

The Kiplinger Letter

FORECASTS FOR EXECUTIVES AND INVESTORS

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Dear Client:

Washington, July 26, 2019

One word to sum up the housing market:
Shortages. Shortages of homes for sale.
Shortages of buildable lots for new homes.
Shortages of construction workers.
Most of all: Shortages of affordable homes

for the first-time buyers a healthy market requires.

HOUSING Home prices nationwide are at record highs.
For many buyers, a house is out of reach,
especially in the cities where people want to move
because jobs are plentiful and wages are highest.

Home building hasn't kept up with demand
since the Great Recession. Builders who got burned
when buyers dried up back then have been unwilling
or unable to ramp back up. And much of the building
has focused on high-end homes, leaving little supply
of small starter homes. Hence the escalating prices
of starter homes, which have outpaced big-home prices.

Here's what builders and city officials will do
to get more supply onto the market, where it's needed:

Builders will embrace small homes
after years of favoring larger, more expensive houses.

The size of the average American home is actually shrinking as construction of homes
of 3,000 square feet or more...long seen as desirable in America...continues to decline.

A drop in materials costs makes it more feasible to profit from smaller homes,
and builders such as Toll Brothers, D.R. Horton and KB Home are acting accordingly.

Government officials are rethinking zoning laws that have either favored
or outright required that new houses be single-family, detached units. In many cities,
up to three-quarters of available land is off-limits to apartments and townhouses,
which limits housing supply. Minneapolis recently became the first city to ban rules
that historically prevented construction of duplexes and triplexes. Ore. and Calif.
are close to passing laws against local zoning codes that require single-family homes.
Seattle and other cities want to make it easier to build much-needed apartments.

These policies promise to be contentious. Calif. is suing the government
of Huntington Beach for not enabling sufficient new residential housing, for instance.

Another tack: Allowing more accessory dwelling units on existing properties,
such as in-law apartments and backyard cottages. Again, many local governments
are rethinking zoning codes against so-called ADUs in order to free up more space.

The home-sharing market is responding, too. Nesterly, for instance, lets people
rent rooms from homeowners on a long-term basis. Think of it as Airbnb for folks
who need a more permanent place to stay, and a new income source for homeowners
who have more space than they need. Some nonprofit home-sharing services also help
by matching young renters with elderly homeowners who need help around the house.

Housing Forecasts		
	2019 level	% change
Single-family starts	865,000	-0.9%
Multifamily starts	385,000	2.2%
New-home sales	655,000	6.0%
Existing-home sales	5.28 mil.	-1.1%
Year-end 30-year mortgage rate	3.8%	--
Year-end price change	--	3.5%

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