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Greg Brooks, editor | 303 845 4880

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# THIS MONTH

IN CONSTRUCTION SUPPLY

JAN 2012

## THE UGLY DUCKLING



By Greg Brooks. You can be excused if you're a little skeptical about all the optimism in the media over housing the past few weeks. Just the same, happy talk is better than the other kind.

The [Wall Street Journal](#) says big hedge funds are "starting to wager on housing," jumping into home builder stocks in anticipation of a big boost this year. Ivy Zelman of Zelman & Associates predicted the impending crash back in 2005, and was so relentlessly negative on housing that

public builders called her "Poison Ivy." Zelman is now convinced we're on the verge of [a comeback](#). [Forbes](#), JPMorgan's [Jaime Dimon](#), and [CoreLogic](#) all insist the market has finally hit bottom and is poised for an upswing sooner rather than later.

Let's hope. So far this housing downturn has seen more false bottoms than a liposuction convention.

If you're simply comparing 2011 with 2010, it wasn't much of a game. Single-family starts wound up down 8.9% YoY, while multifamily rose only 3.4%. But the action was all in the third and fourth quarters.

49,000 multifamily starts in 4Q 2011 were more than double the 24,200 during the same period in 2010. While existing home sales rose only 1.7% on the year, sales during the last six months beat the same period in 2010 by nearly 13%. Unsold inventory fell from 9.5 months in July to 6.2 months in December, their lowest level since April 2006.

Six months is considered to be a healthy balance between supply and demand. But some markets are so hot – for example, Las Vegas, where existing home sales set an [all-time record in 2011](#) – that inventories are down

to three or four months and realtors are complaining of shortages. Vegas isn't the only unlikely candidate for an early turnaround, either. Due in part to an influx of Canadian second-home buyers, REO inventories are falling so fast in Phoenix that local market analysts now project [single-family permits](#) will hit 11,300 in 2012, up 66% from 2010.

Moreover, the big picture also looks healthier than it did a year ago. While mortgage delinquencies are still double their normal rate at 8.15% as of November, they're down 9.6% YoY after a 15.6% drop in 2010, says [LPS Applied Analytics](#). Last week, [initial unemployment claims](#) fell to 352,000, their lowest level since April 2008. The private sector added 1,920,000 jobs in 2011, 64% above the 1,172,000 jobs created in 2010.

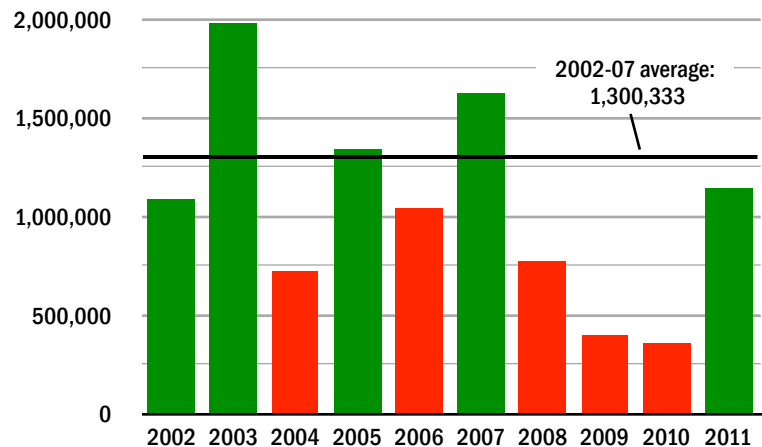
The result is just what you'd expect: As jobs come back, doubled-up households start to separate again. According to the Census Bureau, new household formation bounced back to its pre-recession level in 2011, more than tripling from 357,000 in 2010 to 1,114,000.

That's why [apartment vacancies](#) are falling fast and pushing rents up. That encourages multifamily construction, but it also makes homeownership more attractive. The reality is that people don't want to live in apartments (even if they aren't Crapi).

