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Builder Confidence Rises with Lower Rates

The home building industry ended 2018 on a sour note. Single-family construction declined for the fourth straight month in December, falling 7% to a 758,000 annualized pace — the slowest in more than two years. Apartment construction was also down in the final month of the year. However, for the year as a whole, single-family starts posted a 2.8% gain relative to 2017 totals, while multifamily construction was up 5.5%.

NAHB surveys suggest future housing market trends. Single-family builder confidence, as measured by the NAHB/Wells Fargo Housing Market Index, rose in February after registering steep declines in November and December — foreshadowing market declines at the end of 2018. Recent stabilization in the survey are consistent with NAHB's single-family forecast calling for relatively flat conditions in 2019. The Multifamily Production Index, a quarterly developer survey, fell to a level of 47 in the final quarter of 2018. The reading suggests negative market conditions on a net basis, and matches our forecast for multifamily production to level off in 2019.

Housing affordability remains near a 10-year low and will weigh on single-family home demand throughout the year ahead. Affordability rates will continue to be hindered by rising construction costs, much of which can be attributed to the tight labor market: Job openings in the construction sector reached a cycle high of 382,000 in December — compared to just 149,000 one year ago. Builder financing conditions are also an increasing concern. NAHB survey data from the end of 2018 found the median interest rate for land acquisition and speculative single-family construction rose to 6%. And a separate Federal Reserve study found that lending conditions for commercial real estate loans are tightening.

—NAHB Chief Economist Robert Dietz

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