicators have been less robust than expected. Existing home sales, as reported by the [National Association of Realtors](#), have declined on a year-over-year and month-over-month basis for the past few months. Housing starts, as reported by the [U.S. Census Bureau](#), have declined from a year ago for the last two months. The big question seems to be why. A popular explanation is that the weather is responsible for all the recent ills in housing. Let's turn to the Atlanta Fed's monthly poll of Southeast broker and builder business contacts to see whether factors besides the weather are being overlooked.

Our contacts' responses indicate they have picked up on the slowing pace of growth in home sales, buyer traffic, and construction activity. The majority of contacts continued to indicate an increase in sales on a month-over-month and year-over-year basis, although fewer Southeast builder and broker contacts reported an increase in home sales relative to the prior month.

Reports on buyer traffic were mixed. The diffusion index of responses is near zero, which means roughly the same number of contacts reported increased activity as reported decreased activity. Though most comments indicated that winter weather conditions slowed buyer traffic, a few comments noted that web inquiries during the same period increased. Steady web activity is consistent with buyer interest remaining constant and waiting out the weather to look at properties in person.

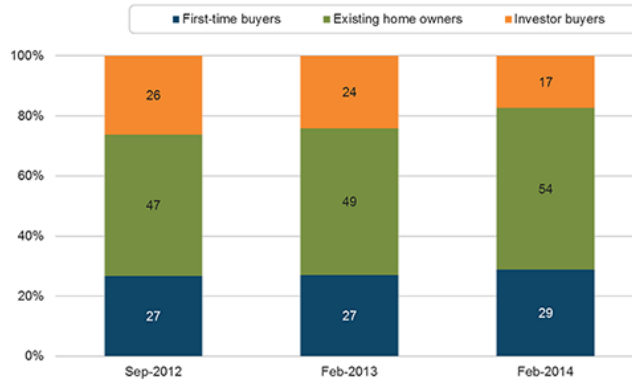
Overall, builders continued to report an increase in construction activity in February, but fewer builders reported an increase this month than in the past few months. To better understand what was behind this weakness, we added several special questions to our most recent poll.

We asked contacts if the recent spurts of severe winter weather had an impact on their business. More than three-fourths of our builder contacts and just shy of three-fourths of our broker contacts indicated that, indeed, the gusts of severe winter weather had in fact had a slight to significant impact on their business (see the chart). Brokers and builders explained that the severe weather events slowed home sales (for example, delayed closings), buyer traffic, and the delivery of new homes to the market.



We also asked our contacts several questions about investor buying activity, since investors have been a driving force for improvements in many housing markets, and their exit from the market could account for some of the slowing in housing markets. It appears investor participation has waned somewhat based on our poll results (see the chart).

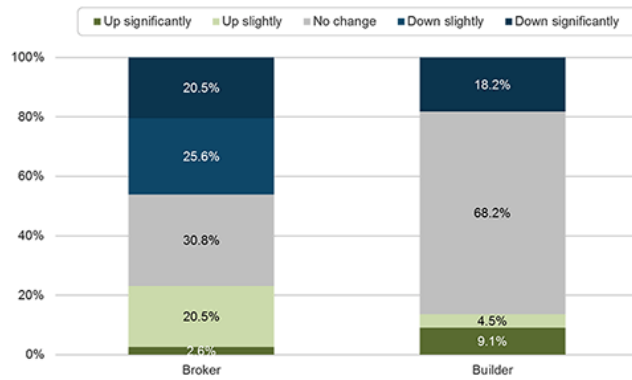
Southeast Composition of Home Buyers
Average Share of Home Sales to Each Buyer Segment



Source: FRBA business contact poll

Digging a little deeper to better understand the variation across markets, we learned that more than half of brokers indicated that sales to investors were flat or had increased on a year-over-year basis; only 46 percent indicated a decline. So, while investor participation may have fallen at a regional level, investors are still very present in certain markets across the Southeast (see the chart).

Southeast Home Sales to Investors
February 2014 vs. Year-ago



Source: FRBA business contact poll

Given the results to our inquiries, you might conclude that weather and waning investor interest account for much of the weakness in recent housing data. However, our contacts reported that this was not necessarily the case. While the weather events and pullback of investor buying in some markets may be contributing to the slowdown, contacts indicated that higher home prices, higher mortgage rates, and limited inventory were the most significant factors contributing to the weakness in recent housing data (a recent *Real Estate Research* post [discusses](#) changes in affordability). Perhaps more importantly, the majority of broker and builder contacts indicated that they do not expect the recent weakness in housing to persist (see the table).

Factors Influencing Recent Slower Growth in the Housing Market	Score
Higher home prices	158
Limited inventory	114
Higher mortgage rates	108
Fewer distressed sales	76
Weather disruptions	56
Less investor buying	44
Other	42
Supply-chain constraints for new homes.	26

Note: Respondents were asked to rank the factors. A rank of one scored 7 points, two scored 5 points, three scored 3 points, and four scored 1 point.

Source: FRBA business contact poll

So, to what extent were the official numbers affected by the harsh weather? The answer is still up in the air. Based on our latest survey results, it appears that a confluence of factors contributed to the recent weakness but that these headwinds will not be strong enough to derail the continuing recovery in housing.

Note: February poll results are based on responses from 42 residential brokers and 23 homebuilders and were collected March 3–12, 2014. The housing poll's diffusion indexes are calculated as the percentage of total respondents reporting increases minus the percentage reporting declines. Positive values in the index indicate increased activity, and negative values indicate decreased activity.

If you are a real estate broker or homebuilder and would like to participate in this poll, please let us know by sending a note to RealEstateCenter@atl.frb.org.



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March 25, 2014 in [Construction](#), [Housing](#), [Purchasing](#), [Real Estate](#), [Weather](#) | [Permalink](#)


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