Two years ago at this time, most forecasters thought housing starts would be well over the 1 million mark by 2012. At this point, their projections look pretty modest despite the fact that the press is calling them "[bullish](#)." Here's a sampling (all total starts):

- Fannie Mae: 704,000
- John Burns: 717,000

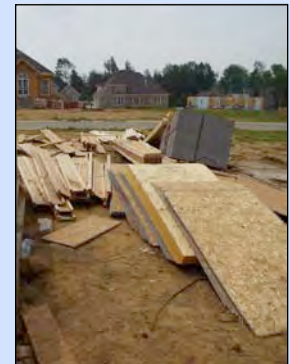
U.S. new household formation, 2002 - 2011. Census Bureau



## OTIF OR NOTIF?

All of a sudden everyone seems to be on the OTIF (on time and in full) bandwagon. No sooner does Ruth Kellick-Grubbs publish a November [white paper](#) on the topic than Bill Lee weighs in with a January [ProSales column](#).

OTIF makes sense, but it also makes me curious how widespread OTIF tracking really is. If you're curious, too, click the link below to answer a two-question survey (yes, just two). We'll publish the results next month.



[Go to THISMONTH's 10-second survey](#)

- NAHB: 709,000
- Wells Fargo: 690,000

That averages out to 705,000, or 16% above the 2011 total of 607,000.

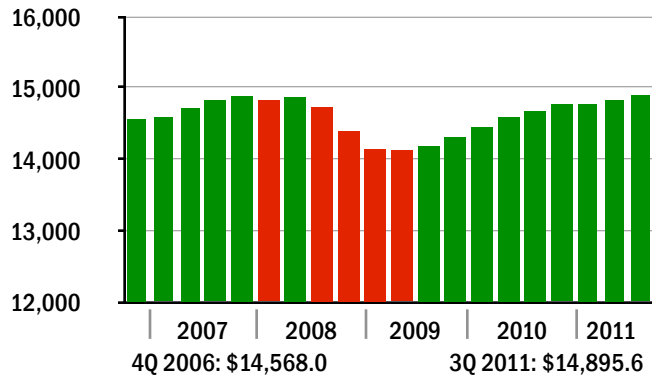
It's not time to pop the cork (or buy a new forklift) yet. Lending is still a major sticking point and, according to most analysts, will be until banks see a light at the end of the foreclosure tunnel.

But three new initiatives may help that process along. First, the long-

## VITAL STATISTICS: U.S. ECONOMY

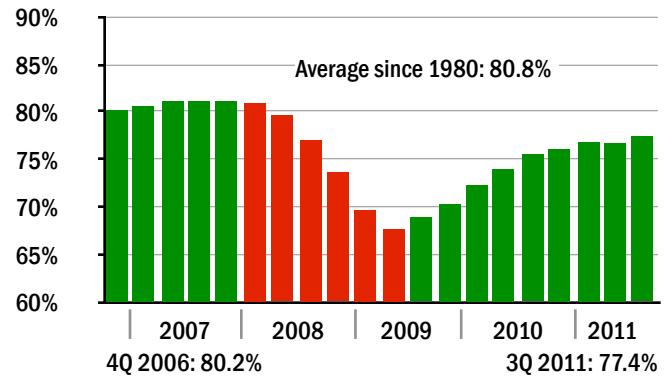
### REAL GDP (2011 \$, BILLIONS)

