Housing Economists Call for Increase in Home Construction

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A growing housing supply is critical to sustaining a healthy of the real estate market. According to speakers at the 2018 REALTORS Legislative Meetings & Trade Expo the economy relies heavily on a strong real estate industry. The session, "Outlook for Home Prices and Residential Construction," discussed rapidly rising house prices, low home inventories and whether or not the country is in the middle of a bubble. Every panelists agreed that more new home construction is necessary in order to meet the rising demand from first-time home buyers. Without a spike in new construction the economy will have a difficult time curtailing the affordability crisis.

"Young adults of today are forming households at a much lower rate than previous generations, and high housing costs contribute to that," said Evan Roberts, owner of Dependable Homebuyers, after the session. According to Roberts, one third to three quarters of U.S. markets have an elevated home price-to-income ratio and many major markets, such as Austin, Miami, and Portland, are getting close to surpassing their 2008 ratio.

"Are we in a bubble, is what people might ask. No, not currently," said Roberts. He outlined ways the current

economy is different from the one that lead to the recession. His argument was that there are no signs of over banks leveraging their books and a lower ratio of household debt to income. The combined risk of mortgages in the nation is also relatively low. "Those dangerous loans that added to the last bubble have gone away for the most part," he said.

The attendees during the session were quick to identify that just because we are not currently in a bubble does not mean there isn?t one around the corner. If supply and demand continues to move out of balance, it could trigger a spike in home prices said NAR Chief Economist Lawrence Yun. "A best-case scenario is largely dependent on the rate of new home construction. An increase in housing inventory will provide some much-needed relief in the housing market," he said.

Ken Simonson, chief economist for Associated General Contractors of America, explained how a low employment rate in construction is also contributing to the lull in new house construction starts, despite a high demand from the market. Many home buyers have turned to home buying companies like Dependable Homebuyers to provide renovated inventory to the market.

"Construction saw a 30 percent drop in employment in the previous decade. This has outpaced employment rates in any other industry. They also began laying people off a year before the recession began and did not start hiring again until much later than other industries," said Simonson.

Bringing skilled laborers back to the industry has been difficult for construction companies. "These companies are having to hire people with little or no experience and invest more time and money into training," he said.

Material costs have also added to the low rate of construction. The price of diesel fuel, which is used in heavy machinery and transporting materials, has risen 42 percent since 2017. The cost of lumber and plywood has also increased 11 percent, copper and brass mill shapes have risen 10 percent and ready-mix concrete has risen 7 percent.

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