Bureau of Economic Analysis



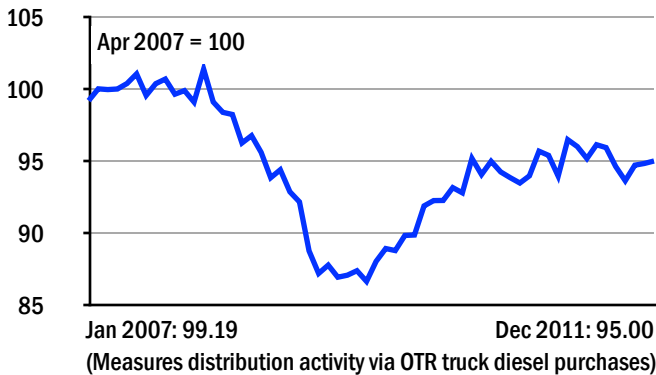
### % OF INDUSTRIAL CAPACITY UTILIZED

Federal Reserve



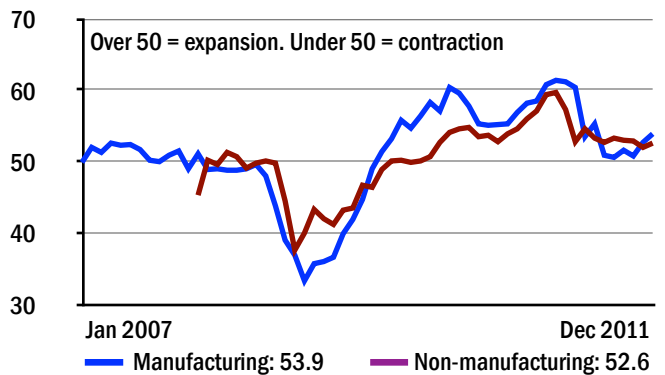
### PULSE OF COMMERCE INDEX

Ceridian/UCLA

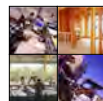


### ISM PURCHASING MANAGERS' INDEX

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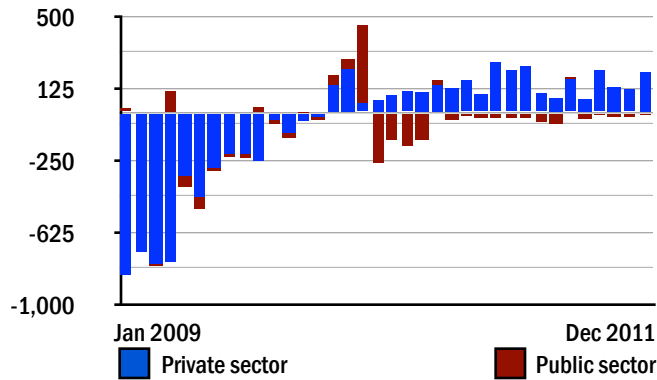
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# VITAL STATISTICS: U.S. CONSUMERS

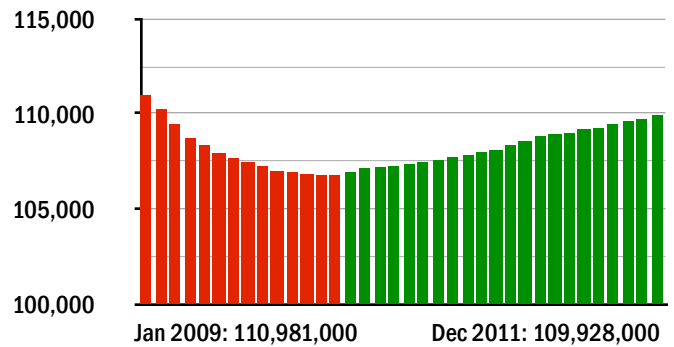
## CHANGE IN EMPLOYMENT (000)

Bureau of Labor Statistics



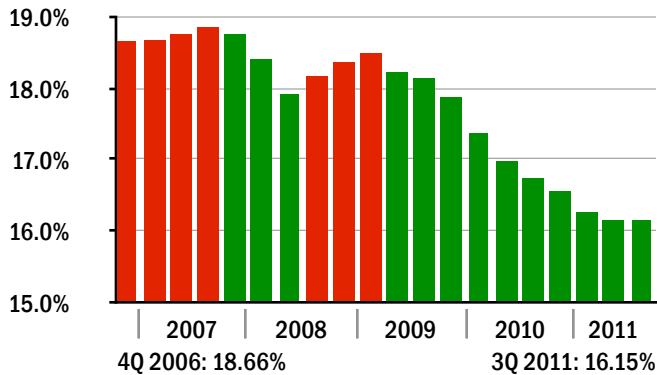
## PRIVATE SECTOR EMPLOYMENT (000)

Bureau of Labor Statistics



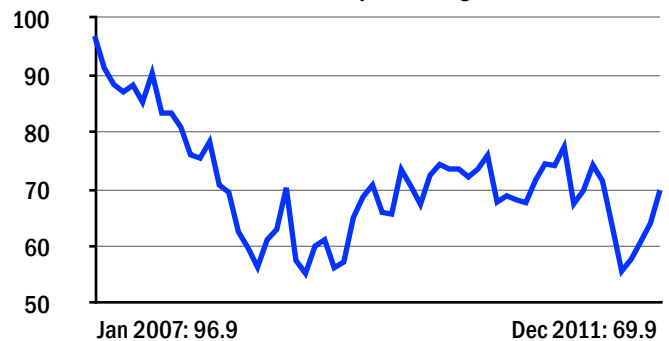
## HOUSEHOLD FINANCIAL OBLIGATIONS AS A % OF DISPOSABLE INCOME

Federal Reserve

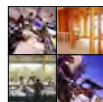


## UNIVERSITY OF MICHIGAN CONSUMER SENTIMENT INDEX

University of Michigan



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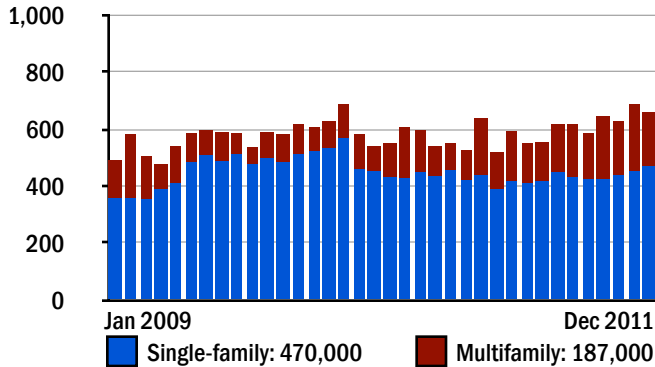


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## VITAL STATISTICS: HOUSING

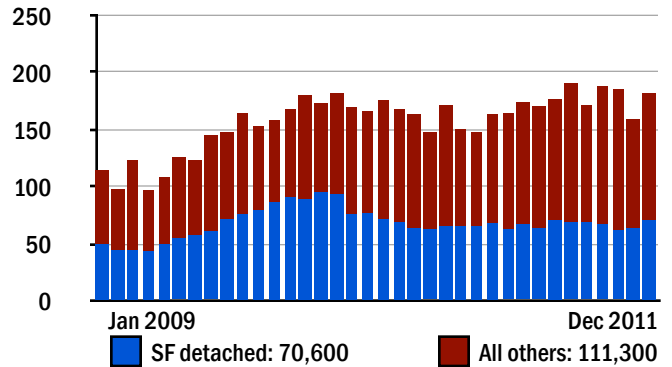
### U.S. HOUSING STARTS (SAAR, 000)

LBM Research (Census Bureau)



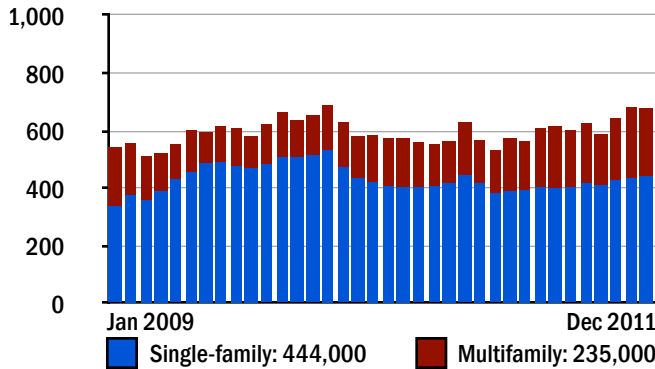
### CANADIAN HOUSING STARTS (SAAR, 000)

Canada Mortgage & Housing Corporation



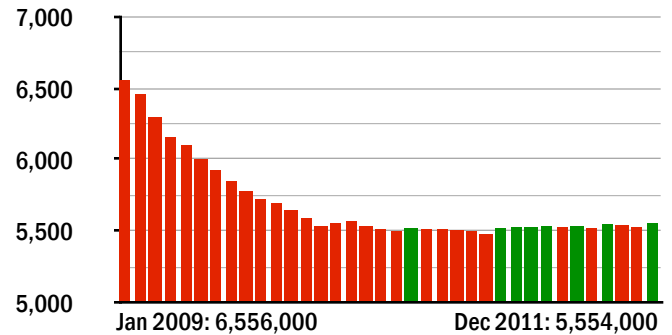
### U.S. BUILDING PERMITS (SAAR, 000)

LBM Research (Census Bureau)

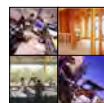


### U.S. CONSTRUCTION EMPLOYMENT (000)

Bureau of Labor Statistics



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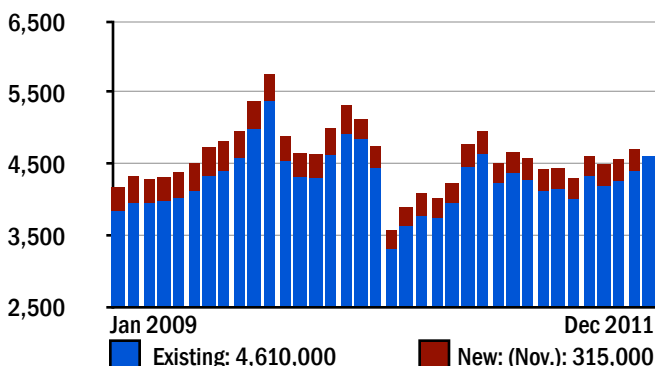
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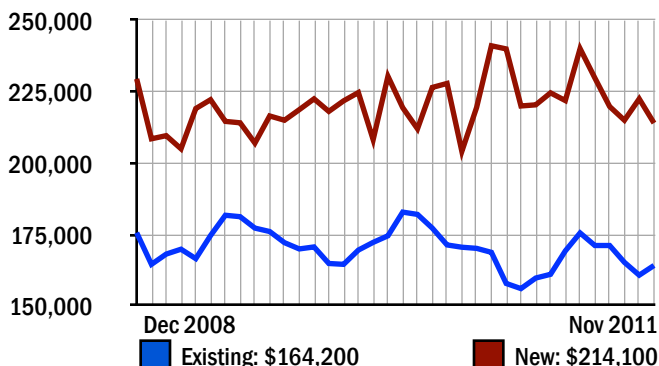
## ANNUALIZED HOME SALES (000)

LBM Research (Census Bureau, National Association of Realtors)



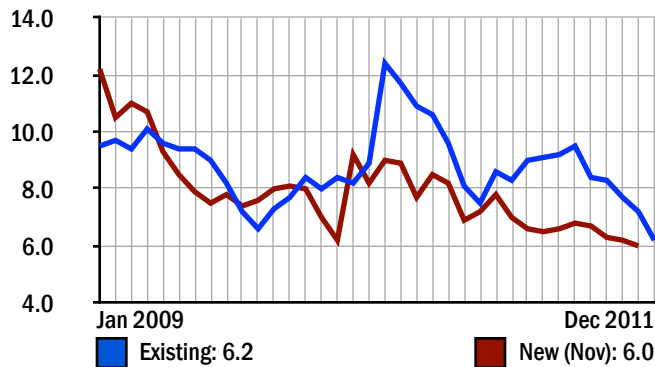
## MEDIAN HOME PRICES

LBM Research (Census Bureau, National Association of Realtors)



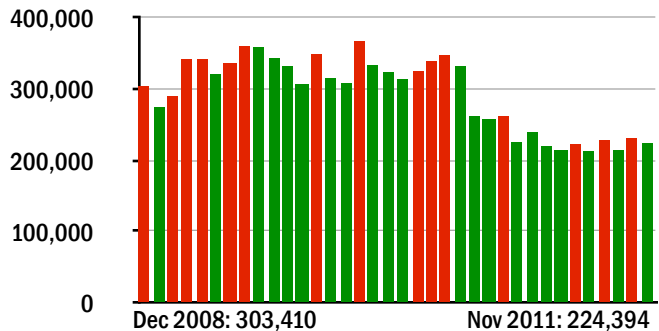
## UNSOLD INVENTORY (MONTHS)

LBM Research (Census Bureau, National Association of Realtors)



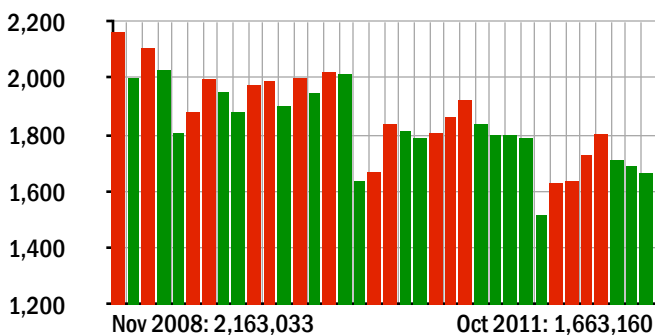
## FORECLOSURE FILINGS

RealtyTrac



## 30-DAY MORTGAGE DELINQUENCIES (000)

LPS Applied Analytics



U.S. housing data compiled by:



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running brawl between big banks and the 50 states' attorneys general is coming to a head. [Time is reporting](#) that banks will shell out \$25 billion in the settlement: \$5 billion in cash, \$3 billion in refinancing for underwater mortgages, and \$17 billion in principal reduction.

Some people aren't going to be pleased about this, but if it give lenders some assurance about the outer limits of their liability, theoretically they'll lighten up on qualified borrowers. Assuming all that happens, both sales and starts would get a boost.

The second initiative is mass refinancing for as many as 10 million homeowners with mortgages guaranteed by Fannie Mae and Freddie Mac. By one estimate, says the [Washington Post](#), "more than 75% of homeowners with 30-year mortgages backed by Fannie and Freddie are paying interest rates higher than 5%." They haven't refinanced for a variety of reasons, some legitimate (can't afford closing costs) and some not (lied about income on their original mortgage application).

Anyone current on their payments would be automatically approved. The Post believes lower mortgage payments would act "like a high-powered tax cut," putting money in homeowners' pockets that would get spent and stimulate the economy.

The obstacle here is a guy by the name of Edward DeMarco. DeMarco is the acting director of the Federal Housing Finance Authority, which oversees Fannie and Freddie. He says his job is to maximize their investors' returns, not fix the economy. The administration is trying to convince him that fixing the economy may be a good way to improve investors' ROI. If it can't, it would have to replace him

with a recess appointment. The outcome is still up in the air, but this is one of the few actions Obama can take without congressional approval. Seems like a safe bet that he will.

The third initiative is a plan to convert Fannie- and Freddie-owned foreclosures to rentals, either directly or by selling them in bulk to investors who would agree to rent them for a specified period of time (currently four years). Fannie and Freddie own about half of existing REOs so presumably this would take a bunch of inventory out of the pipeline. Chances are a lot of REOs are likely to wind up rentals, anyway; speeding things up can't hurt.

If none of these things strikes you as a game-changer, you're not alone. But they don't need to be. The real game-changer is the 1,114,000 people who decided they'd had enough of living in Mom & Dad's basement in 2011 – and, with any luck, the million-plus more who will follow this year.

Obviously it's not time to celebrate yet. But this is not bad news by any means. **TM**

Greg Brooks, editor of THIS MONTH, is a 44-year veteran of the construction supply business with 20 years' experience in the field. Brooks is a former editor of ProSales, a steering committee member at the Harvard Joint Center for Housing Studies, and author of Scope of the LBM Industry, published by the National Lumber & Building Material Dealers Association.

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